

**Notes to Consolidated Financial Statements • Years Ended December 31, 2006 and 2005
(Table Dollar Amounts in Thousands)**

Loans are carried at the principal amount outstanding. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Loans are placed in a nonaccrual status when the collection of interest becomes doubtful, generally at 90 days past due.

Allowance for loan losses is maintained to absorb loan losses based on management's continuing review and evaluation of the loan portfolio and its judgment as to the impact of economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the portfolio, and the current condition and amount of loans outstanding and the probability of collecting all amounts due. The allowance for loan losses is established, as losses are estimated to have occurred, through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. Management believes that as of December 31, 2006, the allowance for loan losses is adequate based on information currently available. A worsening or protracted economic decline in the area within which the Credit Union operates would increase the likelihood of additional losses due to credit and market risks and could create the need for additional loss reserves.

Premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Required Investments - Federal Home Loan Bank stock and membership shares in central credit unions are required investments for credit unions that are members of those institutions. The required investment in each institution is based on a predetermined formula.

National Credit Union Share Insurance Fund deposit is required in an amount equal to one percent of the Credit Union's total insured shares. This noninterest earning deposit is intended to provide insurance coverage on savings deposits.

Retained earnings include a regular reserve which is a regulatory restriction of retained earnings and is not available for the payment of interest.

Note 2: Restriction on Cash and Due From Banks

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2006 was \$1,414,000.