MICHIGAN STATE UNIVERSITY
FEDERAL CREDIT UNION
Building Dreams Together

2013 ANNUAL REPORT

MSU Federal Credit Union

BUILDING DREAMS, BUILDING COMMUNITY

NCUA
Federally insured by NCUA

MSUFCU's Headquarters was built in 2008.

OUR MISSION, OUR STORY

It's our mission to provide superior service while assisting members and employees to achieve financial security, their goals, and ultimately, their dreams. At MSU Federal Credit Union, we invest in you: our members, employees, and community.

We base our organization on eight core values: providing superior service, integrity and honesty, giving back to the community, cultivating diversity, pursuing growth and development, being passionate and determined, building a positive environment, and encouraging, embracing, and driving change. These are the fundamental beliefs that make up our culture and identity. At the root of these core values is the foundation of the Credit Union and the reason for our continued success for over 76 years.

MSUFCU was founded out of a desk drawer in 1937 by Michigan State University professors who needed a safe place to borrow and save money in a tough

economic climate. The Credit Union has grown to exceed $2.5 billion in assets, earning us the title of the world's largest university-based credit union and 52nd largest credit union in the country. Our workforce consists of over 550 service-oriented, knowledgeable employees.

The strong relationships we form with our members are what have contributed to our growth and stability. Keeping in touch with our members' ever-changing wants and needs through various communication avenues such as social media, a new community website, and promotional material, allow us to provide the most innovative products and services, share the stories of our community involvement, and offer world-class service to our members. With over 181,000 members worldwide, our goal is to provide an exceptional experience for members with every interaction, whether that be at a branch, over the phone, or online.

The Crescent building was used as MSUFCU's Headquarters from 1971 to 2008.

John R. Brick,
Chairman of the Board

Dear Members,

As always, it is a pleasure to present our Annual Report for 2013. By any measure our financial results continue to show that we have reached new milestones and set new standards of performance despite the lackluster growth of the economy.

In 2013 our assets increased 13% to over $2.5 billion with loans increasing 18% to $1.6 billion and membership increasing 7.4% to over 181,000 members. Operationally, we continued to expand the various channels of delivery for our members with several new branches and two more in process. Over 3.9 million branch/teller transactions were conducted along with 9.9 million ComputerLine logins, 5.1 million mobile logins, and over 490,000 calls to our call center. However, unlike in most organizations, this growth is not a goal—it is a result. That is, our growth is a result of an on-going managerial focus on providing members with the best possible service and products in a very crowded marketplace. The ever-increasing acceptance of MSUFCU as evidenced by our membership growth and strong financial and operational performance is a result of these efforts. This growth is also a barometer of our success.

We are unable to control certain aspects of our operational environment. In particular, the Federal Reserve continues to maintain its ultra-low interest rate policy in an attempt to stimulate a slowly growing economy. We are now in our sixth year of this policy which came about because of the Great Recession. This has caused the rates on our loans to decline to the benefit of borrowers. However, this policy has also forced us to lower our savings rates to the financial detriment of savers and retirees. As you can see, this is a delicate but essential balancing act. As your Board Chairman, I can assure you that we are doing everything we can to be as fair as possible to all of our constituents.

On behalf of your Board of Directors, I would once again like to thank our outstanding management team and staff for their stellar efforts to make the MSUFCU one of the finest credit unions in the country. To see tangible evidence of this, you can stop by our headquarters and see the many awards that we have received over the years at both the regional and national level.

Finally, I would like to thank our membership for your continued support and confidence in our organization.

Sincerely,

John R. Brick

John R. Brick, PhD, CFA
Chairman of the Board

Dear Members,

2013 was another year of success for Michigan State University Federal Credit Union.

In many recent speeches, I have said that 2013 was the best year of my 40 years at the Credit Union! The Credit Union was once again financially successful, exceeding peer credit unions on nearly every financial measurement. The Credit Union continues to be financially strong with over $257 million in capital, exceeding NCUA requirements to be well capitalized.

2013 was an amazing year because employees, via Member Experience, saved the Credit Union members over $7.7 million in interest by refinancing their existing loans to the Credit Union. We received hundreds of calls, letters, and emails thanking the Credit Union employees for saving them money and for reducing their monthly payments. The Member Experience is focused on assuring that members are aware of and use the full range of the Credit Union services and programs. Members react with excitement when they learn they can save hundreds, or even thousands, of dollars with a Credit Union loan. Not only do the members save money, but they also have the convenience of the highest quality service by the employees at the branch offices, on the telephone, or via email and chat.

Members have asked for a lease program, which was launched in late 2013. The new Max Auto Lease Program has received a very positive response from the members and quickly exceeded our expectations. The members also asked for an Investment Advisory Program, which the Credit Union partnered with CUSO Financial Services (CFS). The initial response from the members to CFS has been very positive. In response to member requests, the Credit Union began offering eAlerts in 2013. eAlerts are notifications that are sent to members via email or text. The eAlerts keep members advised of their account activity or status to assist them in managing their money and preventing fraud.

MSUFCU continues to invest in MSU and the communities that we serve. Members can now follow the Credit Union's community involvement on the MSUFCU community website.

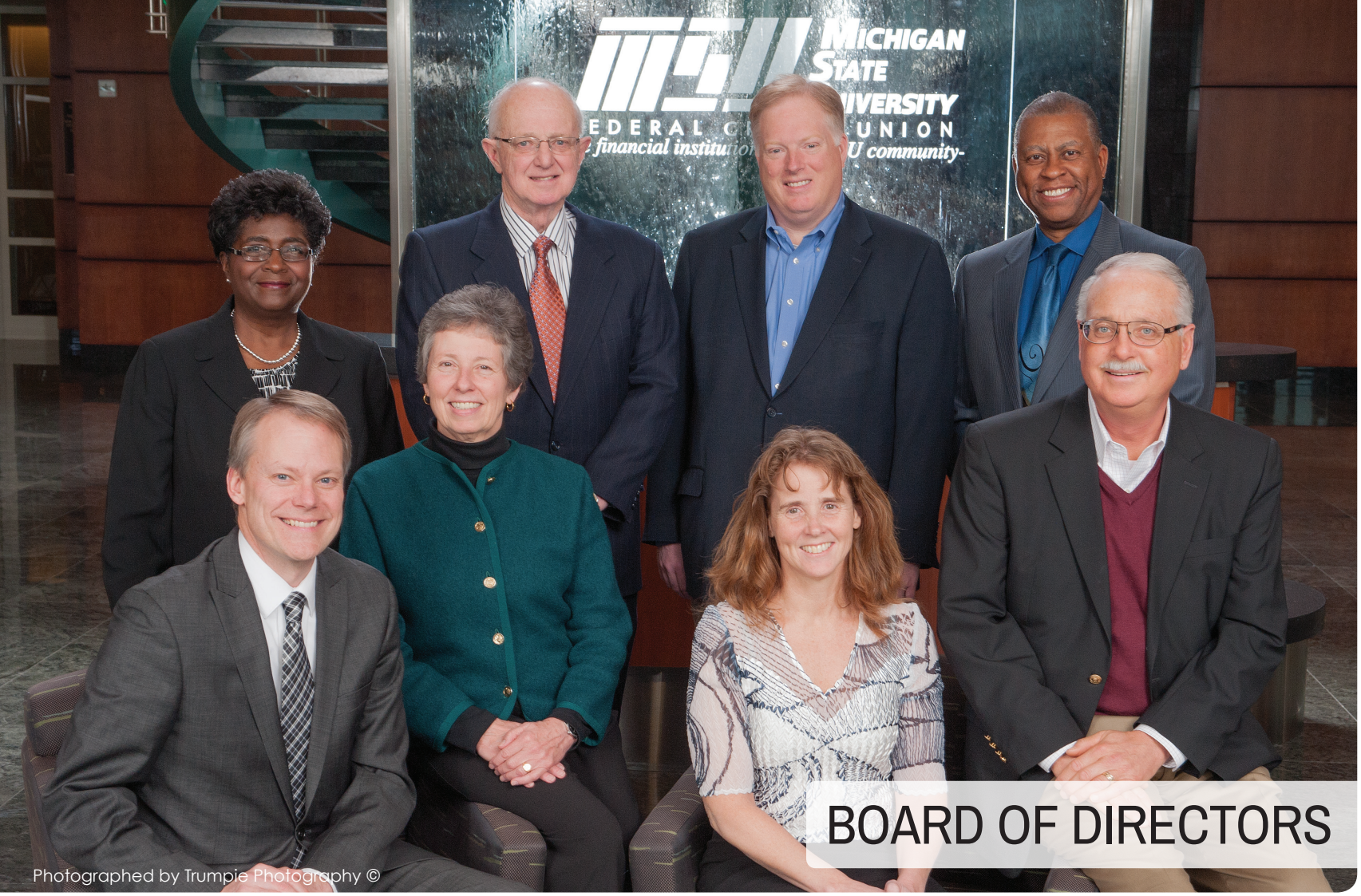
In 2013, the Credit Union merged with Eaton County Educational Credit Union to assure their members had continued and expanded access to Credit Union services. The newly remodeled Charlotte branch office also provides greater convenience to the members living in Eaton County. 2013 also brought the tremendous opportunity of a full partnership with Oakland University to serve the faculty, staff, students, and alumni. With the partnership, came an on campus branch office at Oakland University.

Thank you for selecting the credit union to provide you with the financial services to help you achieve financial security, your goals, and ultimately, your dreams.

Sincerely,

Patrick M. McPharlin
President & Chief Executive Officer

Patrick McPharlin,
President and CEO



BOARD OF DIRECTORS

Photographed by Trumpie Photography ©

Standing, from left:
Angela Brown, John R. Brick, William Beekman, and Ernest Betts

Sitting, from left:
Gregory Deppong, Susan Carter, Cheryl Speier-Pero, and William Latta

Not pictured:
Thomas Coon

MSUFCU's volunteer Board of Directors work to foster a culture of excellence and success. The board members guide the Credit Union's growth and strategic decisions which allow MSUFCU to invest in members, employees, and the community.

MANAGEMENT

Photographed by Trumpie Photography ©

Standing, from left:
James Hunsanger, Vice President of Internal Audit & Compliance
Silvia Dimma, Vice President of Human Resources
Patrick McPharlin, President & Chief Executive Officer
April Clobes, Executive Vice President & Chief Operating Officer
Lea Ammerman, Senior Vice President of Branches

Sitting, from left:
Jeffrey Jackson, Vice President of Payment Systems & Support Services
Sara Dolan, Chief Financial Officer
Samantha Amburgey, Senior Vice President of Remote Services
Ronda McCoy, Chief Lending Officer
Sarah Bohan, Vice President of Corporate Relations


UNITE 4 GOOD

BUILDING DREAMS

In 2013, MSUFCU helped our members achieve their dreams of growing their savings, providing for their children's futures, living in their first homes, and driving the perfect new cars to their first jobs after college. Because of our members' trust and loyalty to the Credit Union, we were able to continue to invest in new products, services, and branches to best serve our members.

MSUFCU strongly believes in contributing to the communities we serve as this support helps the members of the communities to thrive and to achieve their dreams. In 2013, MSUFCU was able to work with many charitable organizations by providing financial support, volunteer hours, and financial education.

NEW PRODUCTS

Max Auto Lease

MSUFCU partnered with Credit Union Leasing of America (CULA) to offer members a low-cost, low monthly payment leasing option. With the Credit Union's Max Auto Lease option, there are no prepayment penalties, no security deposit required, GAP coverage is included, and the lease can be converted to a standard auto loan at any time.

Investment Advisory Services

Based on member feedback, a new Investment Advisory Services Program was established at the Credit Union for members through CUSO Financial Services (CFS), which offers a full-range of investment services and products. Through this program, members can receive assistance and information about mutual funds, life and disability insurance, health savings accounts, IRAs, and more! The Credit Union welcomed Mark Garrod, a CFS representative, in December 2013, to begin working with our members and employees.

eAlerts

eAlerts are a convenient way for members to keep track of their accounts on the go by setting up alerts through text message and/or email. This service provides members with an alternative way to stay on top of their finances and prevent fraud. Members can elect to receive alerts for their daily account balances, check clearings, when loan/savings balances go above or below a certain amount, and more.

By signing up for alerts such as password, phone, address, and email updates, members can have peace of mind knowing they have complete control over their accounts.

GROWTH & BRANCHES

MSUFCU was excited to continue expanding this past year, both in employee positions and branch locations. In 2013, we were pleased to hire 163 new employees to continue to provide superior service to our members. We were able to fill positions in our Human Resources, Accounting, Visa, Call Center, branches, eServices, eCommerce, Adjustments, Internal and Corporate Communications, Loan Operations, Marketing, Business Services, Learning and Talent Development, ATMs, Administration, Payment Processing, Information Technology, and Mortgage departments.

In addition, the MSUFCU family grew with 78 newly-added positions in 2013. These positions were created to serve our growing membership across the tri-county area.

Also in 2013, MSUFCU celebrated the grand opening of its Sparrow Branch and broke ground for its new Mason Branch. In addition, the Credit Union strengthened its partnership with Oakland University and opened its Oakland Center Branch on OU's campus. These branches will provide new, convenient locations for members' financial needs.

HELPING MEMBERS ACHIEVE THEIR FINANCIAL DREAMS IN 2013.

To best assist our growing membership, we offer various ways for members to contact us. In 2013, our eServices department responded to **130,552 emails and online chats**, our branches assisted members with **3,877,514 branch transactions**, and the Call Center answered **492,450 calls**, helping members with their account questions, requests, and more.

In 2013, the Credit Union served 181,530 members worldwide and held $2.5 Billion in assets.

Did you know the Credit Union saved members more than **$7.7 million** last year alone? It's our mission to assist members and employees to achieve financial security, and we were proud to work on a personal level with many individuals to help them reach those goals by transferring over their higher rate loans to low-rate MSUFCU loans to save money. **34,301 members** were able to drive away in a new car, and **5,580 members** moved into their dream homes.

How are members staying connected?

9,916,695 *logged in for online banking*

5,118,854 *signed in through mobile banking and mobile apps*

241,193 *deposited a check via eDeposit—*
where members can scan checks and automatically apply them to their accounts

"The Boys and Girls Club of Lansing is fortunate to have Mr. Day and MSU Federal Credit Union as community partners. They really understand the mission of the Boys and Girls Club and the importance of financial literacy in our community."

- Miranda, Boys and Girls Club

Financial Education in 2013 —

3,412 students and members learned about finances throughout mid-Michigan

190 presentations and seminars offered on topics such as "Budgeting 101" and "Understanding Your Credit"


55 New Trees Planted in Harrison Meadows Park
Michigan Arbor Day Alliance
MSU Michigan State University Federal Credit Union
Building Dreams
BUILDING DREAMS
BUILDING COMMUNITY

BUILDING COMMUNITY

Giving back to our community is one of MSUFCU's core values and part of the "people helping people" philosophy on which credit unions were founded. At MSUFCU, we are committed to making a positive impact on as many people's lives as possible and investing in our community to help create a place where people are proud to live, work, and visit every day.

The Credit Union does this each year by supporting hundreds of charitable organizations through monetary and in-kind donations, and we are pleased to have partnered with a variety of community programs. Some of these programs and partners include Lansing Symphony Orchestra, the Sparrow Foundation, Michigan Arbor Day Alliance, MSU Safe Place's Race for the Place, and MSU's College of Music, Eli and Edythe Broad Art Museum, and Wharton Center, among others.

Three New Michigan State University

ENDOWMENTS ESTABLISHED

The Credit Union was proud to partner with MSU and introduce three new $1 million endowments:

MSU Federal Credit Union Artist Studio Series Endowment
at MSU's Eli and Edythe Broad Art Museum

MSU Federal Credit Union Broadway at Wharton Center Endowment
at MSU's Wharton Center

MSU Federal Credit Union Jazz Artist in Residence Endowment
at MSU's College of Music

These endowments were created to benefit MSU's faculty, staff, and students, as well as our local community by the way of arts and music education.

Annual Teddy Bear

HOSPITAL AND PICNIC

MSUFCU was proud to sponsor and volunteer at the annual Teddy Bear Hospital and Picnic, hosted by the MSU Department of Pediatrics and Human Development on September 28, 2013. Children could bring their favorite stuffed toys to specialty clinics at the teddy bear "hospital" while enjoying hands-on activities, a picnic lunch in the 4-H Children's Garden, and a visit from the MSU Women's Basketball team and Sparty!

Each year, we are committed to supporting local charities. Throughout 2013, the Credit Union partnered with a variety of organizations such as:

Help A Willing Kid Foundation (H.A.W.K.)
Relay For Life of East Lansing
Sparrow Foundation Women Working Wonders (W3)
Coaches vs. Cancer
Capital Area United Way

More than $100,000 and thousands of volunteer hours donated by MSUFCU employees in 2013.

Through dedication, more than $100,000 and thousands of volunteer hours were donated by employees. Credit Union employees came together to raise money through a variety of fundraising activities such as raffles, dress down days, individual donations, and more. The donations from 2013 went a long way for many of these charities, as H.A.W.K. used their donated funds to purchase a new washer and dryer and remodeled tutor room; Coaches vs. Cancer and Relay For Life of East Lansing's funds went toward cancer research; Sparrow Foundation Women Working Wonders (W3) benefited women's health issues in Mid-Michigan; and Capital Area United Way contributed to their community focus initiatives of student achievement, basic needs, and secure families.

OAKLAND UNIVERSITY CREDIT UNION

In June 2013, MSUFCU expanded its long-standing partnership with Oakland University (OU) and established an Oakland University Credit Union (OUCU) trade name identity to serve as the exclusive credit union for OU. MSUFCU has a long history of serving the Oakland University community since 1958 when the University was then Michigan State University - Oakland. The Credit Union is pleased to serve the financial needs of the OU faculty, staff, students, and community as OUCU and be a part of the campus through scholarships, events, and financial education.

> "With the addition of our new OU Credit Union branch in the Oakland Center, we look forward to serving the OU community for many years to come."
> -Patrick McPharlin, MSUFCU's President and CEO

The Credit Union's commitment to OU will help support an endowed student scholarship, various signature sponsorships, Dean's Choice Grant Program, in-kind marketing, ATMs on campus, and financial education programs, and more.

ECECU MERGER

On April 1, 2013, MSUFCU completed its first merger with a local credit union, Eaton County Educational Credit Union (ECECU), based out of Charlotte, Michigan. Due to the tough economic climate and recent financial legislation, many smaller credit unions were finding it impossible to earn income and grow financially. ECECU's board of directors and leadership recognized that in order to best serve their members, they needed to partner with another credit union and reached out to MSUFCU due to our sound and secure practices and reputation for providing superior service to our membership.

MSUFCU and ECECU shared a commitment to helping members achieve financial success, and we were pleased for the opportunity to provide expanded account access and greater financial strength and security to the former ECECU members. Through the merger, MSUFCU was pleased to welcome the nine (9) former ECECU employees to the MSUFCU team, gain over 4,000 new members and an established branch location in Charlotte to offer more convenient access to the 11,000 MSUFCU members living in Eaton County.

MSUFCU employees at the Ronald McDonald Run for the House in March 2013.

RECOGNITION

At the Credit Union, we take pride in providing resources to help our employees, members, and local community achieve success. We were honored to receive recognition in 2013 for our employment, health and wellness, financial education, and community involvement initiatives.

West Michigan's 101 Best and BRIGHTEST COMPANIES TO WORK FOR

MSUFCU was named one of West Michigan's 101 Best and Brightest Companies to Work For by the Michigan Business and Professional Association, recognizing innovative strategies and best practices in human resources in areas including communication, employee education, retention, and more.

Top 100 Workplaces IN MICHIGAN

MSUFCU placed sixth in the *Detroit Free Press*' large-size category of top workplaces, which includes companies over 500 employees. This competition is based solely on confidential employee surveys and honors employers who show characteristics of flexibility, innovation, and employee benefits.

MCUL Louise Herring Philosophy-in-Action
MEMBER SERVICE AWARD

The Michigan Credit Union League (MCUL) awarded MSUFCU an honorable mention for the Louise Herring Philosophy-in-Action Member Service Award, which recognizes model credit union efforts to educate and empower members and our community through financial outreach and learning programs.

MCUL Dora Maxwell Social Responsibility
COMMUNITY SERVICE AWARD

MSUFCU was awarded second place for the Dora Maxwell Social Responsibility Community Service Award by the Michigan Credit Union League and Affiliates. This award recognizes model credit union efforts that help to strengthen local institutions and improve the lives of nonmembers through community outreach programs.

One of Michigan's
HEALTHIEST EMPLOYERS

The Healthiest Employer Awards program recognizes organizations that are committed to creating a healthy workplace and healthy employees. The Credit Union shows its dedication to their employees through a variety of programs such as discounts on workout classes, free registration to races, access to nutrition and weight loss programs, and free admission to wellness fairs.

Michigan Fitness Foundation Governor's
OUTSTANDING HEALTHY WORKPLACE AWARD

The Governor's Fitness Awards serve as a platform for inspirational individuals and organizations for their pursuit, commitment, and dedication to healthy lifestyles. Each award recognizes the many different ways the winners are inspiring and influencing Michigan residents to live a healthy lifestyle.

Michigan's Best and
BRIGHTEST IN WELLNESS

The Best and Birghtest in Wellness Award is an innovative initiative that recognizes and celebrates quality and excellence in worksite health promotion. The program highlights companies that promote a culture of wellness, and those that plan, implement, and evaluate efforts in employee wellness promotion.

MSUFCU COMMITTEES

SUPERVISORY COMMITTEE

The Supervisory Committee protects our membership by enforcing bylaws, overseeing audits, and reviewing investment recommendations for accuracy. Doing so, they review information far beyond established federal regulations.

Michael Hudson, Chair
Gregory Deppong, Board Liaison
Janet Lillie
Corinne Reardon
Jeffrey Williams
Robert Wiseman

Patrick McPharlin
April Clobes
James Hunsanger

ASSET LIABILITY MANAGEMENT COMMITTEE

The Asset Liability Management Committee (ALCO) monitors the Credit Union's interest rate risk, liquidity position, investment portfolio, and key ratios. ALCO also analyzes new products, pricing strategies, and the impact of changing interest rates on MSUFCU's financial and competitive position.

John Brick, Chair
Angela Brown
Steven Lovejoy
Cheryl Speier-Pero

Patrick McPharlin
April Clobes
Sara Dolan
James Hunsanger
Ronda McCoy

2013 AMBASSADORS

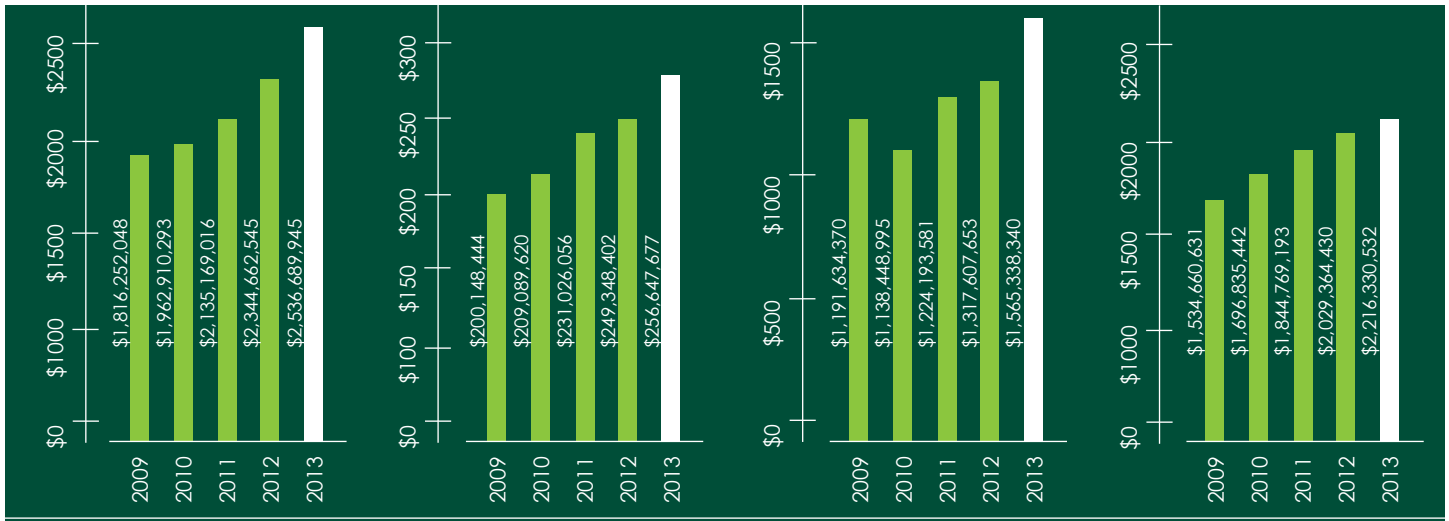
MICHIGAN STATE UNIVERSITY AMBASSADORS

Kim Allan
Kim Arthur
Elaine Bailey
Kathryn Barber
Diane Barker
Audree Baxter
William Beekman
Bridget Behe
Ernest Betts
Cherie Booms
John Brick
Jeff Brodie
William Brosmann
Angela Brown
Blair Bullard
Barb Burnett
Trace Camacho
Terry Cannon
Christine Carter
Susan Carter
Stella Cash
Karen Cline
Zachary Constan
Thomas Coon
Kat Cooper
Patrick Cusick
Douglas Cron
Carmellia Davis-King
Julie Dansby
Kathleen Deneau
Ken Deneau
Sue DePoorter
Gregory Deppong
Eckhart Dersch
William Donohue
Lisa Dunlap
Jodee Fortino
Natisha Foster
Michael Gardner
Karen Grannemann
Marilee Griffith
Jodi Hancock
Jay Harman
Rosemarie Harman
Bruce Haskell
Mary Lou Heberlein
Paul Heberlein
Charles Hornburg
Mary Horvath
Angela Howard-Montie
Cheryl Howell
Laurie Huntley
Darlene Johnson
Erin Johnson
Ed Karazim
Fred Kayne
Sally Keisling
Joanne Keith
Georgette Kennedy
Debby Kenrick
Darrell King
Michael Kolar
Denni Kraft
William Latta
Rhonda Lienhart
Pam Marcis
Ronald Mateer
Dean Matsudo
Denise Maybank
Chandos McCoy
Matt McKune
June Messner
Robert Meyer
Judi Miller
Kathleen Mills
Carol Noud
Suzy Pavick
Melony Peabody
Karyn Pearl
Cheryl Pero
Laurel Peto
Debbie Powell
Marcia Ratliff
Jan Reid
Sonya Ribnicky
H. Michael Rice
John Roberts
Judith Salminen
Angelica Santos
Mary Schwalm
Carol Shaulis
Nancy Sheldon
Nina Silbergleit
Mark Simmons
Sandi Smith
Christine Stock
Lori Strom
Paula Terzian
Bob Thomas
Katherine Trebilcott
Victoria Tryban
Nancy Vanderwest
Marsha Walsh
Susan Waltersdorf
S. Faye Watson
Jeff Williams
Keith Williams
Michael Williams
Nancy Yeadon
Donna Zischke

OAKLAND UNIVERSITY AMBASSADORS

Elizabeth Angeli-Polcyn
David Archbold
Denise Asker
Dawn Aubry-Slowick
Scott Barns
Nancy Barton-Kenny
Adrienne Bass
Pat Bennett
Brandon Bernier
David Birkholz
Janet Bohlen
Charles Brown
Sheila Carpenter
Charles Clark
Virginia Cloutier
Eric Condic
David Downing
Sandra Fick
Paul Frankling
Paul Frick
Sandy Gabert
Frank Giblin
Melvin Gilroy
Geraldine Graham
Bridget Green
Cora Hanson
Robert Hanson
Susan Hartman
Ken Hightower
Mary Isaacs
Greg Jordon
Ellen Keaton
Donna Kellstrom
Sandy Kern
Bonnie Koch
Julie McCarrel
Kimberly McWain
Gail Meyers
Deborah Middlebrook
Jean Ann Miller
Virinder Moudgil
Daniel Niezurawski
Jude Nixon
George Preisinger
Eleanor Reynolds
Gail Ryckman
Laura Schartman
Val Schnable
Maura Selahowski
Lorna Selberg
Leigh Settlemoir
Steven Shablin
Tammye Stoves
Linda Switzer
Mohan Tanniru
Grover Tigue
Ronald Tracy
Chris Turkopp
Geoffrey Upward
Tracy Utech
David Vartanian
Julie Voelck
Tricia Westergaard
Hazen Wilcox

STATEMENT OF FINANCIAL CONDITION 2013

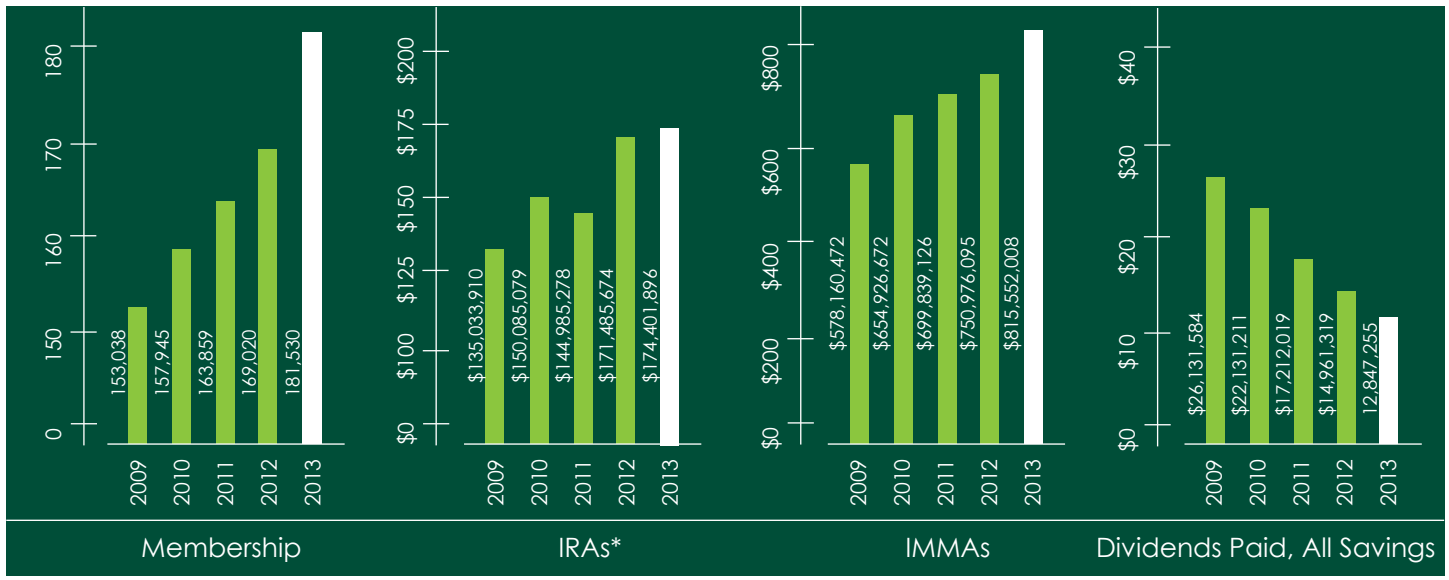


Total Assets

Total Reserves

Loans Outstanding (net)

Total Shares



Membership

IRAs*

IMMAs

Dividends Paid, All Savings

* IRAs consist of IMMAs and Share Certificates

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Michigan State University Federal Credit Union
Lansing, Michigan

Report on the Financial Statements
We have audited the accompanying financial statements of Michigan State University Federal Credit Union, which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University Federal Credit Union as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Grand Rapids, Michigan
February 14, 2014

STATEMENTS OF FINANCIAL CONDITION

	AT YEAR END	
	December 31, 2013	December 31, 2012
ASSETS		
Cash on hand and funds on deposit with other financial institutions	$ 28,756,989	$ 23,622,659
Interest-bearing balances with other financial institutions	81,125,949	78,397,429
Cash and cash equivalents	109,882,938	102,020,088
Securities available for sale	679,735,728	795,785,061
Other investments	7,886,313	6,434,512
Time deposits with other financial institutions	28,362,438	10,000,000
Loans to members - net	1,565,338,340	1,317,607,653
Premises and equipment - net	86,821,154	81,591,043
NCUSIF deposit	19,797,378	18,273,768
Business owned life insurance	26,240,264	-
Other assets	12,625,392	12,950,420
Total assets	**$ 2,536,689,945**	**$ 2,344,662,545**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 2,216,330,532	$ 2,029,364,430
Borrowed funds	30,000,000	35,000,000
Post-retirement benefit liability	13,311,969	15,082,844
Accrued expenses and other liabilities	20,399,767	15,866,869
Total liabilities	2,280,042,268	2,095,314,143
Members' equity	256,647,677	249,348,402
Total liabilities and members' equity	**$ 2,536,689,945**	**$ 2,344,662,545**

See accompanying notes.

STATEMENTS OF INCOME

	YEARS ENDED	
	December 31, 2013	December 31, 2012
Interest income		
Loans	$ 77,393,921	$ 72,674,901
Investment securities, other investments, and time deposits	10,765,043	9,613,508
Interest-bearing balances with other financial institutions	95,098	113,935
	88,254,062	82,402,344
Interest expense		
Members' shares and savings accounts	12,847,255	14,961,319
Borrowed funds	1,543,366	1,792,208
	14,390,621	16,753,527
NET INTEREST INCOME	73,863,441	65,648,817
Provision for loan losses	4,978,755	7,494,455
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	68,884,686	58,154,362
Noninterest income		
Fees and charges	12,077,822	11,973,585
Visa interchange	13,895,084	12,441,065
Other	1,993,061	1,331,203
	27,965,967	25,745,853
Noninterest expense		
Compensation and benefits	34,484,132	29,704,581
Operating expenses	27,836,925	25,524,171
Occupancy	5,714,974	5,152,310
Other	3,018,089	2,892,761
	71,054,120	63,273,823
NET INCOME	**$ 25,796,533**	**$ 20,626,392**

See accompanying notes.

STATEMENTS OF COMPREHENSIVE INCOME

	YEARS ENDED	
	December 31, 2013	December 31, 2012
NET INCOME	**$ 25,796,533**	**$ 20,626,392**
Other comprehensive income		
Net unrealized holding gains (losses) on available for sale securities	(25,476,846)	987,382
Net gain (loss) arising during the year on post-retirement benefit plan	2,816,246	(3,400,272)
Reclassification for amounts amortized into post-retirement benefit plan expense	337,436	108,844
Other comprehensive loss	(22,323,164)	(2,304,046)
COMPREHENSIVE INCOME	**$ 3,473,369**	**$ 18,322,346**

See accompanying notes.

STATEMENTS OF MEMBERS' EQUITY

	REGULAR RESERVE	UNDIVIDED EARNINGS	EQUITY ACQUIRED IN MERGERS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE — JANUARY 1, 2012	$17,980,012	$210,519,404	-	$2,526,640	$231,026,056
Net income	-	20,626,392	-	-	20,626,392
Other comprehensive income/(loss)	-	-	-	(2,304,046)	(2,304,046)
BALANCE — DECEMBER 31, 2012	17,980,012	231,145,796	-	222,594	249,348,402
Net income	-	25,796,533	-	-	25,796,533
Equity acquired in merger	-	-	3,825,906	-	3,825,906
Other comprehensive income/(loss)	-	-	-	(22,323,164)	(22,323,164)
BALANCE — DECEMBER 31, 2013	**$17,980,012**	**$256,942,329**	**$3,825,906**	**$(22,100,570)**	**$256,647,677**

See accompanying notes.

STATEMENTS OF CASH FLOWS

	YEARS ENDED	
	December 31, 2013	December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$25,796,533	$20,626,392
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	5,718,583	6,118,719
Net amortization of securities	7,478,628	8,648,930
Provision for loan losses	4,978,755	7,494,455
Gain on sale of premises and equipment	(4,136)	-
Earnings on business owned life insurance	(468,402)	-
Net change in:		
Other assets	3,322,720	5,298,216
Postretirement benefit liability	1,382,807	957,735
Accrued expenses and other liabilities	4,485,420	7,326,783
Net cash from operating activities	**52,690,908**	**56,471,230**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available for sale	212,357,000	179,830,000
Proceeds from mortgage backed securities principal repayments	79,318,614	49,068,691
Purchases of securities available for sale	(208,581,755)	(361,008,143)
Purchases of other investments	(1,265,000)	-
Proceeds from time deposits with other institutions	5,834,000	35,000,000
Purchases of time deposits in other institutions	(8,969,000)	-
Purchases of business owned life insurance	(25,771,862)	-
Net change in loans to members	(245,471,000)	(104,382,101)
Increase in NCUSIF deposit	(1,230,950)	(1,778,338)
Proceeds from sale of premises and equipment	5,500	-
Purchases of premises and equipment	(10,451,496)	(16,143,238)
Net cash received from merger	8,829,538	-
Net cash from investing activities	(195,396,411)	(219,413,129)

(Continued)

STATEMENTS OF CASH FLOWS

	YEARS ENDED	
	December 31, 2013	December 31, 2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	155,568,353	184,595,237
Repayment of Federal Home Loan Bank advances	(5,000,000)	(5,000,000)
Net cash from financing activities	150,568,353	179,595,237
Net change in cash and cash equivalents	7,862,850	16,653,338
Beginning cash and cash equivalents	102,020,088	85,366,750
ENDING CASH AND CASH EQUIVALENTS	**$ 109,882,938**	**$ 102,020,088**
Supplemental Cash Flow Information:		
Cash paid for interest	$ 14,403,440	$ 16,701,744
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$ 2,389,122	$ 3,473,574
Assets acquired in merger	35,271,132	-
Liabilities assumed in merger	31,445,226	-

See accompanying notes.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Michigan State University Federal Credit Union (the "Credit Union") is a federally chartered credit union regulated by the National Credit Union Administration and insured by the National Credit Union Share Insurance Fund. The Credit Union operates branches in the metropolitan Lansing and Oakland County areas.

The Credit Union grants consumer loans (including credit card loans), various types of mortgage loans, and business loans to its members. The Credit Union's primary field of membership includes students, alumni, and employees of Michigan State University and Oakland University. Oakland University is served under the registered trade name Oakland University Credit Union. The majority of member loans are secured by collateral including, but not limited to, members' shares, vehicles, real estate, and other consumer assets. Deposit services include interest and noninterest bearing checking accounts, savings accounts, money market accounts, certificates, and IRAs. Other services include mobile applications, computer and telephone transactions as well as automated teller machines.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the liability for postretirement benefits, and the fair values of financial instruments. Actual results could differ from those estimates.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash equivalents include cash, balances due from banks, federal funds sold, and interest bearing deposits with other financial institutions with original maturities of three months or less. Net cash flows are reported for member loan and share accounts.

Securities: Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss) and as a separate component of members' equity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Other Investments: The Credit Union held $6,762,900 and $5,497,900 of Federal Home Loan Bank of Indianapolis (FHLBI) capital stock at December 31, 2013 and 2012, respectively. The stock is carried at cost. The stock is redeemable only upon five years' notice to the FHLBI.

Other investments include Alloya Corporate Credit Union (formally Central Corporate Credit Union) permanent capital base, which is required to be maintained for full participation as a member credit union. The deposit was $786,600 and $600,000, respectively, at December 31, 2013 and 2012. The deposit is not insured by the NCUSIF. Interest on the deposit is paid quarterly based on available earnings at interest rates approved by Alloya's board of directors. In the event a member credit union withdraws from Alloya, the deposit would be repaid in one installment three years after notice of withdrawal is given.

Other investments also include stock in CU Cooperative Systems, Inc., which is carried at cost.

Time Deposits with Other Financial Institutions: Time deposits with other financial institutions consist of $15,000,000 of corporate credit union certificates of deposit which mature in 2014 ($10,000,000) and 2017 ($5,000,000) and $13,362,000 of FDIC insured certificates of deposit with contractual maturities over the next three years.

Loans: The Credit Union grants mortgage, business, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the metropolitan Lansing and Oakland County areas. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances less net deferred loan origination fees, less an allowance for loan losses. 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. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on 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 or future payments are reasonably assured.

Loan fees and certain 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.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the member'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.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the member is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Credit Union determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Factors considered by management in determining impairment include payment status, collateral value, and the profitability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case by case basis, taking into consideration all of the circumstances surrounding the loan and the member, including the length of the delay, the reasons for the delay, the member's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Credit Union over the most recent three years on a weighted basis. The following portfolio segments have been identified:

Consumer loans – term loans or lines of credit for the purchase of consumer goods, vehicles, or unsecured signature loans. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from a member continuing to generate a cash flow that supports the calculated payment obligation. The Credit Union has identified within this segment classes of secured, unsecured, and other consumer loans.

Mortgage – loans to purchase or refinance single family residences and loans for home improvement. The risks associated with this segment are generally dependent on the overall real estate value environment and individual payment obligations. Real estate which secures these types of loans can be subject to market valuation and can be unstable for a variety of reasons. Within this segment, the Credit Union has identified classes of first mortgages and home equity loans.

Business – loans to businesses that are sole proprietorships, partnerships, and corporations. These loans are for commercial or professional purposes. The risk characteristics vary depending on the members' business and industry as repayment is typically dependent on the cash flows generated from the businesses.

Foreclosed Assets: 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, less costs to sell, 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 on the statement of income. The carrying value of foreclosed assets, included in other assets on the statement of financial condition, was $986,000 and $741,000 at year-end 2013 and 2012.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on 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 shorter of the lease term or the life of the leasehold improvements.

NCUSIF Deposit: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1 percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA board.

During 2013, the Credit Union paid an assessment for the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) of .08 percent of insured shares which totaled $1,584,000. The assessment for 2012 was .095 percent of insured shares and totaled $1,736,000. The assessment for 2013 and 2012, respectively, is included as an expense in noninterest expense – other on the statements of income.

NCUSIF Insurance Premium: A credit union is generally required to pay an annual insurance premium equal to one twelfth of 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA board. This insurance premium was waived in both 2013 and 2012.

Business Owned Life Insurance: The Credit Union has purchased life insurance policies on certain key executives. Business owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Members' Shares: Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by management and approved by the board of directors, based on an evaluation of current and future market conditions.

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

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

Retirement Plans: Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) expense is the amount of matching contributions.

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 and postretirement benefits, are reported in other comprehensive income (loss) and as a separate component of members' equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Subsequent Events: The financial statements and related disclosures include evaluation of events up through and including February 14, 2014, which is the date the financial statements were available to be issued.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or members' equity.

NOTE 2 — SECURITIES

The amortized cost and fair value of securities, and gross unrealized gains and losses recognized in accumulated other comprehensive income (loss), are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2013				
U.S. Government and federal agency obligations	$275,514,305	$1,211,801	$(410,878)	$276,315,228
Mortgage-backed securities — residential	423,835,624	274,432	(20,689,556)	403,420,500
	$699,349,929	$1,486,233	$(21,100,434)	$679,735,728
2012				
U.S. Government and federal agency obligations	$451,480,314	$3,487,126	-	$454,967,440
Mortgage-backed securities — residential	338,442,102	2,929,764	(554,245)	340,817,621
	$789,922,416	$6,416,890	$(554,245)	$795,785,061

At December 31, 2013 and 2012, securities with a fair value of approximately $665,440,000 and $746,641,000, respectively, were pledged as collateral to secure borrowed funds.

The contractual scheduled maturities of available for sale securities at December 31, 2013 are shown below:

	Amortized Cost	Fair Value
Due in one year or less	$121,532,101	$121,872,101
Due from one through five years	153,982,204	154,443,127
Mortgage-backed securities — residential	423,835,624	403,420,500
	$699,349,929	$679,735,728

Information pertaining to securities with gross unrealized losses at December 31, 2013 and 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
2013						
U.S. Government and federal agency obligations	$ (410,878)	$ 45,423,034	$ -	$ -	$ (410,878)	$ 45,423,034
Mortgage-backed securities — residential	(14,081,791)	290,947,985	(6,607,765)	76,263,960	(20,689,556)	367,211,945
	$(14,492,669)	$336,371,019	$(6,607,765)	$76,263,960	$(21,100,434)	$ 412,634,979
2012						
U.S. Government and federal agency obligations	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities — residential	(550,138)	104,807,926	(4,107)	2,187,549	(554,245)	106,995,475
	$ (550,138)	$104,807,926	$ (4,107)	$ 2,187,549	$ (554,245)	$ 106,995,475

The Credit Union's mortgage-backed securities portfolio consists primarily of securities issued by U.S. Government Agencies. Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, and management does not intend to sell and it is likely management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to market conditions and changes in interest rates. The fair value is expected to recover as the bonds approach the maturity date.

NOTE 3 — LOANS TO MEMBERS

The composition of loans to members, by segment and class, at December 31 is as follows:

	2013	2012
CONSUMER		
Secured	$450,557,835	$365,672,097
Unsecured	270,718,528	240,492,575
Other	26,211,491	19,770,444
MORTGAGE		
First mortgage	651,453,442	528,300,728
Home equity	116,341,023	120,529,306
BUSINESS	66,871,439	61,890,286
	1,582,153,758	1,336,655,436
Net deferred loan origination costs	382,653	375,667
Less allowance for loan losses	17,198,071	19,423,450
Net loans to members	$1,565,338,340	$1,317,607,653

Substantially all the allowance for loan losses is allocated to segments of loans collectively. The following table presents the activity in the allowance for loan losses by portfolio segment:

	Consumer	Mortgage	Business	Total
December 31, 2013				
Allowance for loan losses:				
Beginning balance	$8,620,821	$9,578,354	$1,224,275	$19,423,450
Provisions for loan losses	6,342,478	(1,400,303)	36,580	4,978,755
Loans charged-off	(6,810,871)	(1,842,201)	(4,900)	(8,657,972)
Recoveries	1,285,973	167,865	-	1,453,838
Total ending allowance balance	$9,438,401	$6,503,715	$1,255,955	$17,198,071
December 31, 2012				
Allowance for loan losses:				
Beginning balance	$10,131,285	$9,323,726	$947,274	$20,402,285
Provisions for loan losses	3,591,784	3,524,423	378,248	7,494,455
Loans charged-off	(6,081,097)	(3,349,831)	(101,247)	(9,532,175)
Recoveries	978,849	80,036	-	1,058,885
Total ending allowance balance	$8,620,821	$9,578,354	$1,224,275	$19,423,450

As of December 31, 2013 and 2012, the Credit Union had 23 and 19 loans with a balance of approximately $3,094,000 and $2,908,000, respectively, considered to be troubled debt restructurings (TDRs). These loans are classified as impaired loans and evaluated individually for impairment. Most of these loans were first mortgage loans. The allowance allocated to these loans at year-end 2013 and 2012 is $1,093,000 and $1,013,000, respectively. In almost all cases, these loans are delinquent and being provided for in the allowance for loan losses computation and, as a result, the restructuring of these loans did not add a material amount to the allowance for loan losses upon their modification. Modifications agreed to by the Credit Union consisted of term extensions and lowered interest rates. No principal or interest was forgiven. During 2013 and 2012, loans classified as troubled debt restructurings that ultimately defaulted were not material to the financial statements.

Nonaccrual loans and loans past due 90 days still on accrual include smaller balance homogeneous loans that are collectively evaluated for impairment.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2013 and 2012:

	2013		2012	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
CONSUMER				
Secured	$1,500,208	$ -	$1,606,275	$ -
Unsecured	2,021,859	-	2,708,036	-
Other	256,187	-	336,197	-
MORTGAGE				
First mortgage	5,066,486	-	7,828,150	-
Home equity	501,311	-	855,744	-
BUSINESS	1,781,890	-	-	-
Total	$11,127,941	$ -	$13,334,402	$ -

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 and 2012 by class of loans:

2013	30 - 59 Days Past Due	60 - 89 Days Past Due	> 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
CONSUMER						
Secured	$3,281,126	$1,053,126	$1,500,208	$5,834,460	$444,723,375	$450,557,835
Unsecured	2,333,792	571,438	2,021,859	4,927,089	265,791,439	270,718,528
Other	329,469	64,695	256,187	650,351	25,561,140	26,211,491
MORTGAGE						
First mortgage	5,348,959	1,692,138	5,066,486	12,107,583	639,345,859	651,453,442
Home equity	519,450	37,160	501,311	1,057,921	115,283,102	116,341,023
BUSINESS	216,154	50,767	1,781,890	2,048,811	64,822,628	66,871,439
Total	$12,028,950	$3,469,324	$11,127,941	$26,626,215	$1,555,527,543	$1,582,153,758
2012						
CONSUMER						
Secured	$2,582,864	$809,260	$1,606,275	$4,998,399	$360,673,698	$365,672,097
Unsecured	2,475,886	807,801	2,708,036	5,991,723	234,500,852	240,492,575
Other	662,836	149,881	336,197	1,148,914	18,621,530	19,770,444
MORTGAGE						
First mortgage	8,163,405	2,570,668	7,828,150	18,562,223	509,738,505	528,300,728
Home equity	571,667	166,443	855,744	1,593,854	118,935,452	120,529,306
BUSINESS	45,515	474,093	-	519,608	61,370,678	61,890,286
Total	$14,502,173	$4,978,146	$13,334,402	$32,814,721	$1,303,840,715	$1,336,655,436

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members, and executive officers. The aggregate loans to these individuals at December 31, 2013 and 2012 are $2,910,000 and $3,278,000, respectively.

Loans on which the accrual of interest has been discontinued amounted to approximately $11,128,000 and $13,334,000 at December 31, 2013 and 2012, respectively. If interest on these loans had been accrued, such income would have been approximately $396,000 and $479,000 at December 31, 2013 and 2012, respectively. Impaired loans are not material to the financial statements as of December 31, 2013 and 2012.

For purposes of this disclosure, recorded investment includes unpaid principal balance, net of any partial charge offs. Accrued interest receivable is not included in recorded investment as the current balance of accrued interest receivable is not material for this presentation.

The credit quality indicators used for monitoring performance by the Credit Union are primarily performance based and include past due status, presented above, and nonaccrual status.

NOTE 4 — PREMISES AND EQUIPMENT

Premises and equipment at December 31 are summarized as follows:

	2013	2012
Land	$13,820,067	$12,392,646
Building and improvements	74,982,761	74,175,317
Furniture and equipment	20,366,386	18,416,305
Software and EDP	16,932,938	14,959,320
Leasehold improvements	2,167,640	2,183,082
Construction in progress	3,889,292	205,899
	132,159,084	122,332,569
Less: accumulated depreciation	(45,337,930)	(40,741,526)
	$86,821,154	$81,591,043

The Credit Union leases certain branch offices. One of the lease commitments is with Michigan State University and expires in 2021.

Pursuant to the terms of the noncancelable lease agreements in effect at December 31, 2013 pertaining to buildings, future minimum lease commitments under various operating leases are approximately as follows:

2014	$175,894
2015	132,615
2016	101,276
2017	44,266
2018	16,448
	$470,499

Total lease expense was approximately $160,000 and $126,000 for the years ended December 31, 2013 and 2012, respectively.

The land on which two branch locations are located are leased from Michigan State University for $1 each. The leases expire in the year 2069 and 2110, respectively.

NOTE 5 — MEMBERS' SHARES

A summary of members' share accounts at December 31 is as follows:

	2013	2012
Regular shares	$282,233,235	$229,995,414
Share draft	295,971,197	254,192,119
Money market checking	34,577,796	31,088,256
Insured money management accounts	815,552,008	750,976,095
Business deposits	109,596,143	95,503,771
Share certificates	678,400,153	667,608,775
	$2,216,330,532	$2,029,364,430

The aggregate amount of members' share certificate accounts in denominations of $100,000 or more at December 31, 2013 and 2012 approximated $290,963,000 and $274,499,000, respectively.

At December 31, 2013, scheduled maturities of share certificates were approximately as follows:

2014	$323,149,588
2015	143,605,442
2016	81,031,263
2017	75,456,393
2018	55,157,467
	$678,400,153

In the normal course of business, the Credit Union's directors, supervisory committee members, and executive officers maintain deposit accounts. The total amount of these shares at December 31, 2013 and 2012 was approximately $2,640,000 and $2,948,000, respectively.

NOTE 6 — BORROWED FUNDS

The Credit Union had advances outstanding from the Federal Home Loan Bank of Indianapolis totaling $30,000,000 and $35,000,000 at December 31, 2013 and 2012, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates ranged from 4.75% to 5.02%, with a combined effective interest rate of 4.90% at both December 31, 2013 and 2012. The advances are collateralized by qualifying securities.

The Credit Union has approximately $716,284,000 in additional borrowing capacity with the Federal Home Loan Bank of Indianapolis at December 31, 2013.

The contractual maturities of borrowed funds are as follows:

2014	$10,000,000
2015	5,000,000
2016	5,000,000
2017	10,000,000
	$30,000,000

NOTE 7 — LINE OF CREDIT

The Credit Union has an available line of credit with Alloya Corporate Credit Union totaling $100,000,000. There were no amounts outstanding on the line of credit at December 31, 2013 and 2012. Alloya Corporate Credit Union has a blanket pledge on all Credit Union assets as collateral for borrowings on this line of credit. Alloya rescinds any rights to qualifying securities pledged as collateral on the FHLBI advances.

NOTE 8 — POST-RETIREMENT BENEFIT PLANS

The Credit Union provides continued health and dental insurance to eligible retirees, their spouses, and eligible dependents in addition to a $5,000 death benefit to a designated beneficiary. An employee is eligible for these benefits after retiring at age 62 with at least 15 years of service or at least 25 years of service without regard to age. The Credit Union records postretirement benefits that require the accrual of the expected cost of retiree benefits during the years that the employees render the necessary service to be entitled to receive such postretirement benefits.

The plan eligibility requirements were amended for employees hired after December 31, 2009. Dependents of retirees will no longer be covered by the plan. Further, the percentage of premiums that will be paid by the Credit Union will vary depending upon the retirement age of the employee.

Obligations and Funded Status

	2013	2012
Accumulated benefit obligation	$13,311,969	$15,082,844
Funded status at end of year	$(13,311,969)	$(15,082,844)

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2013	2012
Net actuarial loss (gain)	$2,486,369	$5,640,051

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income:

	2013	2012
Net periodic benefit cost	$1,621,851	$1,132,341
Net loss (gain) recognized in other comprehensive income	(3,153,682)	3,291,428
Total recognized in net periodic benefit cost and other comprehensive income	$(1,531,831)	$4,423,769
Employer contributions	$239,044	$165,725
Benefits paid	239,044	165,725

The estimated net loss for the postretirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $90,243.

Assumptions — Actuarial assumptions used to determine benefit obligations and net periodic benefit costs for the years ended December 31 are as follows:

	2013	2012
Weighted average discount rate	5.25%	4.25%
Increase in future healthcare costs		
Healthcare cost trend rate assumed for next year	6.50	7.00
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00	4.00
Year that the rate reaches the ultimate trend rate	2019	2019

Estimated Future Benefit Payments and Contributions — Projected future benefit payments, which reflect expected future service, as appropriate, are presented below. Expected contributions from the Credit Union are substantially the same as projected benefit payments.

2014	$270,897
2015	296,968
2016	322,167
2017	346,009
2018	294,237
2019-2023	2,571,033
	$4,101,311

NOTE 9 — PENSION PLANS

All full time and part time employees are eligible to contribute to the Credit Union's 401(k) plan. Employees who have been on staff at least 12 months, have worked at least 1,000 hours, and are 21 years of age or older are eligible for the Credit Union's matching contribution. Employees may contribute up to 100 percent of their compensation (subject to IRS limits) and the Credit Union will make a matching contribution equal to 200 percent of the employees' 401(k) elective deferral contributions up to 5 percent of the employees' salary. The 401(k) plan expense was approximately $1,845,000 and $1,599,000 for 2013 and 2012, respectively. In addition, the Credit Union pays the administrative costs of the plan.

The Credit Union also has a 457(b) plan for certain key employees to allow these employees to defer income in excess of the 401(k) plan contribution limits. The Credit Union does not make any contributions to this plan.

NOTE 10 — 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 those loans recorded in the financial statements.

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	CONTRACT OR NOTIONAL AMOUNT	
	2013	2012
Commitments to grant mortgage and consumer loans	$34,630,000	$32,927,000
Commitments to grant business loans	6,720,000	2,211,000
Unfunded commitments under lines of credit	641,518,000	594,146,000
Unfunded commitments under overdraft protection programs	52,321,000	43,498,000

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. Because 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 counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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 11 — CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements. 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 accounting principles generally accepted in the United States of America. 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 total assets (as defined). Credit unions are also required to calculate a risk based net worth requirement (RBNWR) which establishes whether or not the credit union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2013 and 2012 was 5.90% and 5.34%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2013 and 2012, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent call reporting period, and December 31, 2012, the Credit Union was categorized 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 7.00% of assets. 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 are also presented in the table below:

	ACTUAL		REQUIRED FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION REGULATIONS	
2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$277,724,886	10.95%	$152,201,000	6.00%	$177,568,000	7.00%
2012						
Net Worth	$249,125,808	10.63%	$140,680,000	6.00%	$164,126,000	7.00%

Because the RBNWR 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.

NOTE 12 — FAIR VALUE

The following table presents information about the Credit Union's assets measured at fair value on a recurring basis at December 31, 2013 and 2012 and the valuation techniques used by the Credit Union to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Fair values are also valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price securities that are not actively traded, values securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

For the years ended December 31, 2013 and 2012, there were no assets measured at fair value on a recurring basis using Level 1 or Level 3 inputs. There were also no material fair value measurements on a nonrecurring basis as of those dates.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
U.S. government and federal agency obligations	$ -	$276,315,228	$ -	$276,315,228
Mortgage-backed securities — residential	$ -	403,420,500	$ -	403,420,500
	$ -	$679,735,728	$ -	$679,735,728

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
U.S. government and federal agency obligations	$ -	$454,967,440	$ -	$454,967,440
Mortgage-backed securities — residential	$ -	340,817,621	$ -	340,817,621
	$ -	$795,785,061	$ -	$795,785,061

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. 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. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

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

Cash and Cash Equivalents — The carrying amounts of cash and cash equivalents approximate their fair value.

Securities Available for Sale — Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Investments — It is not practical to determine the fair value of other investments due to restrictions placed on its transferability.

Time Deposits with Other Financial Institutions — Fair values for time deposits with other financial institutions are estimated using discounted cash flow analyses, using interest rates currently being offered for instruments with similar terms and asset quality.

Loans to Members — Net — Fair value is based on the discounted value of future cash flows expected to be received for a loan or group of loans using current rates at which similar loans would be made to members with similar credit ratings and the same remaining maturities. This method considers interest rate changes and credit risk changes within the discount rate chosen. A single discount rate is applied to homogeneous categories of loans such as consumer and mortgage loans.

NCUSIF Deposit — The carrying amounts for NCUSIF deposits approximate their fair value.

Members' Shares — The fair values disclosed for share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable rate, fixed term share certificates approximate their fair values at the reporting date. Fair values for fixed rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on shares and certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Borrowed Funds — The fair values of the Credit Union's other borrowings are estimated using discounted cash flow analyses based on the Credit Union's incremental borrowing rates for similar types of borrowing arrangements.

Commitments — The fair value of loan commitments, valued on the basis of fees currently charged for commitments for similar loan terms to new members with similar credit profiles, is not considered material.

Limitations — Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union's entire holdings of a particular financial instrument.

The estimated fair values of the Credit Union's financial instruments at December 31 are as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$109,882,938	$109,883,000	$102,020,088	$102,020,000
Securities available for sale	679,735,728	679,736,000	795,785,061	795,785,000
Other investments	7,886,313	N/A	6,434,512	N/A
Time deposits with other financial institutions	28,362,438	29,217,000	10,000,000	11,316,000
Loans to members - net	1,565,338,340	1,566,916,000	1,317,607,653	1,364,053,000
NCUSIF deposit	19,797,378	19,797,000	18,273,768	18,274,000
Financial liabilities				
Members' shares	2,216,330,532	2,226,098,000	2,029,364,430	2,041,613,000
Borrowed funds	30,000,000	32,176,000	35,000,000	38,521,000

NOTE 13 — MERGER

On April 1, 2013, the Credit Union merged with Eaton County Educational Credit Union (ECECU), a state chartered credit union headquartered in Charlotte, Michigan. ECECU had one branch located in the Charlotte, Michigan area and offered a product line similar to the Credit Union's.

The fair value of ECECU was estimated considering both the fair values of its tangible and intangible assets and liabilities and the market approach considering enterprise values for comparable entities. There was no consideration transferred in the merger, so valuation methodologies were applied to determine the fair value of the equity acquired in merger.

The following table summarizes the identifiable tangible and intangible assets acquired and liabilities assumed in the merger. No goodwill was identified.

MERGER WITH ECECU

Fair value of ECECU	$3,825,906
Cash and cash equivalents	$8,829,538
Other investments	186,800
Time deposits with other financial institutions	15,291,000
Loans to members - net	9,627,564
Premises and equipment - net	435,000
NCUSIF deposit	292,660
Member share intangible	517,000
Other assets	91,570
Members' shares	(31,397,749)
Accrued expenses and other liabilities	(47,477)
	$3,825,906

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