

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation* - The Credit Union is an Ohio-chartered credit union, tax-exempt under Section 501 of the Internal Revenue Code.

*Investments* - The investment securities portfolio was comprised of securities classified as **available for sale** and **held to maturity** in conjunction with the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Debt and Equity Securities" (SFAS No. 115). Investments classified as **available-for-sale** securities are carried at market value. Investment securities **held to maturity** being carried at cost, adjusted for amortization of premiums and accretion of discounts. In addition, non-negotiable certificates of deposit, Corporate One capital shares and certain **other investments** fall outside the provisions of SFAS No. 115. They are also accounted for at cost, adjusted for amortization of premiums and accretion of discounts.

Unrealized gains and losses on **available-for-sale** investments are included as a separate component of members' equity.

*Loans to Members and Allowance for Loan Losses* - Loans are stated at the amount of unpaid principal, reduced by 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 allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrower's ability to pay. Accrual of interest is discontinued on a loan when the loan becomes delinquent in excess of sixty (60) days.

*Property* - Stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets which range from two (2) to forty-five (45) years.

*Statutory Reserve* - The Ohio Credit Union Act requires a reserve for losses to be established by appropriations of undivided earnings. The reserve is not related to amounts of losses actually anticipated, and the appropriations have not been charged against income.

*Cash and Cash Equivalents* - For purposes of reporting cash flows, cash and cash equivalents include money market accounts, Federal funds and any highly liquid debt instruments purchased with a maturity of three (3) months or less.

*Share Accounts* - Members shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

*Share Insurance* - The deposit in the Share Insurance account is in accordance with the underwriting guidelines of the private share insurer, which require the maintenance of a deposit by each insured credit union in an amount equal to 1.30 percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated or it converts to insurance coverage from another source.

*Concentration of Credit Risk* - The Credit Union's business activity is primarily with members who are employees of one of the Credit Union's sponsoring employer groups, generally located in northern Ohio. This creates a concentration of credit risk from members with loans from the Credit Union, since they work for a single employer located in a similar geographic area.

*Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2. INVESTMENTS**

The amortized cost and market values of investment securities at December 31, 2003 and 2002 were:

Available for Sale	Weighted Average Yield at 12/31/03	2003			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mutual funds	n/a	\$3,218,064	\$117,266	\$ -	\$3,100,797
Government Agencies	3.26%	\$4,284,668	-	(14,556)	\$4,299,225
<b>Total</b>		<b>\$7,502,732</b>	<b>\$117,266</b>	<b>\$(14,556)</b>	<b>\$7,400,022</b>

  

Mutual funds	Weighted Average Yield at 12/31/02	2002			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mutual funds	n/a	\$3,156,630	\$26,264	\$(370,762)	\$2,812,132

  

Other Investments	Weighted Average Yield at 12/31/03	2003			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Certificates of deposit - banks	2.80%	\$3,143,000	\$ -	\$ -	\$3,143,000
Certificates of deposit - Corporate Credit Union	1.84%	14,000,000	-	-	14,000,000
Corporate capitalization	1.49%	1,458,622	-	-	1,458,622
<b>Total</b>		<b>\$18,601,622</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$18,601,622</b>

  

Other Investments	Weighted Average Yield at 12/31/02	2002			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Certificates of deposit - banks	3.22%	\$3,647,000	\$ -	\$ -	\$3,647,000
Certificates of deposit - Corporate Credit Union	2.67%	12,110,547	-	-	12,110,547
Corporate capitalization	1.70%	994,374	-	-	994,374
<b>Total</b>		<b>\$16,751,921</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$16,751,921</b>

The amortized cost and market values of investment securities at December 31, 2003 by expected maturity are shown on the next page. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

**NOTE 2. INVESTMENTS (Continued)**

	Available-for-Sale Investments		Other Investments	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one (1) year or less	\$ -	\$ -	\$13,044,000	\$13,044,000
Due after one (1) year				
but less than five (5) years	2,252,068	2,266,105	4,099,000	4,099,000
Due after five (5) years				
but less than ten (10) years	2,032,600	2,033,120	-	-
No contractual maturity	3,218,064	3,100,797	1,458,622	1,458,622
<b>Total</b>	<b>\$7,502,732</b>	<b>\$7,400,022</b>	<b>\$18,601,622</b>	<b>\$18,601,622</b>

Pursuant to an agreement dated April 27, 1970 between the Credit Union and a former manager, the Credit Union is required to provide retirement benefits amounting to \$21,500 per year, adjusted for cost of living increases to this former manager for the rest of his life. As security for the fulfillment of this obligation, the Credit Union has pledged certain investment securities as collateral.

**NOTE 3. LOANS TO MEMBERS**

The loans to members at December 31, 2003 and 2002 consists of the following:

	2003	2002
Mortgage loans	\$15,257,615	\$20,912,721
Collateralized loans	11,680,510	15,374,604
Home equity loans	32,456,456	21,447,186
Signature loans	3,686,610	4,428,652
Credit card loans	3,137,531	3,413,743
Student loans	831,167	1,018,035
Share secured loans	628,111	715,878
<b>Total</b>	<b>67,678,000</b>	<b>67,310,819</b>
Less allowance for loan losses	(815,604)	(831,555)
<b>Loans - Net</b>	<b>\$66,862,396</b>	<b>\$66,479,264</b>

The interest rates on the loans range from 2.01% to 25.0% at December 31, 2003.

The allowance for loan losses activity for the years ended December 31, 2003 and 2002 consists of the following:

	2003	2002
Beginning balance	\$831,555	\$748,219
Provision charged to operations	275,219	386,773
Loans charged off	(489,270)	(490,268)
Recoveries	198,100	186,831
<b>Ending balance</b>	<b>\$815,604</b>	<b>\$831,555</b>

Loans on which the accrual of interest has been discontinued or reduced amounted to \$494,073 and \$783,679 at December 31, 2003 and 2002, respectively. If interest on these loans had been accrued, such income would have been \$43,496 and \$38,668 at December 31, 2003 and 2002, respectively.

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2003 and 2002 consists of the following:

	2003	2002
Land	\$294,508	\$294,508
Buildings and improvements	3,628,582	3,626,278
Furniture and equipment	2,700,283	2,613,277
<b>Total</b>	<b>6,623,373</b>	<b>6,534,063</b>
Less - accumulated depreciation and amortization	(3,110,932)	(2,777,356)
<b>Total</b>	<b>\$3,512,441</b>	<b>\$3,756,707</b>

**NOTE 5. MEMBERS' SHARE ACCOUNTS**

Members' share accounts at December 31, 2003 and 2002 were as follows:

	Weighted Average Yield at 12/31/03	2003	2002
Regular shares	0.219%	\$45,998,228	\$43,708,657
Certificates - regular and IRA	2.50%	20,161,338	20,101,154
Share drafts	0.016%	13,923,389	14,151,931
Money market	0.392%	10,653,392	11,272,385
Individual retirement accounts	0.200%	1,676,924	1,530,311
<b>Total</b>		<b>\$92,413,271</b>	<b>\$90,764,438</b>

Dividend expense on members' share accounts is summarized as follows for the years ended December 31, 2003 and 2002:

	2003	2002
Certificates	\$567,253	\$766,705
Shares - regular	161,712	467,081
Money market	67,244	164,732
Share drafts	5,625	31,254
Individual retirement accounts	5,468	14,842
<b>Total</b>	<b>\$807,302</b>	<b>\$1,444,614</b>

The following is a summary of shares by maturity as of December 31, 2003:

	2003	2002
Less than one (1) year		\$12,769,014
Greater than one (1) but less than three (3) years		3,341,011
Greater than three (3) years		4,051,313
No contractual maturities		-
<b>Total</b>		<b>\$20,161,338</b>

The Credit Union has \$177,978 in member shares that exceed the per-account insurable limit of \$250,000.

**NOTE 6. LINE OF CREDIT**

The Credit Union maintains a \$6,500,000 line of credit arrangement with the Corporate One Federal Credit Union and \$3,000,000 with National City Bank. At December 31, 2003 and 2002 the Credit Union has no borrowings under these arrangements.

**NOTE 7. RELATED PARTY LOANS**

The official family of the Credit Union includes employees, Board members, audit committee members and credit committee members.

Loans receivable from members of the official Credit Union family and their spouses at December 31, 2003 and 2002 totaled \$952,299 and \$840,583, respectively. Total official Credit Union family and their spouses share balances at December 31, 2003 and 2002 totaled \$1,010,875 and \$924,950 respectively.

**NOTE 8. LEASES**

The Credit Union leases office space for three (3) of its branch locations. These lease agreements require monthly lease payments based on predetermined contract amounts. The future minimum lease payments under the remaining terms of the lease agreements total \$ 30,967.

**NOTE 9. PENSION PLAN**

Employees of the Credit Union participate in a defined contribution pension plan. The employees' contribution of 5% of their earnings is matched by the Credit Union. Employees become 100% vested in employer contributions after five (5) years of service. They are fully vested in their own contributions at all times. Total pension expense, included in compensation and benefits in the statements of operations, was \$97,023 and \$59,179 for the years ended December 31, 2003 and 2002, respectively.

**NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES**

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

**Loan Commitments**

The Credit Union has extended lines of credit to members which have not been entirely drawn at December 31, 2003 and 2002. The available credit to members that has not been reflected in the financial statements is as follows:

Loan Type	Available Credit	
	2003	2002
Credit card	\$6,592,412	\$6,985,815
Home equity	24,227,714	16,826,304
Quick cash	1,356,008	1,317,487
<b>Total</b>	<b>\$32,176,134</b>	<b>\$25,129,606</b>