

**Baltimore County Employees
Federal Credit Union**
Towson, Maryland

Financial Statements

December 31, 2009

Baltimore County Employees Federal Credit Union

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Report of Independent Auditors

Supervisory Committee
Baltimore County Employees Federal Credit Union
Towson, Maryland

We have audited the accompanying statements of financial condition of Baltimore County Employees Federal Credit Union as of December 31, 2009 and 2008, and the related statements of income, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baltimore County Employees Federal Credit Union as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
February 24, 2010

Baltimore County Employees Federal Credit Union

Statements of Financial Condition

December 31,	2009	2008
Assets		
Cash and cash equivalents	\$ 18,551,068	\$ 8,938,570
Loans to members, net	151,892,854	149,888,979
Investment securities available for sale	10,377,828	5,144,075
Investment securities held to maturity	85,398,122	77,454,709
Certificates of deposit in other financial institutions	12,955,000	5,293,000
Loans held for sale	148,723	381,231
National Credit Union Share Insurance Fund deposit	2,477,280	2,074,350
Accrued interest receivable	1,227,736	1,283,798
Property and equipment	4,590,387	4,903,185
Other real estate owned	40,500	357,200
Prepaid expenses and other assets	754,966	770,675
Total assets	<u>\$ 288,414,464</u>	<u>\$ 256,489,772</u>
Liabilities and Members' Equity		
Members' share accounts	\$ 261,051,616	\$ 229,537,935
Official checks payable	137,410	158,027
Accrued expenses and other liabilities	<u>1,715,575</u>	<u>1,654,005</u>
Total liabilities	<u>262,904,601</u>	<u>231,349,967</u>
Members' equity		
Regular reserve	3,458,704	3,458,704
Undivided earnings	23,532,027	23,194,880
Accumulated other comprehensive income	<u>(1,480,868)</u>	<u>(1,513,779)</u>
Total members' equity	<u>25,509,863</u>	<u>25,139,805</u>
Total liabilities and members' equity	<u>\$ 288,414,464</u>	<u>\$ 256,489,772</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County Employees Federal Credit Union

Statements of Income

Years Ended December 31,	2009	2008
Interest income		
Interest on loans	\$8,663,506	\$ 9,077,644
Interest on investments	<u>3,065,888</u>	<u>3,258,034</u>
	11,729,394	12,335,678
Interest expense		
Dividends on members' shares	<u>5,194,511</u>	<u>6,110,314</u>
	6,534,883	6,225,364
Net interest income	6,534,883	6,225,364
Provision for loan losses	<u>562,000</u>	<u>259,000</u>
Net interest income after provision for loan losses	<u>5,972,883</u>	<u>5,966,364</u>
Noninterest income		
Card services	1,128,330	1,074,979
Share draft fees	526,142	491,578
Rental income	126,563	128,427
Distribution from VISA, USA stock	-	219,803
NCUSIF stabilization	1,427,858	-
Other	<u>458,668</u>	<u>488,660</u>
	3,667,561	2,403,447
Noninterest expense		
Compensation and benefits	3,754,827	3,469,585
Office occupancy	708,371	714,629
Office operations	1,708,040	1,698,610
Education and promotion	188,817	231,673
ATM operating expense	561,737	492,542
NCUSIF stabilization	1,799,450	-
Write-down of other real estate owned	-	76,362
Other	<u>582,055</u>	<u>581,534</u>
	9,303,297	7,264,935
Net income	<u>\$ 337,147</u>	<u>\$ 1,104,876</u>

The accompanying notes are an integral part of these financial statements.

Baltimore County Employees Federal Credit Union

Statements of Changes in Members' Equity

Years Ended December 31, 2009 and 2008

	Regular reserve	Undivided earnings	Accumulated other comprehensive income	Comprehensive income
Balance, December 31, 2007	\$ 3,458,704	\$22,090,004	\$(1,049,417)	
Net income	-	1,104,876	-	\$ 1,104,876
Actuarial (losses)	-	-	(582,787)	(582,787)
Unrealized gains on investments available for sale	-	-	118,425	118,425
Total comprehensive income				<u>\$ 640,514</u>
Balance, December 31, 2008	3,458,704	23,194,880	(1,513,779)	
Net income	-	337,147	-	\$ 337,147
Actuarial (losses)	-	-	(49,515)	(49,515)
Unrealized gains on investments available for sale	-	-	82,426	82,426
Total comprehensive income				<u>\$ 370,058</u>
Balance, December 31, 2009	<u>\$ 3,458,704</u>	<u>\$23,532,027</u>	<u>\$(1,480,868)</u>	

The accompanying notes are an integral part of these financial statements.

Baltimore County Employees Federal Credit Union

Statements of Cash Flows

Years Ended December 31,	2009	2008
Cash flows from operating activities		
Net income	\$ 337,147	\$ 1,104,876
Items not requiring (providing) cash		
Depreciation	338,252	377,970
Provision for loan losses	562,000	259,000
Write-down of other real estate owned	39,690	76,362
Amortization of loan origination fees, net	125,146	77,871
Amortization of premiums and accretion of discounts, net	854,600	379,314
Loss on disposition of property and equipment	8	-
Loans originated for sale	(7,033,610)	(2,717,669)
Cash from loans sold	7,266,118	2,336,438
(Increase) decrease in accrued interest and other assets	71,771	(698,844)
Increase (decrease) in accrued expenses and other liabilities	<u>(8,562)</u>	<u>(257,110)</u>
Net cash provided by operating activities	<u>2,552,560</u>	<u>938,208</u>
Cash flows from investing activities		
Loans made, net of principal collected	(2,731,521)	4,266,055
Purchase of investments available for sale	(8,245,589)	(2,069,960)
Proceeds from maturity or call of investments available for sale	3,000,000	4,000,000
Purchase of investments held to maturity	(38,708,338)	(45,868,528)
Proceeds from maturity or call of investments held to maturity	30,004,587	21,004,305
Net increase in certificates of deposit	(7,662,000)	(5,293,000)
Purchase of property and equipment	(25,462)	(112,266)
Purchase of other real estate owned	-	(433,562)
Proceeds from disposition of other real estate owned	317,510	-
Increase in NCUSIF fund	<u>(402,930)</u>	<u>(161,871)</u>
Net cash applied to investing activities	<u>(24,453,743)</u>	<u>(24,668,827)</u>
Cash flows from financing activities		
Increase in members' share accounts	<u>31,513,681</u>	<u>16,520,417</u>
Net increase (decrease) in cash and cash equivalents	<u>9,612,498</u>	<u>(7,210,202)</u>
Cash and cash equivalents, beginning of year	<u>8,938,570</u>	<u>16,148,772</u>
Cash and cash equivalents, end of year	<u>\$18,551,068</u>	<u>\$ 8,938,570</u>

Noncash transaction: During 2008, the Credit Union foreclosed on a property with a loan balance of \$53,794. During 2009, the Credit Union foreclosed on a property with a loan balance of \$40,500.

The accompanying notes are an integral part of these financial statements.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Business operations

Baltimore County Employees Federal Credit Union provides lending and deposit services to its members, who are mainly current and former employees of Baltimore County, Maryland, and its agencies.

Method of accounting

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the credit union industry. Management makes estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of commitments and contingent liabilities at the balance sheet date, and income and expenses during the year. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statements of cash flows, the Credit Union considers investments with initial maturities of three months or less to be cash equivalent investments.

Loans to members and allowance for loan losses

Loans are stated at the amount of unpaid principal adjusted for deferred loan origination costs, and less the allowance for loan losses. Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The Credit Union discontinues the accrual of interest when payments are 60 days past due. Interest for such loans is accounted for on the cash basis. Loans are returned to accrual status when payments are current or less than 60 days past due. Loans are charged off when management believes the loan is uncollectible. Loan origination costs are deferred and charged to interest on loans using a method that approximates the interest method.

The allowance for loan losses represents an amount that, in management's judgment, is adequate to provide for probable loan losses based on management's review and analysis of the loan portfolio. The allowance for loan losses is increased by provisions charged to income and reduced by loans charged off, net of recoveries. Management's analysis is primarily based on the Credit Union's past loan loss experience by specific types of loans granted, with some consideration given to known and other risks inherent in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

Investments

Management classifies securities as held to maturity or available for sale at the time of purchase. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in members' equity. Gains and losses on disposal are determined using the specific-identification method.

National Credit Union Share Insurance Fund (NCUSIF) deposit

Members' share accounts are insured by the NCUSIF up to \$250,000 per depositor. Separately, individual retirement accounts are also insured up to \$250,000. The Credit Union is required to maintain a deposit with the NCUSIF in an amount equal to one percent of its insured shares. The deposit is refundable if the insurance coverage is terminated, insurance coverage is converted to another source, or the operations of the fund are transferred from the NCUA Board.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Certificates of deposit in other financial institutions

Certificates of deposit in other financial institutions are stated at cost, and generally mature within 36 months.

Loans held for sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Net unrealized losses, if applicable, are recognized in the valuation allowance by charges to income. All sales are made without recourse.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the individual assets using the straight-line method.

Members' share accounts

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular reserve

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of undivided earnings, is not available for the payment of dividends.

Comprehensive income

Comprehensive income includes net income and certain other changes to members' equity, including unrealized gains and losses on securities classified as available for sale and unrealized gains and losses relating to the Credit Union's defined benefit pension plan.

Income taxes

The Federal Credit Union Act exempts federal credit unions from federal, state, and local income taxes.

2. Cash and Cash Equivalents

A summary of cash and cash equivalents at December 31, is as follows:

	2009	2008
Cash on hand and in banks	\$ 8,807,222	\$ 7,854,891
Shares in corporate credit unions	718,765	562,128
Federal funds sold	9,025,081	521,551
	<u>\$ 18,551,068</u>	<u>\$ 8,938,570</u>

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

3. Loans to Members and the Allowance for Loan Losses

The composition of loans to members at December 31, is as follows:

	2009	2008
Real estate	\$ 83,967,313	\$ 78,482,067
Vehicle	47,417,529	52,175,265
Signature	7,550,911	7,471,001
Shared secured	795,325	707,648
Credit card	<u>11,590,543</u>	<u>10,252,309</u>
	151,321,621	149,088,290
Net deferred loan origination costs	970,942	1,096,088
Allowance for loan losses	<u>(399,709)</u>	<u>(295,399)</u>
	<u>\$ 151,892,854</u>	<u>\$ 149,888,979</u>

Loans on which the accrual of interest has been discontinued or reduced amounted to **\$712,980** and \$550,713 at December 31, 2009 and 2008, respectively. Interest that would have been accrued under the terms of these loans was **\$11,122** and \$14,070 at December 31, 2009 and 2008, respectively.

The majority of the Credit Union's loans will mature or reprice within five years. At December 31, 2009, approximately \$45,774,000 is not expected to mature or reprice within five years. The approximate yields on loans at December 31, 2009 were 6.00% on consumer loans, and 5.38% on mortgage loans. Credit cards were offered at rates ranging from 7.90% to 11.90%.

Transactions in the allowance for loan losses were as follows:

	2009	2008
Beginning balance	\$ 295,399	\$ 293,596
Provision for loan losses	562,000	259,000
Recoveries	91,915	108,316
Loans charged off	<u>(549,605)</u>	<u>(365,513)</u>
Ending balance	<u>\$ 399,709</u>	<u>\$ 295,399</u>

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

4. Investments

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2009				
Available for sale				
Federal agency securities	<u>\$10,216,688</u>	<u>\$ 161,140</u>	<u>\$ -</u>	<u>\$10,377,828</u>
Held to maturity				
Treasury securities	\$ 7,076,924	\$ 43,288	\$ -	\$ 7,120,212
Federal agency securities	78,304,802	1,858,204	(25,201)	80,137,805
Mortgage-backed securities	<u>16,396</u>	<u>163</u>	<u>-</u>	<u>16,559</u>
	<u>\$85,398,122</u>	<u>\$1,901,655</u>	<u>\$ (25,201)</u>	<u>\$87,274,576</u>
December 31, 2008				
Available for sale				
Federal agency securities	<u>\$ 5,065,361</u>	<u>\$ 78,714</u>	<u>\$ -</u>	<u>\$ 5,144,075</u>
Held to maturity				
Treasury securities	\$ 5,120,671	\$ 62,439	\$ -	\$ 5,183,110
Federal agency securities	72,312,834	2,461,646	-	74,774,480
Mortgage-backed securities	<u>21,204</u>	<u>-</u>	<u>(364)</u>	<u>20,840</u>
	<u>\$77,454,709</u>	<u>\$2,524,085</u>	<u>\$ (364)</u>	<u>\$79,978,430</u>

Contractual maturities of debt security investments at December 31, 2009, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing within one year	\$ 2,039,753	\$ 2,066,997	\$ 30,138,135	\$30,591,680
After one to three years	7,154,782	7,273,642	43,931,460	45,124,050
After three to five years	<u>1,022,153</u>	<u>1,037,189</u>	<u>11,312,131</u>	<u>11,542,287</u>
	<u>\$ 10,216,688</u>	<u>\$ 10,377,828</u>	<u>\$ 85,381,726</u>	<u>\$87,258,017</u>

All unrealized losses on securities as of December 31, 2009 are considered to be temporary losses, because each security is expected to be redeemed at face value at or prior to maturity. In most cases, the temporary impairment in value is caused by market interest rate fluctuations. As of December 31, 2009, there were six federal agency securities with fair values of **\$6,056,637** and unrealized losses of **\$25,201**. All of these securities had been in an unrealized loss position for more than twelve continuous months at December 31, 2009.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

5. Property and Equipment

A summary of property and equipment and the related depreciation at December 31, is as follows:

	Useful lives	2009	2008
Land and improvements		\$ 1,552,088	\$ 1,549,813
Buildings	27 - 40 years	5,646,734	5,631,026
Furniture and equipment	2 - 5 years	1,427,634	1,431,254
		8,626,456	8,612,093
Accumulated depreciation		4,036,069	3,708,908
Net property and equipment		<u>\$ 4,590,387</u>	<u>\$ 4,903,185</u>
Depreciation expense		<u>\$ 338,252</u>	<u>\$ 377,970</u>

6. Members' Share and Savings Accounts

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

	Rate range	2009	2008
Type			
Regular shares	0.50%	\$ 79,876,345	\$ 73,020,123
Share drafts	-	24,518,213	20,632,521
Club and escrow shares	0.50%	3,925,590	3,742,995
Premier money market	1.00%	31,808,560	24,407,021
IRA shares	1.00%	3,627,977	3,282,304
Certificates of deposit	1.25% - 2.75%	71,211,599	62,788,517
Certificates of deposit - IRA	2.25% - 2.75%	46,083,332	41,664,454
Total shares		<u>\$261,051,616</u>	<u>\$ 229,537,935</u>
Certificates of deposit mature as follows:			
Within one year		\$ 53,416,406	\$ 45,183,489
After one through two years		17,009,254	10,920,487
After two through three years		28,973,569	12,363,750
After three through four years		11,611,631	24,877,694
After four through five years		6,284,071	11,107,551
		<u>\$117,294,931</u>	<u>\$ 104,452,971</u>
Dividends paid		<u>\$ 5,194,511</u>	<u>\$ 6,110,314</u>

The amount of members' certificate of deposit accounts with balances of \$100,000 or more was **\$22,566,372** and \$18,521,498 at December 31, 2009 and 2008, respectively.

The weighted average cost of funds on certificates of deposit at December 31, 2009 was 3.54%.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

7. Related Party Transactions

The officials and senior executive staff of the Credit Union enter into loan transactions with the Credit Union in the normal course of business. The terms of these transactions are the same as the terms provided to other borrowers entering into similar loan transactions.

Activity in these loans was as follows:

	<u>2009</u>
Beginning of year	\$ 420,640
Advances	183,049
Change in officials	(14,165)
Repayments	<u>(111,261)</u>
End of year	<u>\$ 478,263</u>

The total deposits in the Credit Union from those officials and senior executives were **\$1,190,094** and \$1,178,138 at December 31, 2009 and 2008, respectively.

8. Borrowed Funds

The Credit Union has a \$500,000 unsecured line of credit, and a \$10,000,000 line of credit secured by investments held in safekeeping, with its correspondent financial institution. The interest rates on the transactions are variable. There were no outstanding borrowings at December 31, 2009 or 2008. There was no interest paid in 2009 or 2008.

9. Commitments and Contingent Liabilities

Litigation

The Credit Union is party to various legal actions normally associated with a financial institution. In management's opinion, the aggregate effect will not be material to the financial condition of the Credit Union.

Financial instruments with concentration of credit risk

As of December 31, 2009, the Credit Union's cash and cash equivalent balances exceed the insured deposit limit by **\$15,141,918**. This is the amount on deposit as of December 31, 2009 in accounts at other financial institutions which exceed the FDIC or NCUSIF insurance limit of \$250,000 per depositor.

The Credit Union grants real estate and consumer loans to its members throughout the region. The Credit Union's field of membership includes many groups. However, virtually all of its members are current or former employees of Baltimore County, Maryland. Although the Credit Union has a diversified loan portfolio, a substantial portion of its debtors' ability to repay their loans is dependent upon the employment and economic trends of Baltimore County.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

9. Commitments and Contingent Liabilities (Continued)

Financial instruments with off-balance-sheet risk

The Credit Union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members, primarily in the form of commitments to extend credit. Lines of credit are agreements to lend to a member as long as there is no violation of any condition to the contract, and are made on the same terms, including rate and required collateral, as outstanding loans. Lines of credit are generally at fixed rates, although the Credit Union retains the right to change rates effective with any new draws on the lines. Such lines do not represent future cash requirements because it is unlikely that all members will draw upon their lines in full at any time.

Unused lines of credit at December 31, were as follows:

	2009	2008
Real estate lines of credit	\$ 18,182,281	\$ 17,222,381
Signature lines of credit	4,105,496	4,201,686
Credit card	<u>26,214,163</u>	<u>36,440,868</u>
	<u>\$ 48,501,940</u>	<u>\$ 57,864,935</u>

During 2009, the Credit Union completed an upgrade to its credit card program, and purged a large number of inactive cards, reducing the total unused credit line substantially.

Commitments to extend credit at December 31, were as follows:

Real estate loans	\$ 217,500	\$ 350,000
Vehicle loans	109,975	108,006
Unsecured loans	<u>27,243</u>	<u>26,577</u>
	<u>\$ 354,718</u>	<u>\$ 484,583</u>

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

10. Pension Plan

The Credit Union has a defined benefit pension plan that covers all employees with six months of service who have attained age 20. Benefits are based on years of service and compensation, which is determined by compensation in effect for the participant's five highest paid consecutive years of service. Contributions to the plan are made in amounts determined by the plan actuary. The plan also has features that qualify under section 401(k) of the Internal Revenue Code.

The following table sets forth the status of the defined benefit plan at December 31, 2009:

	2009	2008
Projected benefit obligation	\$ 4,425,725	\$ 3,951,147
Fair value of plan assets	<u>3,203,348</u>	<u>2,881,524</u>
Funded status (included in other liabilities)	<u>\$(1,222,377)</u>	<u>\$(1,069,623)</u>
Accumulated benefit obligation	<u>\$ 3,224,541</u>	<u>\$ 2,815,029</u>
The components of net periodic costs are as follows:		
Service cost	\$ 280,041	\$ 224,926
Interest cost	237,068	183,752
Expected return on plan assets	(187,299)	(164,518)
Amortization of other losses	<u>86,767</u>	<u>46,897</u>
	<u>\$ 416,577</u>	<u>\$ 291,057</u>
Employer contributions	<u>\$ 313,338</u>	<u>\$ 335,717</u>
Participant contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 119,678</u>	<u>\$ 20,644</u>
Weighted average assumptions used:		
Discount rate	6.00%	6.00%
Expected long-term return on plan assets	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%
Amounts recognized in accumulated other comprehensive income were:		
Transition obligation	\$ -	\$ -
Prior service credit	-	-
Net loss	<u>1,642,008</u>	<u>1,592,493</u>
	<u>\$ 1,642,008</u>	<u>\$ 1,592,493</u>

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

10. Pension Plan (Continued)

The Credit Union's pension plan weighted-average asset allocation by asset category follows:

	2009	2008
Equity securities	6%	4%
Debt securities	<u>94%</u>	<u>96%</u>
	<u>100%</u>	<u>100%</u>

The expected long-term return on assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The following pension plan benefits, which reflect expected future service as appropriate, are expected to be paid as follows:

Year	Amount
2010	\$ 36,314
2011	35,989
2012	36,055
2013	55,209
2014	97,986
Five years thereafter	910,496

Target asset allocation is determined using a Pension Asset Selection System (PASS) which optimizes expected return based on the Credit Union's risk tolerance.

The Credit Union has not yet determined what amount it will contribute to the plan for 2010. The Credit Union contributes an amount determined by the plan actuary.

11. Regulatory Capital

Under capital adequacy guidelines and the National Credit Union Administration's framework for prompt corrective action (PCA), the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under accounting principles generally accepted in the United States of America. The Credit Union is required to maintain minimum ratios, as set forth below, of net worth to assets. Failure to meet minimum net worth requirements can initiate certain mandatory actions by regulators that could have a direct material effect on the Credit Union's financial statements. Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the credit union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2009 and 2008 was **5.48%** and 5.66%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Because the Credit Union's RBNW is less than 6.00% at December 31, 2009, it retains its original net worth category. Management believes that the Credit Union meets all capital adequacy requirements to which it is subject as of December 31, 2009.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

11. Regulatory Capital

As of December 31, 2009 and 2008, the Credit Union's net worth is 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 as follows:

	Actual		For capital adequacy purposes		To be well capitalized under PCA provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009	\$26,990,731	9.36%	\$17,304,868	6.00%	\$20,189,012	7.00%
December 31, 2008	\$26,653,584	10.39%	\$15,389,386	6.00%	\$17,954,284	7.00%

12. Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes net income and certain other changes to members equity as specified in Statement on Financial Accounting Standards No. 130, *Reporting Comprehensive Income*. Transactions in the accumulated other comprehensive income accounts during 2009 and 2008 were as follows:

	Unrealized gains (losses) on investments	Minimum pension liability adjustment	Total
Balance, December 31, 2007	\$ (39,711)	\$ (1,009,706)	\$(1,049,417)
Change during the period	<u>118,425</u>	<u>(582,787)</u>	<u>(464,362)</u>
Balance, December 31, 2008	78,714	(1,592,493)	(1,513,779)
Change during the period	<u>82,426</u>	<u>(49,515)</u>	<u>32,911</u>
Balance, December 31, 2009	<u>\$ 161,140</u>	<u>\$ (1,642,008)</u>	<u>\$(1,480,868)</u>

13. Fair Value

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Generally accepted accounting standards define fair value, establish a framework for measuring fair value, require certain disclosures about fair values, and establish a hierarchy for determining fair value measurements. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

13. Fair Value (Continued)

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs that reflect the Credit Union's own assumptions about the asset or liability, in situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Credit Union uses the following methods and significant assumptions to measure fair value:

Investment securities: The fair value of investment securities are determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair value is determined using quoted prices for similar securities.

Other real estate owned: Nonrecurring fair value adjustments to other real estate owned are based on the current appraised value of the collateral and may be classified as Level 2 or 3, depending on the type of appraisal and related factors.

Fair value measurements on a recurring basis

	Total	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale	<u>\$10,377,828</u>	<u>\$ -</u>	<u>\$ 10,377,828</u>	<u>\$ -</u>

Fair value measurements on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

	Total	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other real estate owned	<u>\$ 40,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,500</u>

Loans – The fair value of variable rate loans is the current carrying amount. The fair value of fixed rate loans was estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued.

Cash and cash equivalent investments – The carrying amount of cash and cash equivalent investments approximates their fair value.

Baltimore County Employees Federal Credit Union

Notes to Financial Statements (Continued)

13. Fair Value (Continued)

Certificates of deposit in other financial institutions – The carrying amount of certificates of deposit in other financial institutions approximates fair value.

Members' share accounts – The fair value of regular share accounts and other demand deposits is the current carrying amount. The fair value of fixed rate member share certificates of deposit was estimated by discounting the estimated cash flows using the current rate at which similar share certificates would be issued.

The carrying amount and estimated fair value of the Credit Union's financial instruments are as follows:

	December 31, 2009		December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	\$ 151,892,854	\$ -	\$ 149,888,979	\$ -
Cash and cash equivalent investments	18,551,068	18,551,068	8,938,570	8,938,570
Certificates of deposit in other financial institutions	12,955,000	-	5,293,000	-
Investment securities available for sale	10,377,828	10,377,828	5,144,075	5,144,075
Investment securities held to maturity	85,398,122	87,274,576	77,454,709	79,978,430
Accrued interest receivable	1,227,736	1,227,736	1,283,798	1,283,798
Financial liabilities				
Members' share accounts	\$ 261,051,616	\$ -	\$ 229,537,935	\$ -

It is not practicable to estimate the fair value of commitments to extend credit.

14. NCUSIF Stabilization

During the first quarter of 2009, the National Credit Union Administration (NCUA) issued various Letters to Credit Unions advising them of impairments to the NCUSIF which would be passed on to all federally insured credit unions, as well as a 2009 deposit insurance premium, due to significant losses incurred by various corporate credit unions. The Credit Union wrote down the NCUSIF deposit by \$1,427,858 in the first quarter of 2009. In the second quarter of 2009, NCUA was successful in getting legislation passed that effectively spread the cost of the impairments over a number of future periods. Under generally accepted accounting principles, the NCUSIF deposit is appropriately classified as an asset if it remains fully refundable, which NCUA has stated is the case, and premiums are expensed when assessed. Based on this, the Credit Union recognized \$1,427,858 of miscellaneous income, and simultaneously recorded a share insurance premium of \$371,592, representing the 15 basis point premium assessed earlier in 2009.