LOOKING TOWARD THE FUTURE

2014 MSUFCU ANNUAL REPORT

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who we are

MSUFCU hosted art in its Headquarters lobby from artist, Beverly Fishman, and the MSU Child Development Lab.

Our mission is to provide superior service while assisting members and employees to achieve financial security, their goals, and ultimately, their dreams.

Michigan State University Federal Credit Union (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. Since then, the Credit Union has grown to exceed $2.7 billion in assets, earning us the title of the world's largest university-based credit union, 50th largest credit union in the country, and third largest credit union in the state of Michigan.

At MSUFCU, our members, employees, and the community are our top priority. The pillars of our organization are eight core values that help make up our culture's identity: to provide superior service; have integrity and honesty; give back to the community; cultivate diversity; pursue growth and development; be passionate and determined; build a positive environment; and encourage, embrace, and drive change.

The strong foundation of relationships we have formed with our members has contributed to our continued growth and success over the years. We continue to focus on our members' changing wants and needs through various communication avenues such as social media, promotional material, and a community website. This allows 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 195,000 members worldwide, we strive to provide a unique experience for each member with every interaction.

A MESSAGE FROM **JOHN R. BRICK, PhD, CFA**

MSUFCU's Chairman of the Board

Dear Members,

On behalf of your Board of Directors and management, I am delighted to present the 2014 Annual Report for the MSUFCU. As you will see, your Credit Union continues to demonstrate outstanding financial and member service performance in both absolute and relative terms.

During 2014, assets increased 9.4% to over $2.78 billion while members increased 7.57% to 195,278. Loans increased 18% to $1.87 billion and deposits increased 7.49% to $2.38 billion. Our capital ratio — an important indicator of financial strength — is one of the strongest in the industry at 11.13%. As a result of this success and growth, our Headquarters will be near full capacity in 2015, about three years ahead of earlier projections. This required extensive planning for a new operations center with construction to begin in mid-2015 and completion in early 2017. This state-of-the-art technology facility will enable our employees to continue providing the extraordinary level of service for which they have become so well known.

As you will see from a casual review of the trophy case in the headquarters building, your Credit Union has been the recipient of numerous awards at the local, regional, and national levels. The most recent of these are one, being rated by the *Detroit Free Press* as the number one large employer in Michigan; and two, being ranked by fortune.com as the tenth best financial institution in the country for employees.

The year 2015 will see a significant change in the leadership of the Credit Union. In mid-March Pat McPharlin will retire as CEO, a position he held since 2000. Due to his leadership, the MSUFCU has repeatedly attained national recognition for which we are all proud. Commensurate with his retirement, April Clobes will assume the role of President and CEO. In her prior role as Chief Operations Officer, April's performance was stellar and we are confident that she will further build on Pat's legacy.

Finally, the MSUFCU is a widely recognized, vibrant, and highly successful organization. For this, we want to thank management and the employees for their contribution to our success. In addition, I want to thank the membership for your continued support and confidence in our Credit Union.

John R. Brick

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

A MESSAGE FROM **PATRICK McPHARLIN**

MSUFCU's President & CEO

Dear Members,

This is my last President's message because I am retiring in March 2015. It has been a great privilege and honor to serve as President/CEO since 2000 and complete 41 years of service. I have been able to work with the most amazing Board of Directors, executive team, management team, and employees. We have been able to achieve great financial and service success during some very difficult financial and economic periods.

MSUFCU won the National Credit Union of the Year award in 2014. You may have seen employees wearing their "Awesome shirts" in celebration. The other awesome award we won was first place in the large employer category in the *Detroit Free Press* Michigan's Top 100 Workplaces. Recognition as the best workplace in the state is an achievement the members, Board of Directors, management, and employees can be very proud of receiving.

The greatest achievement for MSUFCU is the selection of April Clobes as the new President/CEO. Ms. Clobes, in her 19 years at the Credit Union, has succeeded in many managerial and executive positions, including Chief Operations Officer. In addition, Ms. Clobes has been very active in leadership roles on campus and in the community.

2014 was, once again, financially a very successful year for the Credit Union. Assets are nearly $2.8 billion with capital of nearly $300 million. In 2014, loans grew from $1.6 billion to nearly $1.9 billion. Loan growth was very strong because of the Credit Union's extremely successful Member Experience initiative. The goal for Member Experience is to reduce the members' loan interest expense by refinancing their loans to the Credit Union. In 2014, the Credit Union saved our members over $10.58 million dollars! Saving members $10.58 million is helping members achieve financial security, their goals, and ultimately, their dreams. Members overwhelmed us with their thank you stories. One member experiencing financial difficulty sent the loan officer Life Savers candy, "because she saved me." Another member said, "Now my child can get braces."

We have been amazed with the positive response and increase in loans and services by members due to the new Mason Branch. Since its opening in September, over 900 new members have joined the Credit Union at the Mason Branch.

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

Patrick M. McPharlin
President & Chief Executive Officer

BOARD OF DIRECTORS

MSUFCU's volunteer Board of Directors guide the Credit Union's growth and strategic decisions allowing MSUFCU to invest in members, employees, and the community.

Standing, from left:
Janet Lillie, Gregory Deppong, John Brick, William Latta, Michael Hudson

Sitting, from left:
Ernest Betts, William Beekman, Sue Carter, Angela Brown

EXECUTIVE MANAGEMENT

MSUFCU's executive management team guides employees to follow the Credit Union's mission in every interaction with members, and has continued to help MSUFCU achieve financial strength in 2014.

Standing, from left:

Lea Ammerman, Senior Vice President of Branches
Silvia Dimma, Vice President of Human Resources
Sara Dolan, Chief Financial Officer
Patrick McPharlin, President & Chief Executive Officer
April Clobes, Executive Vice President & Chief Operations Officer
Deidre Davis, Vice President of Marketing and Sales
Ronda McCoy, Vice President of Consumer Lending

Sitting, from left:

James Hunsanger, Vice President of Internal Audit & Compliance
Dennis Dorogi, Vice President of Remote Services
Samantha Amburgey, Chief Information Officer
Jeffrey Jackson, Senior Vice President of Business Lending & Operations

Helping Members Achieve Their Dreams

Over the past year, MSUFCU assisted members in achieving their financial goals and dreams by helping them provide for their children's futures, purchase their first homes, and start off on the right foot after graduation. It is because of our members' trust and loyalty to the Credit Union that we were able to continue to invest in new products, services, and branches to best serve our membership. In return, this allows us to continue creating new job opportunities in the area and support local organizations. MSUFCU continues to strongly believe in the importance of contributing to the communities we serve, as this support helps the members of the community to thrive.

In 2014 — Our assets increased to over **$2.7 billion**, loans increased to **$1.87 billion**, and membership rose to more than **195,278 members**.

What would *you* do if you were told you could save money on your loans by switching to MSUFCU? Would you make a home improvement or decide to go on vacation? Last year alone, MSUFCU saved members more than **$10,500,000** in interest!

SPARTANS WITHOUT **BORDERS LOAN**

MSUFCU partnered with MSU to provide financial assistance to Spartan researchers, teachers, coaches, alumni, students, and non-Spartans alike who are interested in volunteering their time and skills to improve the quality of life for communities around the world. The Spartans Without Borders program encourages volunteers to use innovative approaches to help others and work as a team to set goals with long-lasting impacts.

STATE OF **MICHIGAN PARTNERSHIP**

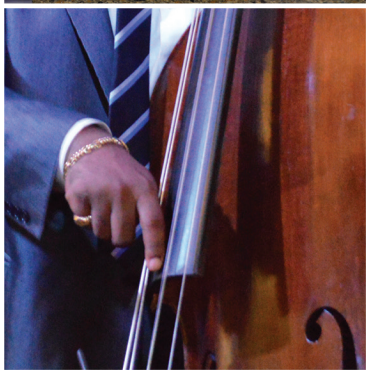
In August, the State of Michigan became one of MSUFCU's Select Employee Groups, creating membership eligibility for employees. The new partnership continued to grow with the installation of MSUFCU ATMs in 14 State of Michigan buildings in Lansing.

ORGANIC FARMER TRAINING PROGRAM **FINANCIAL ASSISTANCE LOAN**

A new loan was created for MSU students enrolled in the student Organic Farm Training Program (OFTP). OFTP is a nine-month intensive training program that teaches individuals about year-round organic farming. This loan helps provide assistance to students wishing to enter and achieve their dreams of a future profession in farming.

COMPUTERLINE **ENHANCEMENTS**

ComputerLine, MSUFCU's online banking system, launched many new enhancements for transfer functionalities, based on member feedback.



Four branches celebrated.
174 new employees hired.
Continued developments
within the community.

Look at How We've Grown!

MSUFCU continued to grow in both employee positions and branch locations over the past year. We were pleased to hire **174 new employees** for positions in our call center, accounting, branches, eCommerce, adjustments, eServices, business services, ATMs, administration, internal and corporate communications, loan operations, marketing, information technology, and mortgage departments.

Additionally, we welcomed many new student interns from MSU that were excited to gain real-world experience before graduating. Interns were hired in the accounting and finance, marketing, regulatory affairs, eCommerce, internal and corporate communications, and business services departments.

Oakland Center Branch Grand Re-Opening

01.14.14

Charlotte Branch Grand Re-Opening

02.04.14

Meridian Crossing Branch Ground Breaking

07.31.14

Mason Branch Grand Opening

09.02.14

2014 Employee Growth

174 new employees
55 jobs created
17 new managers
210 promotions
93% employee engagement rate*

*Data based on MSUFCU employees' feedback on a survey conducted by Mercer.

Serving Members Worldwide — **from East Lansing, MI to Athens, Greece**

Many of our members choose MSUFCU due to the convenience and superior service that we provide through extended call center hours, eDeposit, Online Chat, surcharge-free CO-OP Network ATMs and shared branching, and much more. With nearly 19% of our membership living outside of Michigan, we continue to receive positive feedback regarding our growing branch network, available electronic services — including an enhanced mobile app — and outstanding member service with every interaction.

EMAILS & ONLINE CHATS
151,834

BRANCH TRANSACTIONS
4,797,901

INCOMING CALL CENTER CALLS
523,943

FINANCIAL EDUCATION PRESENTATION ATTENDEES
3,602

COMPUTERLINE LOGINS
9,383,858

MOBILE APP LOGINS
7,298,291

MOBILE eDEPOSITS
398,568

BILL PAYMENTS
806,157

ATM TRANSACTIONS AT MSUFCU/OUCU MACHINES
19,404,499

Second Headquarters to Open in 2017

We are excited to announce MSUFCU will begin construction on a second headquarters building in June 2015 and it is expected to be completed in the summer of 2017. Over the past few decades, MSUFCU has continued to see exponential growth in members, branches, and employees. We are proud to continue providing superior service to members, with more than 630 employees who all work in the mid-Michigan area, as the Credit Union continues to grow. Every department works in-house, including our information technology department, who works on our web-based and mobile-based websites, call center who processes members' phone calls, and the eServices department who answers Online Chats and messages. The additional space will allow us to continue to meet the growing demands of our membership and build relationships with current and future members.

MSUFCU's current Headquarters building opened in 2008 and was designed for 10 years of growth, with 478 workstations. ***We are now projected to increase to over 700 employees in 2017, outgrowing our current Headquarters.***

There are more than 195,000 MSUFCU members, which equates to an average yearly growth rate of 5-7%. ***Membership has nearly doubled since 2000.***

OU Credit Union in 2014

1,749 new OUCU members
1,113 new student members
34 financial education presentations
1,133 mobile app downloads
675 new Visa Credit Cards

Oakland University (OU) was established in the 1950s as *Michigan State University-Oakland* before becoming its own independent entity. During this time, MSUFCU served OU employees as their official financial institution and provided superior financial services to university employees. In 2014, MSUFCU expanded its long-standing partnership with OU and established Oakland University Credit Union, a trade-name of MSU Federal Credit Union. Through this partnership, we have achieved great success over the past year while our relationship continued to strengthen through service with an on-campus branch and ATMs, community outreach with financial education presentations, and various scholarships offered to students.

MSUFCU is committed to making a positive impact on students and faculty at Michigan State University and Oakland University, residents in the community, and members across the world. By demonstrating our core value of giving back to the community, MSUFCU invests in our community to help create a positive place where people are proud to live and work. Through in-kind and monetary donations, we were pleased to partner with more than 450 community nonprofits, MSU and OU colleges, departments, and student organizations. A few of our partners in 2014 included MSU's College of Music *Blue Mondays* Concert Series, Eli and Edythe Broad Art Museum Artist-In-Residence exhibits, the Sparrow Foundation, Boys and Girls Club, and OU's Meadow Brook Hall.

making a difference

Many MSUFCU employees volunteered at the annual Michigan Mile in support of the Sparrow Foundation.

THE **HATCH**

MSUFCU continued its partnership with The Hatch in 2014 as the organization worked to expand its location. The Hatch is a creative space for entrepreneurs who are looking to further develop new business ideas. We were excited to invest in a promising program that opens its doors to MSU students and the Greater Lansing area, as they venture to improve the local economy with new businesses. Because of our partnership, MSUFCU was able to create its own space in The Hatch that shares valuable information about the Credit Union and inspirational messages for Hatch members. We look forward to continuing our support with The Hatch and GreenLight Competition, which supports innovation initiatives from entrepreneurs across the state of Michigan.


Employees bought items for Ingham County Animal Shelter.

PAY IT **FORWARD**

In honor of our 77th anniversary, Credit Union employees surprised local residents by donating $7,700 at over 20 different locations in mid-Michigan through a Pay it Forward event. The goal of this event was to share our success and give back to our community and local businesses by passing kindness on to others. Volunteers surprised individuals for a full week in November at various coffee shops, the Allen Street Farmers Market, Cravings Popcorn, and Ingham County Animal Shelter, among many others. Additionally, MSUFCU gave back in a very special way to area groups, which included a ukulele donation to a hard-working teacher at Schavey Road Elementary, and a “Pay it Forward Giving Tree” to the MSU Student Cancer Support Network Group.

In 2014, we supported **470** community programs.

MSUFCU partnered with **150 MSU** organizations.

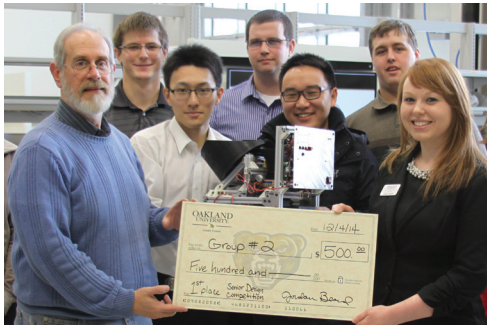
RUN FOR **THE HOUSE**

The annual Run for the House 5K and 10K raises money for the Ronald McDonald House of mid-Michigan (RMHMM). RMHMM helps to provide an inexpensive and comforting place to stay for families who have children receiving treatment or are hospitalized in our Greater Lansing area hospitals. We are pleased to partner with such an upstanding event as they work to make sure families do not have to worry about financial difficulties as they encounter illness.

An MSUFCU employee helped to answer phones at a WKAR fundraising event.

WK**AR**

WKAR is a locally-run television and radio station — a PBS broadcasting member — owned by Michigan State University. WKAR has brought many jobs to the area over the past 61 years, and has given many students who are interested in broadcast journalism the opportunity for hands-on learning. Part of our continued partnership includes providing MSUFCU volunteers for their annual TV fundraising events, which raise money to help keep WKAR a local leader. Credit Union employees help to answer pledge phone calls and record donations.



DEAN'S **CHOICE GRANT**

MSU and OU Deans were invited to apply for our Dean's Choice Grant program in the 2014 fall semester, which recognizes academic excellence in students. Deans interested in participating were asked to submit a proposal of a student challenge or competition on behalf of the student programs in their colleges. The Grant then awarded Deans $2,500 to provide to the competition winners. This year's Dean's Choice saw an increase in participation among both universities and continued to provide financial assistance to undergraduate and graduate students working toward their goals.

MSUFCU employees raised **$135,409** of their own funds for Haven House, Capital Area United Way, Relay For Life, Juvenile Diabetes Research Foundation, and Coaches for Cancer.

recognition

We are proud to provide a variety of resources to help our employees, members, and local community residents achieve personal success. We were honored to receive recognition for excellence in 2014 for employment, community involvement, health and wellness initiatives, and financial education.

Throughout the past year, MSUFCU enhanced its CU Healthy program, which promotes a culture of overall wellness for employees. From sponsored admission to races, to financial incentives, and a wellness fair, the Credit Union showed dedication to employees through free programs.

Our Education Outreach team offered more than 46 seminars and 216 presentations in the community on topics ranging from budgeting, to fraud and identity theft.

The Credit Union was recognized as the 2014 Federal Credit Union of the Year by the National Association of Federal Credit Unions. Through expansion into new communities, investments in the places we work and live, and continued focus on providing superior service to members, MSUFCU was honored to receive this award.

January 2014
West Michigan's Best and Brightest Places to Work
Winner in Elite Category of Employee Education and Development

March 2014
Credit Union National Association
Diamond Award

April 2014
Michigan Fitness Foundation
Outstanding Healthy Workplace Award

May 2014
National Association of Federal Credit Unions
2014 Federal Credit Union of the Year

August 2014
Capital Area United Way *Best Campaign*

September 2014
Best and Brightest Places to Work *in Wellness*

October 2014
Credit Union Journal
Number One Best Credit Union to Work For in Large Asset Category

November 2014
Detroit Free Press
Number One in Michigan's Top 100 Workplaces in Large Employer Category

December 2014
Best and Brightest Places to Work
Nationally Recognized

2014 MSUFCU **COMMITTEES**

SUPERVISORY COMMITTEE

The Supervisory Committee protects our membership by enforcing bylaws, overseeing internal and external audits, and hiring external financial statement auditors. Doing so, they review information far beyond established federal regulations.

Robert Wiseman, Chair
Gregory Deppong, Board Liaison
Sarah Blanck
Francisco Villarruel
Jeff Williams
Kristine Zayko

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, Board Liason
Angela Brown, Board Liason
Thomas Cooper
Nancy Hollis
Elizabeth Lawrence
Steven Lovejoy
Robert Patterson

Patrick McPharlin
April Clobes
Sara Dolan
James Hunsanger
Ronda McCoy

2014 **AMBASSADORS**

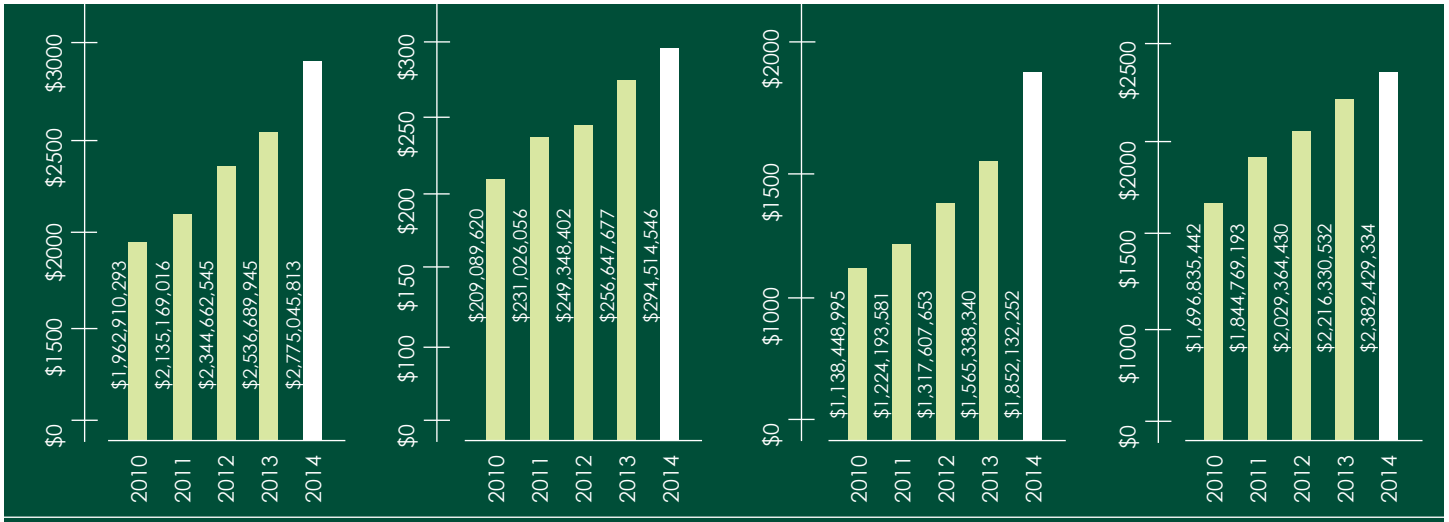
MICHIGAN STATE UNIVERSITY AMBASSADORS

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
Zachary Constan
Thomas Coon
Kat Cooper
Patrick Cusick
Douglas Cron
Carmellia Davis-King
Julie Dansby
Kathleen Deneau
Ken Deneau
Sue Depoorter
Gregory Deppong
William Donohue
Lisa Dunlap
Jodee Fortino
Natisha Foster
Michael Gardner
Karen Grannemann
Marilee Griffith
Jodi Hancock
Rosemarie Harman
Mary Lou Heberlein
Paul Heberlein
Charles Hornburg
Mary Horvath
Angela Howard-Montie
Cheryl Howell
Michael Hudson
Laurie Huntley
Darlene Johnson
Erin Johnson
Ed Karazim
Fred Kayne
Sally Keisling
Joanne Keith
Darrell King
Michael Kolar
Denni Kraft
William Latta
Rhonda Lienhart
Janet Lillie
Pam Marcis
Angela Matlock
Dean Matsudo
Denise Maybank
Chandos McCoy
Matt McKune
June Messner
Robert Meyer
Judi Miller
Kathleen Mills
Carol Noud
Melony Peabody
Karyn Pearl
Laurel Peto
Debbie Powell
Marcia Ratliff
Sonya Ribnicky
H. Michael Rice
John Roberts
Judith Salminen
Angelica Santos
Mary Schwalm
Carol Shaulis
Nancy Sheldon
Nina Silbergleit
Sandi Smith
Cristine Stock
Lori Strom
Paula Terzian
Bob Thomas
Katherine Trebilcott
Victoria Tryban
Marsha Walsh
Susan Waltersdorf
S. Faye Watson
Jeff Williams
Keith Williams
Nancy Yeadon

OAKLAND UNIVERSITY AMBASSADORS

David Archbold
Dawn Aubry Slowick
Scott Barns
Nancy Barton-Kenney
Lorna Bearup
Patrick Bennett
David Birkholz
Charles Brown
Sheila Carpenter
Virginia Cloutier
Eric Condic
Timothy Dameron
Ann Dunlop
Pieter Frick
Sandy Gabert
Kitty Gentile
Frank Giblin
Geraldine Graham
Cora Hanson
Robert Hanson
Susan Hartman
Ken Hightower
Mary Isaacs
Greg Jordon
Ellen Keaton
Sandy Kern
Bonnie Koch
Kelly Lenda
Barbara McDowell
Kimberly McWain
Deborah Middlebrook
Jean Ann Miller
George Preisinger
Eleanor Reynolds
Katherine Rowley
Gail Ryckman
Laura Schartman
Val Schnable
Maura Selahowski
Leigh Settlemoir Dzwik
Steven Shablin
Tammye Stoves
Linda Switzer
Mohan Tanniru
Ronald Tracy
Chris Turkopp
Geoffrey Upward
Jason Vanlandeghem
David Vartanian
Tricia Westergaard
Hazen Wilcox

2014 STATEMENT **OF FINANCIAL CONDITION**

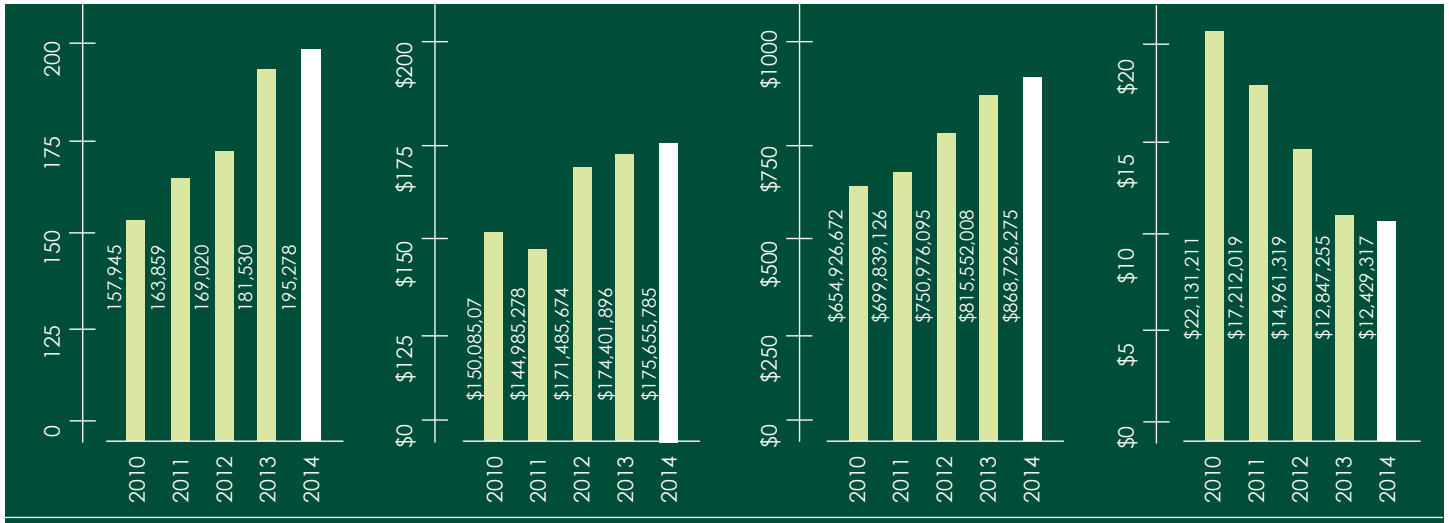


Total Assets

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, 2014 and 2013, and the related statements of income and 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, 2014 and 2013, 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 18, 2015

STATEMENTS OF **FINANCIAL CONDITION**

	AT YEAR END December 31, 2014	AT YEAR END December 31, 2013
ASSETS		
Cash on hand and funds on deposit with other financial institutions	$ 32,731,317	$ 28,756,989
Interest-bearing balances with other financial institutions	87,382,968	81,125,949
Cash and cash equivalents	120,114,285	109,882,938
Securities available for sale	605,321,526	679,735,728
Other investments	9,351,700	7,886,313
Time deposits with other financial institutions	28,446,000	28,362,438
Loans to members - net	1,852,132,252	1,565,338,340
Premises and equipment - net	92,253,044	86,821,154
NCUSIF deposit	20,894,048	19,797,378
Business owned life insurance	32,323,885	26,240,264
Other assets	14,209,073	12,625,392
Total assets	**$ 2,775,045,813**	**$ 2,536,689,945**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 2,382,429,334	$ 2,216,330,532
Borrowed funds	60,000,000	30,000,000
Post-retirement benefit liability	21,893,449	13,311,969
Accrued expenses and other liabilities	16,208,484	20,399,767
Total liabilities	2,480,531,267	2,280,042,268
Members' equity	294,514,546	256,647,677
Total liabilities and members' equity	**$ 2,775,045,813**	**$ 2,536,689,945**

See accompanying notes.

STATEMENTS OF **INCOME AND COMPREHENSIVE INCOME**

	AT YEAR END	
	December 31, 2014	December 31, 2013
Interest income		
Loans	$ 87,474,080	$ 77,393,921
Investment securities, other investments, and time deposits	10,545,366	10,765,043
Interest-bearing balances with other financial institutions	95,020	95,098
	98,114,466	88,254,062
Interest expense		
Members' shares and savings accounts	12,429,317	12,847,255
Borrowed funds	1,617,697	1,543,366
	14,047,014	14,390,621
NET INTEREST INCOME	84,067,452	73,863,441
Provision for loan losses	5,504,732	4,978,755
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	78,562,720	68,884,686
Noninterest income		
Fees and charges	12,628,560	12,077,822
Visa interchange	17,192,407	13,895,084
Other	2,325,192	1,993,061
	32,146,159	27,965,967
Noninterest expense		
Compensation and benefits	38,708,867	34,484,132
Operating expenses	34,285,474	27,836,925
Occupancy	6,106,149	5,714,974
Other	1,557,306	3,018,089
	80,657,796	71,054,120
NET INCOME	**$ 30,051,083**	**$ 25,796,533**

See accompanying notes.

STATEMENTS OF **INCOME AND COMPREHENSIVE INCOME**

	AT YEAR END	
	December 31, 2014	December 31, 2013
NET INCOME	**$ 30,051,083**	**$ 25,796,533**
Other comprehensive income		
Securities available for sale:		
Unrealized holding gains (losses) on securities available for sale	15,552,628	(25,476,846)
Reclassificiation adjustment for losses (gains) included in net income (presented in noninterest income-other)	(120,117)	-
Defined benefit pension plans:		
Net gain (loss) arising during the year on postretirement benefit plan	(7,706,968)	2,816,246
Reclassification adjustment for net gain (loss) amortized into postretirement benefit plan expense (presented in noninterest expense — compensation and benefits)	90,243	337,436
Total other comprehensive income (loss)	7,815,786	(22,323,164)
COMPREHENSIVE INCOME	**$ 37,866,869**	**$ 3,473,369**

See accompanying notes.

STATEMENTS OF **MEMBERS' EQUITY**

	REGULAR RESERVE	UNDIVIDED EARNINGS	EQUITY ACQUIRED IN MERGERS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE — DECEMBER 31, 2013	$17,980,012	$256,942,329	3,825,906	$(22,100,570)	$256,647,677
Net income	-	30,051,083	-	-	30,051,083
Total other comprehensive income	-	-	-	7,815,786	7,815,786
BALANCE — JANUARY 1, 2013	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
Total other comprehensive loss	-	-	-	(22,323,164)	(22,323,164)
BALANCE — DECEMBER 31, 2014	**$17,980,012**	**$286,993,412**	**$3,825,906**	**$(14,284,784)**	**$294,514,546**

See accompanying notes.

STATEMENTS OF **CASH FLOWS**

	AT YEAR END	
	December 31, 2014	December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$30,051,083	$25,796,533
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7,174,323	5,718,583
Net amortization of securities	4,558,091	7,478,628
Provision for loan losses	5,504,732	4,978,755
Net gain on sale of securities available for sale	(120,117)	-
Gain on sale of premises and equipment	-	(4,136)
Write-down of other investments	336,613	-
Earnings on business owned life insurance	(843,721)	(468,402)
Net change in:		
Other assets	1,549,531	3,322,720
Postretirement benefit liability	964,755	1,382,807
Accrued expenses and other liabilities	(4,191,283)	4,485,420
Net cash from operating activities	**44,984,007**	**52,690,908**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of securities available for sale	121,000,000	212,357,000
Proceeds from sales of securities available for sale	22,926,825	-
Proceeds from mortgage backed securities principal repayments	66,037,317	79,318,614
Purchases of securities available for sale	(124,555,403)	(208,581,755)
Purchases of other investments	(1,802,000)	(1,265,000)
Proceeds from time deposits with other institutions	22,595,000	5,834,000
Purchases of time deposits in other institutions	(22,728,000)	(8,969,000)
Purchases of business owned life insurance	(5,239,900)	(25,771,862)
Net change in loans to members	(295,431,856)	(245,471,000)
Increase in NCUSIF deposit	(1,096,670)	(1,230,950)
Proceeds from sale of premises and equipment	-	5,500
Purchases of premises and equipment	(12,556,775)	(10,451,496)
Net cash received from merger	-	8,829,538
Net cash from investing activities	(230,851,462)	(195,396,411)

See accompanying notes.

STATEMENTS OF **CASH FLOWS**

	AT YEAR END	
	December 31, 2014	December 31, 2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	166,098,802	155,568,353
Proceeds from Federal Home Loan Bank advances	40,000,000	-
Repayment of Federal Home Loan Bank advances	(10,000,000)	(5,000,000)
Net cash from financing activities	196,098,802	150,568,353
Net change in cash and cash equivalents	10,231,347	7,862,850
Beginning cash and cash equivalents	109,882,938	102,020,088
ENDING CASH AND CASH EQUIVALENTS	**$ 120,114,285**	**$ 109,882,938**
Supplemental cash flow information:		
Cash paid for interest	$ 14,018,185	$ 14,403,440
Supplemental noncash disclosures:		
Transfers from loans to other real estate owned	$3,389,028	$ 2,389,122
Transfers of other real estate owned to loans	255,816	-
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: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with other financial institutions, federal funds sold, and interest bearing deposits with other financial institutions with original maturities of one year 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 or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted 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 the statements of income. 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 statements of income and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). 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 $8,564,900 and $6,762,900 of Federal Home Loan Bank of Indianapolis (FHLBI) capital stock at December 31, 2014 and 2013, respectively. The stock is carried at cost. The stock is redeemable only upon five years' notice to the FHLBI.

Other investments also include our investment in Alloya Corporate Credit Union's (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 at December 31, 2014 and 2013, respectively. 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.

As of December 31, 2013, other investments also included stock in CU Cooperative Systems, Inc., which was carried at cost. This other investment was written-off in 2014.

Time Deposits with Other Financial Institutions: Time deposits with other financial institutions consist of $20,000,000 of certificates of deposit with Alloya Corporate Credit Union which mature in 2015 ($15,000,000) and 2017 ($5,000,000) and $8,446,000 of FDIC insured certificates of deposit with contractual maturities of $5,610,000 in 2015, $2,728,000 in 2016, and $108,000 in 2017.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 loan.

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 mortgage loans for impairment disclosures unless the loan is a troubled debt restructuring. 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 all other 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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Within this segment, the Credit Union has identified 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 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. No separate classes of loans have been identified on this portfolio segment.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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 the Credit Union 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 noninterest expense-operating expenses on the statements of income. The carrying value of foreclosed assets, included in other assets on the statement of financial condition, was $1,180,000 and $986,000 at year-end 2014 and 2013.

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.

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 and is included in noninterest expense – other on the statements of income. There was no assessment for the TCCUSF in 2014.

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: Postretirement benefit plan 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. Postretirement benefit plan and 401(k) expense is included in noninterest expense-compensation and benefits on the statements of income.

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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet member financing needs. The face amount for these items represents the exposure to loss, before considering member collateral or ability to repay. Such financial instruments are recorded when they are funded.

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 18, 2015 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.

Adoption of New Accounting Standards: In February 2013, the FASB amended existing guidance related to reporting amounts reclassified out of accumulated other comprehensive income (ASU 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income). These amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component.

In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about these amounts. The adoption of this standard did not have a material effect on the Credit Union's operating results or financial condition. separate component of 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
2014				
U.S. Government and federal agency obligations	$247,642,156	$878,377	$(186,269)	$248,334,264
Mortgage-backed securities — residential	361,861,060	538,972	(5,412,770)	356,987,262
	$609,503,216	$1,417,349	$(5,599,039)	$605,321,526
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

At December 31, 2014 and 2013, securities with a fair value of approximately $584,209,000 and $665,440,000, respectively, were pledged as collateral to secure borrowed funds.

The contractual scheduled maturities of securities available for sale at December 31, 2014 are shown below:

	Amortized Cost	Fair Value
Due in one year or less	$30,066,980	$30,128,424
Due from one through five years	217,575,176	218,205,840
Mortgage-backed securities — residential	361,861,060	356,987,262
	$609,503,216	$605,321,526

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013, 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
2014						
U.S. Government and federal agency obligations	$ (51,713)	$ 50,762,507	$ (134,556)	$ 19,894,792	$ (186,269)	$ 70,657,299
Mortgage-backed securities — residential	(107,749)	33,208,142	(5,305,021)	240,211,960	(5,412,770)	273,420,102
	$ (159,462)	$ 83,970,649	$(5,439,577)	$260,106,752	$ (5,599,039)	$ 344,077,401
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

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:

	2014	2013
CONSUMER		
Secured	$587,957,522	$450,557,835
Unsecured	302,804,841	270,718,528
Other	37,003631	26,211,491
MORTGAGE		
First mortgage	728,479,043	651,453,442
Home equity	121,001,256	116,341,023
BUSINESS	88,600,555	66,871,439
	1,865,846,848	1,582,153,758
Net deferred loan origination costs	1,454,279	382,653
Less allowance for loan losses	15,168,875	17,198,071
Loan to members - net	$1,852,132,252	$1,565,338,340

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:

December 31, 2014	Consumer	Mortgage	Business	Total
Allowance for loan losses:				
Beginning balance	$9,438,401	$6,503,715	$1,255,955	$17,198,071
Provisions for loan losses	6,849,367	(1,664,370)	319,235	5,504,232
Loans charged-off	(7,698,793)	(1,328,181)	(175,542)	(9,202,516)
Recoveries	1,537,289	131,799	-	1,669,088
Total ending allowance balance	$10,126,264	$3,642,963	$1,399,648	$15,168,875

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

As of December 31, 2014 and 2013, the Credit Union had 25 and 23 loans with a balance of approximately $3,260,000 and $3,094,000, 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 2014 and 2013 is $757,000 and $1,093,000, 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 2014 and 2013, 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, 2014 and 2013:

2014	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
CONSUMER		
Secured	$2,418,450	$ -
Unsecured	1,929,517	-
Other	110,486	-
MORTGAGE		
First mortgage	2,793,942	-
Home equity	164,044	-
BUSINESS	83,614	-
Total	$7,500,053	$ -

2013	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
CONSUMER		
Secured	$1,500,208	$ -
Unsecured	2,021,859	-
Other	256,187	-
MORTGAGE		
First mortgage	5,066,486	-
Home equity	501,311	-
BUSINESS	1,781,890	-
Total	$11,127,941	$ -

The following table presents the aging of the recorded investment in past due loans as of December 31, 2014 and 2013 by class of loans:

2014	30 - 59 Days Past Due	60 - 89 Days Past Due	> 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
CONSUMER						
Secured	$5,543,907	$2,050,697	$2,418,450	$10,013,054	$577,944,468	$587,957,522
Unsecured	2,866,564	766,655	1,929,517	5,562,736	297,242,105	302,804,841
Other	214,460	191,157	110,486	516,103	36,487,528	37,003,631
MORTGAGE						
First mortgage	4,614,522	1,613,388	2,793,942	9,021,852	719,457,191	728,479,043
Home equity	599,698	345,809	164,044	1,109,551	119,891,705	121,001,256
BUSINESS	9,782	41,121	83,614	134,517	88,466,038	88,600,555
Total	$13,848,933	$5,008,827	$7,500,053	$26,357,813	$1,839,489,035	$1,865,846,848
2013						
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

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, 2014 and 2013 are $3,432,000 and $2,910,000, respectively.

Loans on which the accrual of interest has been discontinued amounted to approximately $7,500,000 and $11,128,000 at December 31, 2014 and 2013, respectively. If interest on these loans had been accrued, such income would have been approximately $238,000 and $396,000 at December 31, 2014 and 2013, respectively. Impaired loans are not material to the financial statements as of December 31, 2014 and 2013.

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:

	2014	2013
Land	$13,934,885	$13,820,067
Building and improvements	82,222,166	74,982,761
Furniture and equipment	22,024,083	20,366,386
Software and EDP	19,928,211	16,932,938
Leasehold improvements	2,536,251	2,167,640
Construction in progress	3,084,594	3,889,292
	143,730,190	132,159,084
Less: accumulated depreciation	(51,477,146)	(45,337,930)
	$92,253,044	$86,821,154

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, 2014 pertaining to buildings, future minimum lease commitments under various operating leases are approximately as follows:

2015	$178,455
2016	180,661
2017	125,040
2018	98,636
2019	99,226
	$682,018

Total lease expense was approximately $172,000 and $160,000 for the years ended December 31, 2014 and 2013, 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:

	2014	2013
Regular shares	$311,942,689	$282,233,235
Share draft	332,516,904	295,971,197
Money market checking	40,207,641	34,577,796
Insured money management accounts	868,726,274	815,552,008
Business deposits	122,752,085	109,596,143
Share certificates	706,283,741	678,400,153
	$2,382,429,334	$2,216,330,532

The aggregate amount of members' share certificate accounts in denominations of $250,000 or more at December 31, 2014 and 2013 approximated $52,699,000 and $43,484,000, respectively.

At December 31, 2014, scheduled maturities of share certificates were approximately as follows:

2015	$327,518,569
2016	138,747,275
2017	95,142,220
2018	63,690,034
2019	73,048,805
2020 and after	8,136,838
	$706,283,741

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, 2014 and 2013 was approximately $2,132,000 and $2,640,000, respectively.

NOTE 6 — BORROWED FUNDS

The Credit Union had advances outstanding from the Federal Home Loan Bank of Indianapolis totaling $60,000,000 and $30,000,000 at December 31, 2014 and 2013, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates ranged from 2.52% to 5.02%, with a weighted average interest rate of 3.47% at December 31, 2014. The interest rates ranged from 4.75% to 5.02%, with a weighted average interest rate of 4.90% at December 31, 2013. The advances are collateralized by qualifying securities.

The Credit Union has approximately $750,107,000 in additional borrowing capacity with the Federal Home Loan Bank of Indianapolis at December 31, 2014.

The contractual maturities of borrowed funds are as follows:

2015	$5,000,000
2016	5,000,000
2017	10,000,000
2018	-
2019	-
After 2019	40,000,000
	$60,000,000

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, 2014 and 2013. 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 Federal Home Loan Bank of Indianapolis 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

	2014	2013
Accumulated benefit obligation	$21,893,449	$13,311,969
Funded status at end of year	$(21,893,449)	$(13,311,969)

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

	2014	2013
Net actuarial loss (gain)	$10,103,094	$2,486,369

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

	2014	2013
Net periodic benefit cost	$1,284,558	$1,621,851
Net loss (gain) recognized in other comprehensive income (loss)	7,616,725	(3,153,682)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$8,901,283	$(1,531,831)
Employer contributions	$319,802	$239,044
Benefits paid	319,802	239,044

The estimated net loss for the postretirement benefit plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is $616,033.

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

	2014	2013
Weighted average discount rate	4.50%	5.25%
Increase in future healthcare costs		
Healthcare cost trend rate assumed for next year	8.00	6.50
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.

2015	$328,596
2016	361,532
2017	392,088
2018	444,774
2019	484,281
2020-2024	3,231,377
	$5,242,648

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 $2,003,000 and $1,845,000 for 2014 and 2013, 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	
	2014	2013
Commitments to grant mortgage and consumer loans	$33,605,000	$34,630,000
Commitments to grant business loans	16,536,000	6,720,000
Unfunded commitments under lines of credit	689,394,000	641,518,000
Unfunded commitments under overdraft protection programs	69,433,000	52,321,000

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 at both December 31, 2014 and 2013 was 5.90%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2014 and 2013, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent call reporting period, and December 31, 2013, 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	
2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$308,799,329	11.13%	$166,503,000	6.00%	$194,253,000	7.00%
2013						
Net Worth	$277,724,886	10.95%	$152,201,000	6.00%	$177,568,000	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, 2014 and 2013 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, 2014 and 2013, 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, 2014

	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, 2014
U.S. government and federal agency obligations	$ -	$ 248,334,264	$ -	$ 248,334,264
Mortgage-backed securities — residential	$ -	356,987,262	$ -	356,987,262
	$ -	$ 605,321,526	$ -	$ 605,321,526

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, 2012
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

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:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$120,114,285	$120,114,000	$109,882,938	$109,883,000
Securities available for sale	605,321,526	605,322,000	679,735,728	679,736,000
Other investments	9,351,700	N/A	7,886,313	N/A
Time deposits with other financial institutions	28,446,000	29,015,000	28,362,438	29,217,000
Loans to members - net	1,852,132,252	1,864,613,000	1,565,338,340	1,566,916,000
NCUSIF deposit	20,894,048	20,894,000	19,797,378	19,797,000
Financial liabilities				
Members' shares	2,382,429,334	2,392,760,000	2,216,330,532	2,226,098,000
Borrowed funds	60,000,000	62,163,000	30,000,000	32,176,000

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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