

OCM&Co

A PROFESSIONAL ASSOCIATION
CPAs

United States Senate Federal Credit Union Financial Statements

December 31, 2010 and 2009



Orth, Chakler, Murnane and Company, CPAs

A Professional Association

12060 S. W. 129th Court, Suite 201, Miami, Florida 33186-4582 • Telephone 305-232-8272 • Fax 305-232-8388

Web site: www.ocmcpa.com

Douglas J. Orth, CPA, CFE, Managing Partner

Hugh S. Chakler, CPA, CISA, CITP, CFE

John J. Murnane, CPA

James A. Griner, CPA

Lori J. Carmichael, CPA

Daniel C. Moulton, CPA

INDEPENDENT AUDITORS' REPORT

March 18, 2011

To the Supervisory Committee of
the United States Senate Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of the United States Senate Federal Credit Union as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants

OCM&Co

A PROFESSIONAL ASSOCIATION

CPAs

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31,	
	2010	2009
Cash	\$8,852,465	\$7,693,093
Investments:		
Available-for-sale	120,917,851	109,508,250
Other	115,762,246	76,783,604
Loans to related entities	1,508,291	1,708,671
Loans to members, net of allowance for loan losses	236,467,300	257,353,067
Accrued interest receivable:		
Loans	1,243,358	1,273,642
Investments	399,393	632,168
Prepaid and other assets	5,935,631	3,535,558
Other real estate owned (OREO)	775,000	524,249
Property and equipment	2,718,166	2,850,664
NCUSIF deposit	3,938,186	3,661,349
Total assets	\$498,517,887	\$465,524,315

LIABILITIES AND MEMBERS' EQUITY

	As of December 31,	
	2010	2009
LIABILITIES:		
Members' share and savings accounts	\$444,759,002	\$413,848,875
Interest payable	350,027	440,304
Accounts payable and other accrued liabilities	3,034,745	2,635,313
Total liabilities	448,143,774	416,924,492
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Regular reserve	3,382,981	3,382,981
Undivided earnings	46,703,265	44,801,674
Accumulated other comprehensive income	287,867	415,168
Total members' equity	50,374,113	48,599,823
Total liabilities and members' equity	\$498,517,887	\$465,524,315

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

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF INCOME
--

	For the years ended December 31,	
	2010	2009
INTEREST INCOME:		
Loans to members	\$15,480,330	\$16,526,360
Investments	2,612,340	2,916,527
Total interest income	18,092,670	19,442,887
INTEREST EXPENSE:		
Members' share and savings accounts	4,595,854	6,128,364
Net interest income	13,496,816	13,314,523
PROVISION FOR LOAN LOSSES		
Net interest income after provision for loan losses	2,810,475	1,988,932
Total non-interest income	10,686,341	11,325,591
NON-INTEREST INCOME:		
Fees and charges	2,653,764	2,750,006
Miscellaneous operating income	3,213,425	2,677,251
Gain on sale of property and equipment	16,500	—
Income from NCUSIF	—	1,963,937
Total non-interest income	5,883,689	7,391,194
NON-INTEREST EXPENSE:		
Compensation and employee benefits	8,002,869	7,868,785
Office operating and occupancy cost	3,032,350	3,110,612
Impairment of NCUSIF deposit	—	1,963,937
Loan servicing costs	1,519,481	1,421,150
Professional and outside servicing costs	880,595	1,016,674
NCUA insurance premium assessments	1,020,338	549,203
Loss on sale of other real estate owned	8,234	—
Miscellaneous expenses	204,572	219,481
Total non-interest expense	14,668,439	16,149,842
Net income	\$1,901,591	\$2,566,943

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

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
--

	For the years ended December 31,	
	2010	2009
NET INCOME	\$1,901,591	\$2,566,943
OTHER COMPREHENSIVE INCOME:		
Unrealized (loss)/gain on investments classified as available-for-sale	(127,301)	(64,033)
Reclassification adjustments for gains/(losses) included in net income	—	—
Other comprehensive loss	(127,301)	(64,033)
Comprehensive income	\$1,774,290	\$2,502,910

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

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

**For the years ended
December 31, 2010 and 2009**

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance as of December 31, 2008	\$3,382,981	\$42,234,731	\$479,201	\$46,096,913
Net income	—	2,566,943	—	2,566,943
Other comprehensive loss	—	—	(64,033)	(64,033)
Balance as of December 31, 2009	3,382,981	44,801,674	415,168	48,599,823
Net income	—	1,901,591	—	1,901,591
Other comprehensive loss	—	—	(127,301)	(127,301)
Balance as of December 31, 2010	<u>\$3,382,981</u>	<u>\$46,703,265</u>	<u>\$287,867</u>	<u>\$50,374,113</u>

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

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF CASH FLOWS
--

	For the years ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,901,591	\$2,566,943
Adjustments:		
Provision for loan losses	2,810,475	1,988,932
Depreciation and amortization	408,552	512,933
Gain on sale of property and equipment	(16,500)	—
Loss on sale of other real estate owned	8,234	—
Amortization of investment premiums/discounts	1,035,354	630,936
Impairment of NCUSIF deposit	—	1,963,937
Income from NCUSIF	—	(1,963,937)
Changes in operating assets and liabilities:		
Accrued interest receivable	263,059	28,406
Prepaid and other assets	(2,806,890)	(1,494,318)
Accounts payable and other accrued liabilities	399,432	292,081
Interest payable	(90,277)	(148,313)
	3,913,030	4,377,600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale securities	(188,523,934)	(127,315,631)
Proceeds from maturities and repayments of available-for-sale securities	175,951,678	93,670,188
Net change in other investments	(38,978,642)	(28,383,377)
Net change in loans held for sale	200,380	(1,708,671)
Net change in loans, net of charge-offs	17,854,716	11,897,250
Recoveries on loans charged off	220,576	189,438
Proceeds from sales of other real estate owned	147,832	—
Expenditures for property and equipment	(276,054)	(195,527)
Proceeds from sales of property and equipment	16,500	—
Change in NCUSIF deposit	(276,837)	(962,471)
	(33,663,785)	(52,808,801)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	30,910,127	45,528,966
	30,910,127	45,528,966
Net change in cash	1,159,372	(2,902,235)
Cash at beginning of year	7,693,093	10,595,328
	\$8,852,465	\$7,693,093

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

UNITED STATES SENATE FEDERAL CREDIT UNION CONSOLIDATED STATEMENTS OF CASH FLOWS
--

Cash Flows: (continued)

	For the years ended December 31,	
	2010	2009
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	\$4,686,131	\$6,276,677
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive loss	(\$127,301)	(\$64,033)
Transfer from loans to other real estate owned	\$406,817	\$524,249

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

<p style="text-align: center;">UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</p>

***NOTE 1: SIGNIFICANT ACCOUNTING
POLICIES***

ORGANIZATION

United States Senate Federal Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

CONSOLIDATED FINANCIAL STATEMENTS/USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of United States Senate Federal Credit Union, and the significant accounts of its wholly owned Credit Union Service Organization (CUSO), CU Strategic Services, LLC. The CUSO provides consulting and outsourcing services for other smaller financial institutions. All significant intercompany accounts and transactions have been eliminated.

CASH

Cash includes amounts due from corporate credit unions, banks, and cash on hand. Amounts due from corporate credit unions and banks may, at times, exceed federally insured limits.

INVESTMENTS

Investments are classified into the following categories: available-for-sale and other. Investment securities classified as available-for-sale are measured at market value as of the statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity. The Credit Union has elected to classify certain cash equivalents as other investments, which is available to the Credit Union according to the terms of the Statement of Cash Flows Topic of the FASB Accounting Standards Codification. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts over the term of the investment by a method which approximates the interest method. Adjustments are recognized to interest income on investments.

<p style="text-align: center;">UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</p>

Note 1: (continued)

FEDERAL HOME LOAN BANK (FHLB) STOCK

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The Credit Union's minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost within other investments and its disposition restricted. No ready market exists for the FHLB stock, and it has no quoted market value.

LOANS TO RELATED ENTITIES

Credit Union Mortgage Association (CUMA), a CUSO in which the Credit Union has a minority share of ownership, periodically originates loans which are funded by the Credit Union to cover the loan while financing is secured, normally a period of time under 60 days.

LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at the amount of unpaid principal, net of an allowance for loan losses. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance for loan losses is maintained at an amount that represents management's estimate of potential losses which may be sustained in the liquidation of currently outstanding loans. Management's periodic evaluation of the adequacy of the allowance account is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions.

Interest on loans is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan exceeds 90 days delinquent or when management believes that collection of interest is doubtful. Generally, loan fees charged to members are recognized in income when received and direct loan origination costs on loans are recognized in expense when incurred. This is not materially different from the expenses that would have been recognized under the provisions of the Nonrefundable Fees and Other Costs Topic of the FASB Accounting Standards Codification.

OTHER REAL ESTATE OWNED (OREO)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

PROPERTY AND EQUIPMENT

Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is generally amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

<p style="text-align: center;">UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</p>

Note 1: (continued)

NCUSIF DEPOSIT

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. 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. (See Notes 11 and 12)

NCUA INSURANCE PREMIUMS

During 2009, the NCUA Board assessed a 15.0 basis point insurance premium on insured deposits as of June 30, 2009. During 2010, the NCUA Board assessed a 13.4 basis point insurance premium on insured deposits as of March 31, 2010 and a 12.42 basis point insurance premium on insured deposits as of June 30, 2010. (See Notes 11 and 12)

MEMBERS' SHARE AND SAVINGS ACCOUNTS

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

MEMBERS' EQUITY

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

FEDERAL AND STATE TAX EXEMPTION

The Credit Union is exempt from most federal and state taxes. CU Strategic Services, LLC had no income tax liability for the year ended December 31, 2010. As a limited liability corporation, its tax liability passes to the owner, United States Senate Federal Credit Union. The CUSO incurred a net operating loss of \$4,794 for 2010.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 18, 2011, the date the financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: INVESTMENTS

The amortized cost and estimated market value of investments are as follows:

<i>Available-for-sale:</i>	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal agency securities	\$61,171,404	\$88,850	(\$151,733)	\$61,108,521
Collateralized mortgage obligations	48,484,090	128,613	(135,511)	48,477,192
Mortgage-backed securities	10,974,490	357,648	—	11,332,138
	<u>\$120,629,984</u>	<u>\$575,111</u>	<u>(\$287,244)</u>	<u>\$120,917,851</u>

<i>Available-for-sale:</i>	As of December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal agency securities	\$61,212,472	\$197,851	(\$102,375)	\$61,307,948
Collateralized mortgage obligations	27,756,850	108,551	(160,398)	27,705,003
Mortgage-backed securities	20,123,760	383,243	(11,704)	20,495,299
	<u>\$109,093,082</u>	<u>\$689,645</u>	<u>(\$274,477)</u>	<u>\$109,508,250</u>

Other investments:

	As of December 31,	
	2010	2009
Federal funds	\$78,808,790	\$32,081,600
Certificates with other financial institutions	18,000,000	27,500,000
Mutual funds	8,921,407	15,913,741
Investments in financial institutions	5,161,181	441,257
Investments in money market accounts	4,011,963	—
FHLB capital stock	751,600	751,600
Other	107,305	95,406
	<u>\$115,762,246</u>	<u>\$76,783,604</u>

The amortized cost and estimated market value of investments by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: (continued)

	As of December 31, 2010	
	<i>Available-for-sale</i>	
	Amortized Cost	Market Value
1 - 5 years maturity	\$61,171,404	\$61,108,521
Collateralized mortgage obligations	48,484,090	48,477,192
Mortgage-backed securities	10,974,490	11,332,138
	\$120,629,984	\$120,917,851

The following tables show the gross unrealized losses and fair value of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	As of December 31, 2010					
	<i>Available-for-sale</i>					
	<i>Less than 12 Months</i>		<i>12 Months or Longer</i>		<i>Total</i>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal agency securities	\$35,821,110	\$151,733	\$—	\$—	\$35,821,110	\$151,733
Collateralized mortgage obligations	27,235,732	135,141	979,946	370	28,215,678	135,511
	\$63,056,842	\$286,874	\$979,946	\$370	\$64,036,788	\$287,244

	As of December 31, 2009					
	<i>Available-for-sale</i>					
	<i>Less than 12 Months</i>		<i>12 Months or Longer</i>		<i>Total</i>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Federal agency securities	\$28,392,432	\$102,375	\$—	\$—	\$28,392,432	\$102,375
Collateralized mortgage obligations	14,446,903	160,398	—	—	14,446,903	160,398
Mortgage-backed securities	1,247,717	11,704	—	—	1,247,717	11,704
	\$44,087,052	\$274,477	\$—	\$—	\$44,087,052	\$274,477

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 2: (continued)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. Additionally, the decline in the fair values of the investment securities is largely due differences between security yields and market interest rates and the fair values of the securities are expected to be recovered as these securities approach their maturity date and/or market rates decline. Management has the intent and ability to hold these securities until full recovery which may include maturity.

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31,	
	2010	2009
Loans outstanding:		
Real estate	\$121,264,068	\$139,393,350
Unsecured	64,827,646	65,916,900
Vehicle	42,510,594	51,761,892
Business	8,557,585	—
Other secured	2,087,239	2,347,683
	239,247,132	259,419,825
Less allowance for loan losses	(2,779,832)	(2,066,758)
	\$236,467,300	\$257,353,067

Loans on which the accrual of interest had been discontinued or reduced approximated \$1,577,000 and \$455,000 as of December 31, 2010 and 2009, respectively. If interest on these loans had been accrued, such income would have approximated \$47,000 and \$16,000 for the years ended December 31, 2010 and 2009, respectively.

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

	For the years ended	
	2010	2009
Balance, beginning of year	\$2,066,758	\$1,901,067
Provision for loan losses	2,810,475	1,988,932
Recoveries	220,576	189,438
Loans charged off	(2,317,977)	(2,012,679)
Balance, end of year	\$2,779,832	\$2,066,758

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows:

	As of December 31,	
	2010	2009
Land	\$677,532	\$677,532
Buildings	2,454,165	2,454,165
Furniture and equipment	6,075,473	5,832,040
Leasehold improvements	696,183	696,183
	9,903,353	9,659,920
Less accumulated depreciation and amortization	(7,185,187)	(6,809,256)
	\$2,718,166	\$2,850,664

NOTE 5: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	As of December 31,	
	2010	2009
Share drafts	\$70,372,095	\$67,096,793
Shares	73,119,080	69,234,808
Money market accounts	174,932,798	159,682,029
IRA shares	9,394,419	9,555,364
Share and IRA certificates	116,940,610	108,279,881
	\$444,759,002	\$413,848,875

The aggregate amount of members' time deposit accounts in denominations of \$100,000 and over was approximately \$34,483,000 and \$29,699,000 as of December 31, 2010 and 2009, respectively.

Scheduled maturities of share and IRA certificates are as follows:

	As of December 31, 2010
Within 1 year	\$70,893,062
1 to 2 years	18,727,881
2 to 3 years	9,482,203
3 to 4 years	6,265,162
4 to 5 years	11,572,302
	\$116,940,610

SHARE INSURANCE

Members' shares are insured by the NCUSIF to a maximum of \$250,000 for each member. Individual Retirement Agreement Accounts carry an additional \$250,000 coverage.

<p style="text-align: center;">UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</p>

NOTE 6: EMPLOYEE BENEFITS

401(K) PLAN

All employees who have completed 250 hours of service within three consecutive months from their date of employment or completed 1,000 hours of service within one year and are at least 21 years of age are eligible to participate in a 401(k) plan. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service and they are 100% vested in their own contributions. The Credit Union matches employee contributions dollar-for-dollar up to 3% of the employees' salary and matches \$0.50 for every dollar of employee contributions above 3% up to 5% of the employees' salary. Employees are 100% vested in this contribution. Additional contributions can be made at the discretion of the Board of Directors. Employees become 100% vested in these contributions after 5 years of service. The Credit Union's contributions to the 401(k) plan approximated \$453,000 and \$466,000 for the years ended December 31, 2010 and 2009, respectively.

DEFERRED COMPENSATION PLAN

During 2008, the Credit Union established a deferred compensation plan for members of the executive management team that provides vested benefits payable to these employees upon retirement, separation from service, disability, or death. For the years ended December 31, 2010 and 2009, the Credit Union's expense under this agreement was approximately \$173,000 and \$182,000, respectively. As of December 31, 2010 and 2009, the accrued liability approximated \$564,000 and \$354,000, respectively.

***NOTE 7: COMMITMENTS AND
CONTINGENT LIABILITIES***

LINES OF CREDIT:

The Credit Union has entered into a demand loan agreement with Corporate One Federal Credit Union which is used as an overdraft line of credit for settlements at Corporate One Federal Credit Union. The terms of the agreement require the pledging of all deposit and share accounts held at Corporate One Federal Credit Union and other sums due to the Credit Union from Corporate One Federal Credit Union as security for obligations under this line of credit agreement. The aggregate unused line of credit under this agreement was \$1,000,000 as of December 31, 2010 and 2009.

The Credit Union has entered into a credit availability agreement with the Federal Reserve Bank of Richmond which allows the Credit Union to borrow against its securities held in safekeeping. The Credit Union is able to borrow by pledging specific securities and applying the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. As of December 31, 2010, the Credit Union was able to borrow between 90% and 99% of the market value of its securities held in safekeeping at the Federal Reserve Bank of Richmond depending on the maturity dates of the specific securities pledged. As of December 31, 2010 and 2009, there were no borrowings outstanding under this agreement.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 7: (continued)

The Credit Union is a member of the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2010, the Credit Union had access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its qualified collateral, as defined in the FHLB Statement of Credit Policy. As of December 31, 2010, the total credit available under this line-of-credit agreement was approximately \$39,728,000. There were no borrowings under this line-of-credit agreement as of December 31, 2010 or 2009.

LEASE COMMITMENTS:

The Credit Union leases two branch locations. The minimum noncancellable lease obligations approximate the following as of December 31, 2010:

Year ending December 31,	Amount
2011	\$129,000
2012	129,000
2013	58,000
2014	14,000
	\$330,000

Rental expense under operating leases was approximately \$132,000 and \$131,000 for the years ended December 31, 2010 and 2009, respectively.

MISCELLANEOUS LITIGATION:

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the Credit Union's financial statements.

**NOTE 8: OFF-BALANCE-SHEET RISK
AND CONCENTRATIONS OF CREDIT RISK**

OFF-BALANCE-SHEET RISK:

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2010, the members' unfunded lines of credit approximated \$117,146,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

<p style="text-align: center;">UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</p>

Note 8: (continued)

CONCENTRATIONS OF CREDIT RISK:

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Washington D.C. area. However, the loan portfolio is well diversified, and the Credit Union does not have any significant concentrations of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to collateralized loans.

NOTE 9: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weights, 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 in NCUA's Rules and Regulations) to total assets (as defined in NCUA's Rules and Regulations). 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 as of December 31, 2010 and 2009 was 4.63% and 4.97%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2010 and 2009, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent call reporting period, the NCUA categorized the Credit Union as "*well capitalized*" under the regulatory framework for prompt corrective action. To be categorized as "*well capitalized*" the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 9: (continued)

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2010		As of December 31, 2009	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	\$50,086,246	10.05%	\$48,184,655	10.35%
Amount needed to be classified as "adequately capitalized"	\$29,911,073	6.00%	\$27,931,459	6.00%
Amount needed to be classified as "well capitalized"	\$34,896,252	7.00%	\$32,586,702	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 option, as permitted by regulation.

***NOTE 10: FAIR VALUES OF FINANCIAL
INSTRUMENTS***

The Credit Union adopted Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards of Codification, which provides a framework for measuring fair value that requires an entity to derive fair value from the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

Level 1

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10: (continued)

Level 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value:

Assets at Fair Value as of December 31, 2010				
	Quoted Prices in Active Markets Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities:				
Federal agency securities	\$—	\$61,108,521	\$—	\$61,108,521
Collateralized mortgage obligations	—	48,477,192	—	48,477,192
Mortgage-backed securities	—	11,332,138	—	11,332,138
	<u>\$—</u>	<u>\$120,917,851</u>	<u>\$—</u>	<u>\$120,917,851</u>

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10: (continued)

Assets at Fair Value as of December 31, 2009				
	Quoted Prices in Active Markets Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities				
Federal agency securities	\$—	\$61,307,948	\$—	\$61,307,948
Collateralized mortgage obligations	—	27,705,003	—	27,705,003
Mortgage-backed securities	—	20,495,299	—	20,495,299
	\$—	\$109,508,250	\$—	\$109,508,250

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The following methods and assumptions were used to estimate fair value of each of the financial instruments for which it is practicable to estimate.

CASH

The carrying amount is a reasonable estimation of fair value.

INVESTMENTS

Estimated fair values for investments are obtained from quoted market prices or observable market prices for similar instruments. The fair values for available-for-sale securities take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information.

LOANS HELD FOR SALE

The carrying amount for loans held for sale approximates the fair value.

LOANS TO MEMBERS

The estimated fair value for 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. The impact of delinquent loans on the estimation of fair value is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies used.

UNITED STATES SENATE FEDERAL CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10: (continued)

ACCRUED INTEREST RECEIVABLE

The carrying amount for accrued interest receivable approximates the fair value.

OREO

The carrying amount for OREO approximates the fair value.

MEMBERS' SHARE AND SAVINGS ACCOUNTS

The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate certificates was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

INTEREST PAYABLE

The carrying amounts is a reasonable estimation of fair value.

COMMITMENTS TO EXTEND CREDIT

The fair value of commitments to extend credit is equivalent to the amount of credit extended since the Credit Union does not charge fees to enter into these commitments and the commitments are not stated at fixed rates.

	As of December 31, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash	\$8,852,465	\$8,852,465	\$7,693,093	\$7,693,093
Investments:				
Available-for-sale	\$120,917,851	\$120,917,851	\$109,508,250	\$109,508,250
Other	\$115,762,246	\$115,762,246	\$76,783,604	\$76,783,604
Loans held for sale	\$1,508,291	\$1,508,291	\$1,708,671	\$1,708,671
Loans to members, net	\$236,467,300	\$243,661,000	\$257,353,067	\$258,425,210
Accrued interest receivable:				
Loans	\$1,243,358	\$1,243,358	\$1,273,642	\$1,273,642
Investments	\$399,393	\$399,393	\$632,168	\$632,168
Other real estate owned	\$775,000	\$775,000	\$524,249	\$524,249
<i>Financial liabilities:</i>				
Members' share and savings accounts	\$444,759,002	\$442,721,000	\$413,848,875	\$415,458,000
Interest payable	\$350,027	\$350,027	\$440,304	\$440,304
<i>Unrecognized financial instruments:</i>				
Commitments to extend credit	\$—	\$117,146,000	\$—	\$116,945,000

UNITED STATES SENATE FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***NOTE 11: NCUA CORPORATE
STABILIZATION PROGRAM***

In January 2009, the NCUA informed federally-insured credit unions that it was taking actions to enhance and support the corporate credit union system as well as the NCUSIF. In addition to placing U.S. Central Federal Credit Union and two other corporate credit unions into conservatorship, the NCUA established the Temporary Corporate Credit Union Share Guarantee Program, whereby all deposits in excess of insurable limits maintained at corporate credit unions, other than membership capital shares and paid-in capital, will be guaranteed through December 31, 2012. The actions taken in January 2009 resulted in a 69% write-down of the Credit Union's 1 percent NCUSIF deposit and the assessment of an insurance premium. The Credit Union recognized the 69% impairment of the NCUSIF deposit of approximately \$1,964,000 and the 15 basis point insurance premium assessment of approximately \$549,000 during the year ended December 31, 2009.

NOTE 12: INDUSTRY EVENTS

The losses recognized by many natural person credit unions from their at-risk investments in corporate credit unions, coupled with high loan losses and other non-corporate investment losses, resulted in regulatory actions by the NCUA, including conservatorship, assisted mergers, and liquidations. All of these factors have contributed to significant losses to the NCUSIF and resulted in the assessment of insurance premiums by the NCUA Board during 2009 and 2010 to increase the NCUSIF's equity ratio to above 1.20%.

During June 2009, legislation was created to establish a Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) to absorb the corporate stabilization costs by borrowing money from the U.S. Treasury. As a result of this legislation, the NCUA Board lowered its original insurance premium assessment announced in January 2009 from 30 to 15 basis points and fully restored the NCUSIF deposit that had been impaired by 69%. As a result, the Credit Union recognized non-interest income from the NCUSIF of approximately \$1,964,000 (the same amount as the impairment of the NCUSIF deposit).

During September 2010, the NCUA received approval from the U.S. Treasury to extend the life of the Stabilization Fund to June 2021. The funds borrowed from the U.S. Treasury will be repaid from assessments authorized by the NCUA Board. The NCUA Board has levied assessments during 2009 and 2010 to repay borrowed funds to the U.S. Treasury. It is anticipated that the NCUA Board will be making annual assessments over at least the next five years to cover costs associated with the corporate credit union system.

**UNITED STATES SENATE FEDERAL CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

***NOTE 13: RELATED PARTY
TRANSACTIONS***

During the normal course of business, the Credit Union has transactions with its wholly owned CUSO, Credit Union Strategic Services. As of 12/31/10, the Credit Union had a note receivable from Credit Union Strategic Services of \$26,000.

★★★★★★