Annual Report

Statement of Financial Condition as of June 30, 2013

Report from the Chair

While overall, our economy continues to show signs of improvement, too many of our members continue to face difficult times. While unemployment statistics have improved, that was not comforting news if you were furloughed due to the sequestration or government shutdown this year.

During these times and difficult circumstances, Redstone Federal Credit Union has strived to offer the products and services our members need. In keeping with our philosophy of "People helping people," we were happy to offer furlough loans that provided security to members who experienced a brief interruption of their cash flow. We also reached out to our members to offer free financial counseling and other helpful resources to ease their financial burden during the temporary financial setbacks they faced.

We are deeply gratified that we could be there for our members when they needed us most, and we in turn are more grateful than ever for the trust our members have continued to put in Redstone.

We look forward to continual improvement in the economy in the coming year. But rest assured that whatever economic twists, turns and setbacks may lie ahead, Redstone will remain strong, sound and eager to serve our members and communities.

Respectfully submitted,
Dorothy W. Huston, PhD
Chair, Board of Directors

Report from the President

I am pleased to report that Redstone enjoyed great growth and success this year, thanks to our members' unwavering confidence and trust.

Building on the longstanding tradition of trust you have put in Redstone we are pleased to say we have successfully begun a transition into being your trusted advisor on the most important events in your life.

We encourage our members to visit our website or any branch to find helpful information and advice intended for their specific circumstance and goals. We look forward to forming many new advisor relationships with our members in the coming year.

This year we were pleased to offer many new services and features to further improve our members' experience. A few of these include the addition of more than 30,000 surcharge-free ATMs, two new conveniently located branches, and new time-saving features inside online banking.

Of course it was also a financially tumultuous year for many of our members and we made it a top priority to assist those affected by furloughs and layoffs.

You can count on Redstone to continue to provide the high quality products and services that meet our members' needs and expectations in the year to come.

We will also continue to welcome your feedback and input about how we can make your financial cooperative the best it can be.

As always, thank you for your membership.

Respectfully submitted,
Joseph H. Newberry
President/CEO

Report from the Supervisory Committee

The Supervisory Committee, in compliance with the Federal Credit Union Act and Redstone Federal's bylaws, independently evaluates the soundness of Redstone Federal's operations and activities. The Committee provides assurance that the board and management are meeting required financial reporting objectives, and establishing practices and procedures sufficient to safeguard members' assets by implementing sound internal controls.

In accordance with these responsibilities, the committee hired an independent CPA (certified public accountant) firm, Moss Adams, to perform the financial statements audit for the year ending June 30, 2013. The report of Independent Auditors appears in this Annual Report.

Industry recognition received by Redstone Federal Credit Union during 2013 includes Bauer Financial, Inc. 5-star rating for the 17th consecutive year. This award indicates Redstone Federal Credit Union is one of the safest financial institutions in the United States.

Based on the results of internal audits, the financial statements audit, and the regulatory examination report of NCUA, conducted during the past year, it is the opinion of the Supervisory Committee that Redstone Federal Credit Union continues to be financially secure and operates in a safe and sound manner. Staff continues to work hard to maintain your financial security and prosperity.

Thank you for your membership. It is because of members, like you, that we continue to be a proven leader in the financial industry.

Respectfully submitted,
Nancy H. Walker
Chair

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Report of Independent Auditors

To the Board of Directors and Supervisory Committee
Redstone Federal Credit Union and Subsidiaries
Huntsville, Alabama

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Redstone Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Redstone Federal Credit Union and Subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
September 4, 2013

Financials

Consolidated Statements of Financial Condition

June 30, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents	$122,552,172	$138,577,477
Investments:		
Available for sale	921,122,284	919,586,419
Held to maturity	1,041,093,344	916,802,262
Other	6,269,348	11,987,048
Loans held for sale	22,211,887	15,790,485
Loans, net	1,273,495,324	1,221,342,516
Accrued interest receivable	12,312,516	12,911,257
Property and equipment, net	89,667,903	91,130,858
National Credit Union Share Insurance Fund (NCUSIF) deposit	29,004,985	27,056,119
Other real estate owned	2,875,382	2,666,826
Other assets	19,976,667	19,237,283
Total assets	**$3,540,581,812**	**$3,377,088,550**

LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' shares	$3,077,231,996	$2,947,490,582
Borrowed funds	47,974,419	25,568,135
Accrued expenses and other liabilities	52,081,801	62,106,623
Total liabilities	**3,177,288,216**	**3,035,165,340**
Commitments and contingent liabilities (Note 10)		
Members' equity:		
Retained earnings	378,101,246	347,448,371
Accumulated other comprehensive income	(14,807,650)	(5,525,161)
Total members' equity	**363,293,596**	**341,923,210**
Total liabilities and members' equity	**$3,540,581,812**	**$3,377,088,550**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Years Ended June 30, 2013 and 2012

	2013	2012
Interest income:		
Interest on loans	$68,766,952	$70,345,527
Interest on investments and cash equivalents	30,303,579	34,517,337
	99,070,531	104,862,864
Interest expense:		
Dividends on members' shares	13,181,384	20,021,646
Interest on borrowed funds	768,937	827,038
	13,950,321	20,848,684
Net interest income	85,120,210	84,014,180
Provision for loan losses	13,508,060	9,680,419
Net interest income after provision for loan losses	71,612,150	74,333,761
Noninterest income:		
Loan origination	4,358,622	4,204,825
Loan late and overlimit fees	3,016,033	2,855,465
Loan servicing	1,584,542	1,292,533
Gain on sale of loans	4,974,616	3,522,637
Nonsufficient fund and overdraft fees	18,332,497	18,764,858
Debit card interchange	17,315,267	16,262,884
Credit card interchange	8,193,995	7,978,820
Insurance and investment	4,155,357	3,676,343
Gain on sale of investments	1,142,164	12,019
Other noninterest income	3,550,339	4,518,279
	66,623,432	63,088,663
Noninterest expenses:		
Salaries and benefits	51,214,260	47,435,562
Occupancy	12,269,062	12,163,791
Data processing	9,294,614	8,343,096
Debit card processing	4,580,474	4,340,080
Credit card processing	3,233,799	3,694,561
Cash back rebate on credit cards	5,233,812	5,185,143
Loan servicing, net	6,097,311	5,226,997
Member education and promotion	1,840,680	1,811,310
Professional and outside services	1,763,860	1,647,985
Federal supervision and insurance	3,107,353	6,964,895
Uncollectible accounts	1,783,991	1,357,309
Other operating expense	7,163,491	6,854,876
	107,582,707	105,025,605
Net income	$30,652,875	$32,396,819

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years Ended June 30, 2013 and 2012

	2013	2012
Net income	$30,652,875	$32,396,821
Other comprehensive income:		
Net change in defined benefit plan obligations	8,039,141	(13,076,437)
Net change in supplemental executive retirement plan (SERP)	852,607	(186,817)
Net change in postretirement benefit plan obligations	1,084,407	(2,148,193)
Unrealized holding (losses) gains on investments classified as available for sale, net	(18,116,480)	4,424,864
Reclassification adjustment for gains realized in income from sale of securities available for sale	(1,142,164)	(12,019)
	(9,282,489)	(10,998,602)
Comprehensive income	$21,370,386	$21,398,219

See Notes to Consolidated Financial Statements.

Consolidated Statements of Members' Equity

Years Ended June 30, 2013 and 2012

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, June 30, 2011	$24,832,711	$290,218,841	$315,051,552	$5,473,441
Net income	-	32,396,819	32,396,819	-
Net change in defined benefit plan obligations	-	-	-	(13,076,437)
Net change in SERP	-	-	-	(186,817)
Net change in postretirement benefit plan obligations	-	-	-	(2,148,193)
Unrealized holding gains on investments classified as available for sale, net	-	-	-	4,412,845
Balance, June 30, 2012	24,832,711	322,615,660	347,448,371	(5,525,161)
Net income	-	30,652,875	30,652,875	-
Net change in defined benefit plan obligations	-	-	-	8,039,141
Net change in SERP	-	-	-	852,607
Net change in postretirement benefit plan obligations	-	-	-	1,084,407
Unrealized holding losses on investments classified as available for sale, net	-	-	-	(19,258,644)
Balance, June 30, 2013	$24,832,711	$353,268,535	$378,101,246	$(14,807,650)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	$30,652,875	$32,396,819
Adjustments to reconcile net income to net cash provided from operating activities:		
Capitalization of mortgage servicing rights	(1,635,670)	(1,797,507)
Amortization of mortgage servicing rights	1,638,448	1,193,940
Amortization of investment securities, net	12,124,243	10,667,849
Provision for loan losses	13,508,060	9,680,419
Depreciation and amortization	8,409,228	8,176,697
Writedowns of other real estate owned	292,905	382,987
(Loss) Gain on sale of other real estate owned	162,613	(261,438)
Gain on sale of investment securities	(1,142,164)	(12,019)
Impairment loss on investments	153,651	94,547
Other than temporary impairment of investment securities	-	215,360
Loss on disposition of property and equipment, net	467,821	3,748
Net change in:		
Loans held for sale	(6,421,403)	(5,730,436)
Accrued interest receivable	598,742	764,154
Other assets	110,445	(3,047,812)
Accrued expenses and other liabilities	(901,274)	19,729,042
Net cash provided by operating activities	58,018,520	72,456,350
Cash flows from investing activities:		
Purchases of available for sale investments	(379,898,490)	(523,323,253)
Proceeds from maturities of available for sale investments	279,837,102	439,017,685
Proceeds from sales of available for sale investments	74,811,526	10,002,330
Purchases of held to maturity investments	(403,777,334)	(483,357,534)
Proceeds from maturities of held to maturity investments	272,805,876	297,897,560
Net change in other investments	5,717,700	15,953,399
Net change in loans to members	(67,878,355)	(39,280,952)
Proceeds from sales of real estate owned	1,553,412	4,690,297
Increase in the NCUSIF deposit	(1,948,866)	(2,605,488)
Proceeds from disposition of property and equipment	3,102	9,081
Purchases of property and equipment	(7,417,196)	(6,482,196)
	$(226,191,523)	$(287,479,071)

Consolidated Statements of Cash Flows (cont.)

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from financing activities:		
Net increase in members' shares	$129,741,414	$228,382,303
Proceeds from borrowed funds	32,000,000	12,500,000
Repayment of borrowed funds	(9,593,716)	(14,507,252)
Net cash from financing activities	152,147,698	226,375,051
Net change in cash and cash equivalents	(16,025,305)	11,352,330
Cash and cash equivalents, beginning of year	138,577,477	127,225,147
Cash and cash equivalents, end of year	$122,552,172	$138,577,477
Supplemental cash flows information:		
Dividends paid on members' shares and interest paid on borrowed funds	$13,933,477	$20,900,331
Noncash investing and financing activities:		
Transfer of loans into other real estate owned	$2,217,486	$1,411,423
Transfer of other real estate owned into loans	$ -	$2,748,195
Other comprehensive loss	$(9,282,489)	$(10,998,602)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, Redstone Services Group, LLC (RSG), and Redstone Consulting Group, LLC (RCG). RSG is engaged primarily in originating and selling student loans and selling alternative cash services to nonmember customers of modest means. RCG specializes in the development and support of software technology products, process improvements, and best practices for other credit unions and community banks. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

Redstone Federal Credit Union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Significant Accounting Policies

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to GAAP issued by the FASB in these footnotes are to *The FASB Accounting Standards Codification™* commonly referred to as the Codification.

Use of Estimates

The preparation of consolidated financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the fair value of investment securities.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are available to be issued. The Credit Union recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing the financial statements. The Credit Union's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after the date of the statement of financial condition and before the financial statements are issued.

Management of the Credit Union has evaluated subsequent events through September 4, 2013, the date on which the financial statements were available to be issued.

Concentrations of Credit Risk

Most of the Credit Union's business activity is with its members who reside in the North Alabama area. 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 Alabama.

Cash and Cash Equivalents

For the purpose of the statements of financial condition and the statements of cash flow, cash and cash equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

Debt securities that management has the positive intent and ability to hold to maturity are classified as *held to maturity* and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as *available for sale* and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Gains and losses on the sale of investment securities are recognized on the trade date and determined using the specific identification method.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement),(3) the intent of the Credit Union to sell a security, and (4) whether it is more likely than not the Credit Union will have to sell the security before recovery of its cost basis.

If the Credit Union does not have the intent to sell a debt security prior to recovery and it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss.

When the Credit Union does not intend to sell the security, and is it more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Other investments are classified separately and are stated at cost. If such investments are deemed to be impaired, the recorded cost is reduced by the amount of impairment.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Atlanta, is required to maintain an investment in capital stock of the FHLB which is based on the Credit Union's total assets plus a percentage of outstanding advances. No ready market exists for the FHLB stock and it has no quoted market value.

Loans Held for Sale

Mortgage and student 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 are recognized through a valuation allowance by charges to income. Gains and losses resulting from the sale of loans are determined on the specific-identification method and reflect the extent the sale proceeds, based on the contractual commitment entered into by the Credit Union and investor, exceed or are less than the credit in the loan. All sales are made without recourse.

Loans, Net

The Credit Union grants mortgage, commercial and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses and net deferred origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The accrual of interest income on loans is discontinued at the time the loan is 91 days past due, unless the credit is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain direct loan origination costs are deferred and are recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating and the levels of nonperforming loans. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement or when the loan is subject to a troubled debt restructuring. Specific allowances for loan losses are established for large impaired loans on an individual basis as required by the Codification. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in the Codification. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events and lagging data.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or, alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Property and Equipment

Land is carried at cost. Land improvements, buildings, building improvements, leasehold improvements, and furniture and equipment are carried at cost less accumulated depreciation and amortization. Land improvements, buildings and building improvements, and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 2 to 40 years. The cost of leasehold improvements is amortized using the straight-line method over lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

National Credit Union Share Insurance Fund (NCUSIF) Deposit and Insurance Premium

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which requires the maintenance of a deposit by each federally insured

Credit Union in an amount equal to 1 percent of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. The Credit Union is also required to pay an annual insurance premium equal to one-twelfth of 1 percent of total insured members' shares, unless the payment is waived or reduced by the NCUA Board.

In September 2011, the NCUA authorized a premium of 0.25% of insured shares to restore the operating levels of the NCUSIF. As a result of the premium assessment, the Credit Union recorded an expense of $6,600,003 included in noninterest expense in the accompanying consolidated statement of income for the year ended June 30, 2012.

In September 2012, the NCUA authorized an assessment of 0.095% of insured shares for the Temporary Corporate Credit Union Stabilization Fund. As a result of the assessment, the Credit Union recorded an expense of $2,718,003 included in noninterest expense in the accompanying consolidated statement of income for the year ended June 30, 2013.

On July 25, 2013, the NCUA announced a 2013 Corporate Stabilization assessment of 0.08% of credit unions' insured shares. As a result of the assessment, the Credit Union estimates the cost of $2,385,980 will be recorded in fiscal year ending June 30, 2014.

Other Real Estate Owned

Real estate and other property acquired in full or partial settlement of loan obligations is referred to as other real estate owned. Other real estate owned is originally recorded in the Credit Union's consolidated financial statements at fair value less any estimated costs to sell. When property is acquired through foreclosure or surrendered in lieu of foreclosure, the Credit Union measures the fair value of the property acquired against its recorded investment in the loan. If the fair value of the property at the time of acquisition is less than the recorded investment in the loan, the difference is charged to the allowance for loan losses. Any subsequent fluctuations in the fair value of other real estate owned are recorded against a valuation allowance for foreclosed assets, established through a charge to noninterest expense. All related operating or maintenance costs are charged to noninterest expense as incurred. Any subsequent gains or losses on the sale of other real estate owned are recorded in other income or expense as incurred.

Members' Shares

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the board of directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for the years ended June 30, 2013 and 2012, were immaterial to the financial statements.

Income Taxes

The Credit Union is exempt, by statute, from federal income taxes and state income taxes. The Credit Union Service Organizations, Redstone Services Group, and Redstone Consulting Group, are limited liability corporations and are not subject to federal and state income taxes.

Defined Benefit Plans

The Credit Union has a qualified, noncontributory defined benefit pension plan and a postretirement benefit plan covering certain employees as more fully disclosed in Note 11. The Credit Union's policy is to fund an amount in excess of the minimum amount required under Employee Retirement Income Security Act (ERISA).

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Financial Instruments

In the ordinary course of business, the Credit Union has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under credit card arrangements. Such financial instruments are recorded in the consolidated financial statements when they are funded or when related fees are incurred or received.

Reclassifications

Certain account reclassifications have been made to the 2012 consolidated financial statements in order to conform to classifications used in the current year with no impact on providing reported net income or members' equity.

Note 2. Investments

Investments classified as available for sale consist of the following at June 30:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2013:				
Federal agency securities	$641,053,478	$5,730,784	$(8,583,653)	$638,200,609
Mortgage-backed securities	256,419,268	3,042,113	(2,444,494)	257,016,887
Municipal bonds (auction rate securities)	25,925,000	-	(20,352)	25,904,648
Mutual funds	140	-	-	140
	$923,397,886	$8,772,897	$(11,048,499)	$921,122,284
June 30, 2012:				
Federal agency securities	$647,111,471	$11,418,563	$ -	$658,530,034
Mortgage-backed securities	229,042,043	6,322,540	(439,760)	234,924,823
Municipal bonds (auction rate securities)	26,449,723	-	(318,301)	26,131,422
Mutual funds	140	-	-	140
	$902,603,377	$17,741,103	$(758,061)	$919,586,419

Investments classified as held to maturity consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2013:				
Federal agency securities	$1,023,808,126	$8,045,666	$(12,648,748)	$1,019,205,044
Mortgage-backed securities	17,285,218	1,335	(198,183)	17,088,370
	$1,041,093,344	$8,047,001	$(12,846,931)	$1,036,293,414
June 30, 2012:				
Federal agency securities	$902,168,456	$16,285,550	$(36,700)	$918,417,306
Mortgage-backed securities	14,633,806	81,133	(5,272)	14,709,667
	$916,802,262	$16,366,683	$(41,972)	$933,126,973

At June 30, 2013, the Credit Union held $25.9 million (amortized cost basis) of auction rate securities (ARS) classified as municipal bonds. The assets underlying these three individual investments are primarily student loans, which are rated A3 by Moody's and substantially guaranteed by the U.S. government under the Federal Family Education Loan Program (FFELP). Historically, these securities have provided liquidity through a Dutch auction process that resets the applicable interest rate at predetermined intervals every seven to 49 days. However, these auctions began to fail in the first quarter of 2008. The securities continue to pay interest and the issuers are calling a portion of the related principal amounts periodically. Maturity dates for these investments are in 2046 and 2047.

Gains and losses on the sale of investment securities are recognized on the trade date and determined using the specific identification method. The proceeds on the sales were $10,002,330 for the year ended June 30, 2012. Gross realized gains on sales of investment securities totaled $12,019 for the year ended June 30, 2012. The proceeds on the sales were $74,811,526 for the year ended June 30, 2013. Gross realized gains on sales of investment securities totaled $1,142,164 for the year ended June 30, 2013.

Securities with book value of $20,775,000 and $23,502,803 have been pledged as collateral to secure advances from the Federal Reserve Bank discount window as of June 30, 2013 and 2012, respectively, as more fully disclosed in Note 8.

Investments by contractual maturity as of June 30, 2013, are summarized as follows:

	Available for Sale		Held to Maturity		
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
Less than 1 year maturity	$78,280,708	$78,875,260	$112,551,865	$113,509,430	-
1-5 years maturity	433,647,609	435,165,159	698,497,038	700,453,214	-
5-10 years maturity	129,125,162	124,160,191	212,759,223	205,242,400	-
Over 10 years maturity	25,925,000	25,904,648	-	-	-
Mortgage-backed securities	256,419,268	257,016,887	17,285,218	17,088,370	-
Mutual funds	140	140	-	-	-
Other investments	-	-	-	-	6,269,348
	$923,397,887	$921,122,285	$1,041,093,344	$1,036,293,414	$6,269,348

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. Mutual funds have been classified with no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at June 30 are as follows:

	Fair Value Associated With Unrealized Losses Existing For		Continuous Unrealized Losses Existing For		
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Total Unrealized Losses
June 30, 2013:					
Available for Sale					
Municipal bonds (auction rate securities)	$25,904,648	$ -	$ 20,352	$ -	$ 20,352
Federal agency securities	346,207,206	-	8,583,653	-	8,583,653
Mortgage-backed securities	137,701,779	233,878	2,441,879	2,615	2,444,494
	$509,813,633	$233,878	$11,045,884	$2,615	$11,048,499
Held to Maturity					
Federal agency securities	$493,150,136	$ -	$12,648,748	$ -	$12,648,748
Mortgage-backed securities	12,814,925	-	198,183	-	198,183
	$505,965,061	$ -	$12,846,931	$ -	$12,846,931
June 30, 2012:					
Available for Sale					
Municipal bonds (auction rate securities)	$ -	$26,131,422	$ -	$318,301	$318,301
Federal agency securities	-	-	-	-	-
Mortgage-backed securities	40,586,580	2,058,260	113,507	326,253	439,760
	$40,586,580	$28,189,682	$113,507	$644,554	$758,061
Held to Maturity					
Federal agency securities	$19,963,300	$ -	$36,700	$ -	$36,700
Mortgage-backed securities	6,424,272	-	5,272	-	5,272
	$26,387,572	$ -	$41,972	$ -	$41,972

During fiscal years 2013 and 2012, the Credit Union performed an analysis, with the assistance of an independent third party, on one nonagency whole loan mortgage-backed security in the investment portfolio for other than temporary impairment (OTTI). This security was in a net unrealized loss position for more than 12 months and was downgraded in 2012 to below investment grade status. The security was in a net unrealized gain position as of June 30, 2013. Other than temporary impairment is considered to have occurred (1) if the Credit Union intends to sell the security; (2) if it is more likely than not the Credit Union will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected future cash flows is not sufficient to recover the entire amortized cost basis of the security.

As of June 30, 2012, the analysis projected credit impairment of $419,326 and the Credit Union took an additional $215,360 in OTTI charges to bring the book value to $2,291,326. During the year ended June 30, 2012, the security was downgraded from a C rating to a D by S&P. As of June 30, 2013, the projected OTTI is $271,937, which is a lesser amount than the remaining OTTI currently held on the Credit Union's books. The principal balance as of June 30, 2013, is $2,071,259. During the 12-month period ended June 30, 2013, realized losses totaled $153,651 and interest totaled $140,576.

	2013	2012
Estimated credit losses, beginning balance	$419,326	$313,446
Additions for credit losses not previously recognized	-	215,360
Reduction for increases in cash flows	-	(109,480)
Estimated credit losses, ending balance	$419,326	$419,326

As of June 30, 2013, unrealized losses on the remainder of the Credit Union's investment portfolio were primarily attributable to market interest rate volatility and a significant widening of interest rate spreads across market sectors relating to the continued illiquidity and uncertainty in financial markets, rather than to credit risk. Current characteristics of each security owned, such as delinquency rates, foreclosure levels, credit enhancements, and projected losses, are reviewed periodically by management. Accordingly, it is expected these securities would not be settled at a price less than the amortized cost of the Credit Union's investment.

Because the Credit Union does not have the intent to sell these investments and it is not likely the Credit Union will be required to sell these investments before anticipated recovery of fair value, which may be at maturity, the Credit Union did not consider any more of its investments to be other-than temporarily impaired as of June 30, 2013.

Other investments consist of the following as of June 30:

	2013	2012
Certificates of deposit in corporate credit unions	$ -	$ 6,000,000
FHLB of Atlanta stock	6,269,300	5,987,000
Fannie Mae stock	48	48
	$6,269,348	$11,987,048

Certificates of deposit are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity.

The Credit Union views its investment in FHLB of Atlanta stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recoverability of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by factors such as 1) the significance of the decline in net assets of the institution as compared to the investment amount and length of time a decline has persisted, 2) impact of legislative and regulatory changes on the institution, and 3) the liquidity position of the institution.

The Credit Union does not believe that its investment in the FHLB of Atlanta stock is impaired as of this date. However, this estimate could change in the near term by the following: 1) significant other than temporary losses are incurred on the FHLB of Atlanta's mortgage-backed securities causing a significant decline in their regulatory capital status, 2) the economic losses resulting from credit deterioration on the FHLB of Atlanta's mortgage-backed securities increases significantly, and 3) capital preservation strategies being utilized by the FHLB of Atlanta become ineffective.

Note 3. Loans, Net

Loans consist of the following at June 30:

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
June 30, 2013:			
Member business loans	$4,028,610	$94,775,446	$98,804,056
Residential real estate and home equity	4,005,386	436,178,440	440,183,826
Consumer loans	6,394,664	747,529,926	753,924,590
Total loans	$14,428,660	$1,278,483,812	$1,292,912,472
Less allowance for loan losses			(19,417,148)
			$1,273,495,324
June 30, 2012:			
Member business loans	$4,584,188	$93,458,686	$98,042,874
Residential real estate and home equity	1,633,807	410,202,852	411,836,659
Consumer loans	4,345,530	724,997,552	729,343,082
Total loans	$10,563,525	$1,228,659,090	$1,239,222,615
Less allowance for loan losses			(17,880,099)
			$1,221,342,516

A summary of the activity in the allowance for loan losses is as follows for the years ended June 30:

	Member Business	Residential Real Estate and Home Equity	Consumer	Total
June 30, 2013:				
Balance at beginning of year	$2,806,564	$2,156,817	$12,916,718	$17,880,099
Provision for loan losses	(629,297)	3,565,075	10,572,282	13,508,060
Loans charged off	(22,389)	(2,291,232)	(13,375,673)	(15,689,294)
Recoveries of loans	55,438	368,303	3,294,542	3,718,283
Balance at end of year	**$2,210,316**	**$3,798,963**	**$13,407,869**	**$19,417,148**
June 30, 2012:				
Balance at beginning of year	$3,082,599	$2,101,037	$13,987,231	$19,170,867
Provision for loan losses	(863,373)	1,475,576	9,068,216	9,680,419
Loans charged off	(99,202)	(1,587,169)	(12,942,516)	(14,628,887)
Recoveries of loans	686,540	167,373	2,803,787	3,657,700
Balance at end of year	**$2,806,564**	**$2,156,817**	**$12,916,718**	**$17,880,099**

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid/balloon, which consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to a variable rate using the fully indexed rate, which can result in significant payment adjustment to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks. A loan is considered impaired, in accordance with the Codification, when based on current information and events, it is probable the Credit Union will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include loans modified into troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan and payment extensions.

The allowance for loan losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio at June 30, 2013. However, no assurance can be given the Credit Union will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

Management considers a loan to be impaired when, based on current information and events, it is determined the Credit Union will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan to be impaired, the impairment is measured based on the present value of expected future cash flows, and discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs, is utilized instead of discounted cash flows. If management determines the value of the impaired loan is less than the recorded investment in the loan, net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount, impairment is recognized through an allowance or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is in nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method.

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period the impaired loans were impaired. The average balances are calculated based on the month end balances of the financing receivables of the period reported.

Information about impaired loans is as follows as of and for the years ended June 30:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2013					
With an allowance recorded					
Member business loans					
Real estate secured	$999,933	$999,933	$53,850	$1,424,854	$ -
SBA Guaranteed	2,380,778	2,380,778	448,238	2,526,993	-
Other secured	14,719	14,719	14,719	21,379	-
Total member business loans	$3,395,430	$3,395,430	$516,807	$3,973,226	$ -
Residential real estate and home equity					
First mortgage	$2,445,615	$2,445,615	$476,587	$2,483,528	$ -
Home equity lines of credit	996,963	996,963	905,343	1,036,687	-
Total real estate and home equity	$3,442,578	$3,442,578	$1,381,930	$3,520,215	$ -
Consumer loans - collateralized					
Automobile	$3,327,354	$3,327,354	$1,249,657	$3,518,607	$ -
Indirect automobile	1,032,995	1,028,336	378,558	1,100,834	-
Other secured	141,947	141,947	63,923	144,238	-
Total consumer loans - collateralized	$4,502,296	$4,497,637	$1,692,138	$4,763,679	$ -
Consumer loans - unsecured					
Unsecured	$876,298	$876,298	$380,637	$909,341	$ -
Credit cards	42,664	42,664	42,664	103,634	-
Total consumer loans - unsecured	$918,962	$918,962	$423,301	$1,012,975	$ -
Total impaired loans with an allowance recorded	$12,259,266	$12,254,607	$4,014,176	$13,270,095	$ -

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without an allowance recorded					
Member business loans					
Real estate secured	$215,409	$215,409	$ -	$219,148	$ -
SBA Guaranteed	417,771	417,771	-	448,942	-
Total member business loans	$633,180	$633,180	$ -	$668,090	$ -
Residential real estate and home equity					
First mortgage	$408,622	$408,622	$ -	$420,806	$ -
Second mortgage	24,321	24,321	-	24,771	-
Home equity lines of credit	129,865	129,865	-	131,103	-
Total real estate and home equity	$562,808	$562,808	$ -	$576,680	$ -
Consumer loans - collateralized					
Automobile	$445,725	$445,725	$ -	$562,208	$ -
Indirect automobile	396,039	395,290	-	510,359	-
Other secured	131,642	131,049	-	139,682	-
Total consumer loans - collateralized	$973,406	$972,064	$ -	$1,212,249	$ -
Total impaired loans without an allowance recorded	$2,169,394	$2,168,052	$ -	$2,457,019	$ -
Total	$14,428,660	$14,422,659	$ 4,014,176	$15,727,114	$ -

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2012					
With an allowance recorded					
Member business loans					
Real estate secured	$1,733,901	$1,733,901	$ 56,334	$1,008,829	$ -
SBA Guaranteed	1,775,097	1,775,097	176,989	2,366,327	$ -
Other secured	45,288	45,288	45,288	58,031	$ -
Total member business loans	$3,554,286	$3,554,286	$278,611	$3,433,187	$ -
Residential real estate and home equity					
First mortgage	$ 885,406	$ 885,406	$ 80,247	$ 995,343	$ -
Home equity lines of credit	268,221	268,221	172,528	268,221	-
Total real estate and home equity	$1,153,627	$1,153,627	$252,775	$1,263,564	$ -
Consumer loans - collateralized					
Automobile	$2,007,222	$2,007,222	$ 927,852	$788,962	$ -
Indirect automobile	1,088,045	1,084,204	434,134	481,610	-
Other secured	66,718	66,718	36,503	110,016	-
Total consumer loans - collateralized	$3,161,985	$3,158,144	$1,398,489	$1,380,588	$ -
Consumer loans - unsecured					
Unsecured	$272,221	$272,221	$272,221	$182,509	$ -
Credit cards	133,656	133,656	133,656	123,924	-
Total consumer loans - unsecured	$405,877	$405,877	$405,877	$306,433	$ -
Total impaired loans with an allowance recorded	$8,275,775	$8,271,934	$2,335,752	$6,383,772	$ -

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Without an allowance recorded					
Member business loans					
Real estate secured	$ 111,911	$ 111,911	$ -	$ 111,911	$ -
SBA Guaranteed	917,991	917,991	-	942,075	-
Total member business loans	$1,029,902	$1,029,902	$ -	$1,053,986	$ -
Residential real estate and home equity					
First mortgage	$251,835	$251,835	$ -	$252,999	$ -
Second mortgage	25,094	25,094	-	25,363	-
Home equity lines of credit	203,251	203,251	-	204,559	-
Total real estate and home equity	**$480,180**	**$480,180**	**$ -**	**$482,921**	**$ -**
Consumer loans - collateralized					
Automobile	$361,748	$361,748	$ -	$379,152	$ -
Indirect automobile	374,054	373,604	-	397,202	-
Other secured	41,866	41,559	-	42,431	-
Total consumer loans - collateralized	**$777,668**	**$776,911**	**$ -**	**$818,785**	**$ -**
Total impaired loans without an allowance recorded	**$2,287,750**	**$2,286,993**	**$ -**	**$2,355,692**	**$ -**
Total	**$10,563,525**	**$10,558,927**	**$2,335,752**	**$8,739,464**	**$ -**

Credit Quality Indicators

The Credit Union utilizes internal risk ratings for its credit quality indicators. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio, (2) promptly identify deterioration of loan quality and the need for remedial action, and (3) emphasize areas requiring upgrading of policies, procedures, or documentation.

The internal risk ratings are as follows:

For member business loans, management's judgment about the quality of each individual loan is made at the time the loan is granted and the collectability of each loan is reviewed periodically and changed when warranted, based on the status of the loan or business. Loans are classified on a five-point system ranging from excellent to probable loss. Loans classified as Excellent exhibit exemplary credit quality. Satisfactory loans are worthy of credit extensions, but may not exhibit the characteristics of desired underwriting standards. Loans on the Watch List represent unfavorable payment trends or unacceptable business credit. Loans classified as Doubtful have deteriorated and there is no defined source of repayment, identified deficiencies cannot be corrected, and loan loss is expected. Probable Loss loans have no repayment ability and loan loss is certain.

Real estate loans, home equity, and consumer loans are generally risk based priced at the time the loan is made based on the borrower's or co-borrower's beacon score. Loans are classified as A, B, C, D, or E. Loans classified as A are the highest quality and the borrow current beacon score is in the highest desirable range. E loans are generally loans with a beacon score below 620. Loans that are classified as not rated were either made prior to risk based pricing implementation or the borrower has no established credit score available. Real estate loans in the Not Rated category are loans granted prior to April 2011 and were generally approved based on strict underwriting guidelines.

The following table presents the credit exposure of the loan classes as of June 30:

2013

Member Business Loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
Excellent	$25,336,966	$ -	$1,366,330	$432,581	$27,135,877
Satisfactory	56,101,940	736,129	4,244,860	210,849	61,293,778
Watch	3,539,356	44,290	574,321	-	4,157,967
Doubtful	3,554,243	64,530	431,826	-	4,050,599
Probable Loss	114,187	-	2,036,929	14,719	2,165,835
Total	$88,646,692	$844,949	$8,654,266	$658,149	$98,804,056

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$147,800,004	$1,161,019	$80,797,879	$229,758,902
A	88,223,539	424,745	40,376,843	129,025,127
B	24,609,537	65,395	16,417,129	41,092,061
C	17,261,343	131,744	8,439,554	25,832,641
D	5,341,696	-	3,222,637	8,564,333
E	3,494,543	-	2,416,219	5,910,762
Total	$286,730,662	$1,782,903	$151,670,261	$ 440,183,826

2013

Consumer Loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 123,358	$ 75,887	$ 4,141,706	$ 4,340,951
A	115,593,308	54,751,388	45,451,796	215,796,492
B	58,211,730	25,488,130	22,118,845	105,818,705
C	36,416,694	15,192,222	7,920,821	59,529,737
D	22,217,065	5,629,393	2,856,940	30,703,398
E	26,563,907	2,960,987	1,968,724	31,493,618
Total	$259,126,062	$104,098,007	$84,458,832	$447,682,901

Consumer Loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 7,945,289	$ 2,599,285	$ 10,544,574
A	51,300,469	100,854,027	152,154,496
B	32,673,303	40,724,368	73,397,671
C	17,653,413	15,525,403	33,178,816
D	7,270,201	8,733,776	16,003,977
E	6,484,404	14,477,751	20,962,155
Total	$123,327,079	$182,914,610	$306,241,689

2012

Member Business Loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
Excellent	$26,276,121	$ -	$2,085,394	$ 96,870	$28,458,385
Satisfactory	57,245,057	786,128	4,978,199	808,234	63,817,618
Watch	1,048,727	61,453	976,977	-	2,087,157
Doubtful	521,593	34,800	101,710	10,910	669,013
Probable Loss	755,609	-	2,217,547	37,545	3,010,701
Total	$85,847,107	$882,381	$10,359,827	$953,559	$98,042,874

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$193,122,039	$1,608,069	$95,744,144	$290,474,252
A	42,750,280	347,569	30,909,708	74,007,557
B	10,495,561	52,879	13,186,983	23,735,423
C	7,016,036	113,576	7,643,959	14,773,571
D	3,258,590	-	2,280,885	5,539,475
E	1,584,714	-	1,721,667	3,306,381
Total	$258,227,220	$2,122,093	$151,487,346	$ 411,836,659

2012

Consumer Loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 327,724	$ 163,585	$ 4,894,102	$ 5,385,411
A	102,034,253	65,198,783	35,667,869	202,900,905
B	50,739,567	33,084,141	16,842,565	100,666,273
C	41,071,528	22,218,802	7,525,851	70,816,181
D	19,561,670	6,071,254	1,872,814	27,505,738
E	22,205,232	3,110,839	1,268,915	26,584,986
Total	$235,939,974	$129,847,404	$68,072,116	$433,859,494

Consumer Loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 10,641,215	$ 2,491,297	$ 13,132,512
A	41,801,641	101,427,619	143,229,260
B	27,752,877	41,331,207	69,084,084
C	18,687,770	15,050,231	33,738,001
D	6,403,730	9,416,230	15,819,960
E	5,865,780	14,613,991	20,479,771
Total	$111,153,013	$184,330,575	$295,483,588

The following table is an aging analysis of loans receivable as of June 30:

2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Member business loans							
Real estate secured	$27,998	$ -	$41,132	$69,130	$88,577,562	$88,646,692	$ -
Unsecured	230	8,071	100,748	109,049	735,900	844,949	-
SBA guaranteed	33,690	-	2,419,975	2,453,665	6,200,601	8,654,266	-
Other secured	-	-	14,719	14,719	643,430	658,149	-
Residential real estate and home equity							
First mortgage	-	714,288	1,113,222	1,827,510	284,903,152	286,730,662	-
Second mortgage	-	20,335	-	20,335	1,762,568	1,782,903	-
Home equity lines of credit	714,936	220,295	425,087	1,360,318	150,309,943	151,670,261	-
Consumer loans - collateralized							
Automobile	6,344,101	1,355,257	2,682,450	10,381,808	248,744,254	259,126,062	-
Indirect automobile	2,155,290	397,138	1,051,055	3,603,483	100,494,524	104,098,007	-
Other secured	827,956	182,132	135,469	1,145,557	83,313,275	84,458,832	-
Consumer loans - unsecured							
Unsecured	2,028,890	494,813	621,734	3,145,437	120,181,642	123,327,079	-
Credit cards	2,429,979	683,265	1,106,124	4,219,368	178,695,242	182,914,610	-
Total	$14,563,070	$4,075,594	$9,711,715	$28,350,379	$1,264,562,093	$1,292,912,472	$ -

2012

	30-60 Days Past Due	61-89 Days Past Due	90 Days & Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Member business loans							
Real estate secured	$111,911	$ -	$755,609	$867,520	$84,979,587	$85,847,107	$ -
Unsecured	61,453	30,390	4,410	96,253	786,128	882,381	-
SBA guaranteed	50,019	-	2,217,547	2,267,566	8,092,261	10,359,827	-
Other secured	-	-	45,288	45,288	908,271	953,559	-
Residential real estate and home equity							
First mortgage	2,426,144	-	3,297,416	5,723,560	252,503,660	258,227,220	-
Second mortgage	40,924	-	-	40,924	2,081,169	2,122,093	-
Home equity lines of credit	552,064	311,540	1,146,218	2,009,822	149,477,524	151,487,346	-
Consumer loans - collateralized							
Automobile	4,386,038	1,064,844	2,567,910	8,018,792	227,921,182	235,939,974	-
Indirect automobile	2,146,180	535,784	1,510,527	4,192,491	125,654,913	129,847,404	-
Other secured	540,627	194,828	196,324	931,779	67,140,337	68,072,116	-
Consumer loans - unsecured							
Unsecured	2,188,834	592,775	1,120,844	3,902,453	107,250,560	111,153,013	-
Credit cards	2,513,509	794,218	979,079	4,286,806	180,043,769	184,330,575	-
Total	$15,017,703	$3,524,379	$13,841,172	$32,383,254	$1,206,839,361	$1,239,222,615	$ -

The following table presents nonaccrual loans by asset class as of June 30:

	2013	2012
Member business loans		
Real estate secured	$ 41,132	$ 755,609
Unsecured	100,748	4,410
SBA guaranteed	2,419,975	2,217,547
Other secured	14,719	45,288
Total member business loans	$2,576,574	$3,022,854
Residential real estate and home equity		
First mortgage	$1,113,222	$ 3,297,416
Home equity lines of credit	425,087	1,146,218
Total real estate loans	$1,538,309	$4,443,634
Consumer loans - collateralized		
Automobile	$2,682,450	$2,567,910
Indirect Automobile	1,051,055	1,510,527
Other secured	135,469	196,324
Total collateralized consumer loans	$3,868,974	$ 4,274,761
Consumer loans - unsecured		
Unsecured	$ 621,734	$ 1,120,844
Credit cards	1,106,124	979,079
Total unsecured consumer loans	$1,727,858	$ 2,099,923
Total loans	$9,711,715	$13,841,172
Forgone interest on nonaccural loans	$ 410,347	$ 427,779

Troubled debt restructurings

At June 30, 2013 and 2012, impaired loans of $4,891,000 and $2,396,520, respectively, were classified as restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification

A modification in which the interest rate is modified.

Term modification

A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment modification

A modification in which the payment amount is changed.

Combination modification

Any other type of modification, including the use of multiple types of modifications.

The following table presents loans identified as restructured during the year ended June 30:

2013

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Member business loans			
Real estate secured	1	$ 73,055	$ 73,055
SBA guaranteed	8	221,467	221,467
Total member business loans	9	294,522	294,522
Consumer loans - collateralized			
Automobile	55	625,712	612,366
Indirect automobile	30	309,635	307,057
Total collateralized consumer loans	85	935,347	919,423
Total loans	94	$1,229,869	$1,213,945

2012

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Member business loans			
Real estate secured	4	$ 1,137,484	$ 1,137,484
SBA guaranteed	8	1,160,306	1,160,306
Total member business loans	12	2,297,790	2,297,790
Residential real estate and home equity			
First mortgage	1	96,131	98,730
Total real estate loans	1	96,131	98,730
Total loans	13	$ 2,393,921	$2,396,520

The Credit Union defines default as loans that went 90 days or more past due after the modification, loans that were charged off during the year, or loans that encounter a subsequent modification. The following table presents subsequent defaults on troubled debt restructurings during the year ended June 30, 2013:

	Number of Contracts	Total Loans
Member business loans		
Real estate secured	1	$ 73,055
SBA guaranteed	1	3,385
Total member business loans	2	76,440
Consumer loans - collateralized		
Automobile	44	476,894
Indirect automobile	24	219,067
Total collateralized consumer loans	68	695,961
Total loans	70	$772,401

There were no subsequent defaults on troubled debt restructuring during the year ended June 30, 2012.

Note 4. Other Real Estate Owned

The following table summarizes the change in the balance of other real estate owned for the years ended June 30:

	2013	2012
Balance, beginning of the year	$2,666,826	$6,067,249
Additions	2,217,486	1,411,423
Proceeds from sales	(1,553,412)	(4,690,297)
Gain on sales	(162,613)	261,438
Writedowns	(292,905)	(382,987)
Balance, end of the year	**$2,875,382**	**$2,666,826**

Note 5. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at June 30 are summarized as follows:

	2013	2012
Mortgage loan portfolio serviced for Fannie Mae	$660,095,928	$581,331,372
Mortgage loan portfolio serviced for Freddie Mac	2,856,740	4,409,256
Mortgage loan portfolio serviced for city of Huntsville	539,045	588,298
	$663,491,713	**$586,328,926**

Mortgage servicing rights in the amount of $3,292,107 and $3,132,978 at June 30, 2013 and 2012, respectively, are classified as other assets.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits, were $4,900,995 and $3,896,335 at June 30, 2013 and 2012, respectively.

The activity in capitalized mortgage servicing rights for the years ended June 30 are summarized as follows:

	2013	2012
Mortgage servicing rights		
Balance, beginning of year	$3,304,690	$2,701,122
Additions	1,635,670	1,797,507
Amortizations	(1,638,448)	(1,193,939)
Balance, end of the year	$3,301,912	$3,304,690
Reserve for impairment of mortgage servicing rights		
Balance, beginning of year	171,712	-
Additions (reductions)	(161,907)	171,712
Balance, end of the year	9,805	171,712
Net book value	$3,292,107	$3,132,978

The key market assumptions used in determining the fair value of mortgage servicing rights for first mortgages at June 30 were as follows:

	2013	2012
Prepayment speed per year	8 CPR	16 CPR
Weighted-average discount rate	10.41%	8.52%

Note 6. Property and Equipment

Property and equipment are summarized as follows June 30:

	2013	2012
Land	$ 16,336,930	$ 16,333,930
Land improvements	7,527,954	7,499,361
Building and building improvement	84,584,135	83,422,626
Leasehold improvements	4,250,654	2,201,917
Furniture improvements	40,333,400	43,257,256
	153,033,073	152,715,090
Accumulated depreciation and amortization	(63,365,170)	(61,584,232)
	$ 89,667,903	$ 91,130,858

The Credit Union leases ten offices and space for automated teller machines. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at June 30, 2013 are as follows:

Years ending June 30:	
2014	$163,290
2015	98,930
2016	90,625
2017	60,200
2018	25,900
Subsequent years	355,650
	$794,595

Rental expense for the years ended June 30, 2013 and 2012, for all facilities leased under operating leases, totaled $128,042 and $82,333, respectively.

Note 7. Members' Shares

Members' shares are summarized as follows June 30:

	2013	2012
Regular shares	$1,095,788,800	$997,799,734
Share draft accounts	477,995,225	447,774,307
Money market accounts	913,408,764	884,237,594
Individual retirement accounts	44,395,709	42,686,493
Other savings	13,576,321	11,790,905
Certificates	532,067,177	563,201,549
Balance, end of the year	$3,077,231,996	$2,947,490,582

Certificates by contractual maturity as of June 30, 2013, are summarized as follows:

0-1 year maturity	245,749,807
1-2 years maturity	89,739,264
2-3 years maturity	73,213,869
3-4 years maturity	74,356,927
4-5 years maturity	49,007,310
	$ 532,067,177

Regular shares, share draft accounts, money market accounts and individual retirement account shares and other savings have no contractual maturity. Certificates have maturities of five years or less. The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. Effective October 3, 2008, and continuing through December 31, 2013, new legislation provides for an increase in the minimum NCUSIF coverage from

$100,000 to $250,000 on member share accounts. This includes all account types, such as regular share, share draft, money market and certificates of deposit. Individual retirement account and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned. As of July 21, 2010, Congress permanently applied the minimum NCUSIF coverage to $250,000 on member share accounts.

The aggregate amount of certificates in denominations of $250,000 or more at June 30, 2013 and 2012, is $39,161,196 and $37,315,396 respectively. The aggregate amount of certificates in denominations of $100,000 or more at June 30, 2013 and 2012, is $187,629,982 and $193,614,912, respectively.

At June 30, 2013 and 2012, overdraft demand shares reclassified to loans totaled $2,400,654 and $1,460,043, respectively.

Note 8. Borrowed Funds

The Credit Union utilizes a demand loan agreement with the FHLB of Atlanta. The advances are collateralized by FHLB of Atlanta stock and pledged mortgage loan collateral, which includes residential first mortgages, home equity lines of credit, second mortgages and commercial mortgage loan collateral, under an Advances and Security Agreement between the FHLB and the Credit Union. The amount of loans pledged as collateral at June 30, 2013, is $244,651,606. Based on the qualifying collateral, the agreement provides for a maximum borrowing amount of approximately $353,590,000. As of June 30, 2013, the borrowings outstanding represented $47,889,083, with accrued interest payable of $85,336. The fixed-rate advances have interest rates ranging from 1.046% to 3.910%.

As of June 30, 2013, the outstanding balances by maturity dates are as follows:

0-1 years maturity	$11,826,308
1-2 years maturity	839,943
2-3 years maturity	853,803
3-4 years maturity	13,149,586
4-5 years maturity	16,997,291
>5 years maturity	4,222,152
	$47,889,083

The Credit Union has available a line of credit with the Federal Reserve Bank of Atlanta which is secured by pledged investments from the Credit Union's investment portfolio. The terms of the agreement provide for primary credit up to $20,000,000, with interest payable at 50 basis points above the Federal Open Market Committee's federal funds rate. There were no borrowings under this agreement as of June 30, 2013 or 2012.

Note 9. Off-Balance Sheet Activities

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Outstanding loan commitments at June 30, 2013 and 2012, total approximately $17,463,110 and $18,783,666, respectively. Letters of credit outstanding as of June 30, 2013 and 2012, total $57,638 and $107,638, respectively.

ACH origination limits for business customers outstanding as of June 30, 2013 and 2012, total approximately $630,000 and $365,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows at June 30:

	2013	2012
Credit card	$367,039,254	$375,732,237
Home equity line of credit	135,576,664	128,928,511
Overdraft line of credit	40,656,296	40,405,951
Member business	9,223,692	2,395,212
Other consumer	3,786,113	3,138,689
	$556,282,019	$550,600,600

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under member business lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

The Credit Union is regularly a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

Note 10. Contingencies

In the ordinary course of business, the Credit Union sells loans without recourse that may have to be subsequently repurchased due to defects that occurred during the origination of the loan. The defects are categorized as documentation errors, underwriting errors, early payment defaults, and fraud. When a loan sold to an investor without recourse fails to perform, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Credit Union may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no defects, the Credit Union has no commitment to repurchase the loan. As of June 30, 2013 and 2012, these guarantees totaled $662,952,668 and $585,740,628, respectively. These substantially represent the unpaid principal balance of the Credit Union's loans serviced for others' portfolios. The Credit Union has recorded no reserve to cover loss exposure related to these guarantees.

Note 11. Employee Benefits

Defined Benefit Pension Plan

The Credit Union sponsors a defined benefit pension plan (Plan) for the benefit of its employees. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The Plan's status on June 30 is:

	2013	2012
Projected benefit obligation	$(41,881,820)	$(43,223,785)
Fair value of plan assets	26,073,793	21,414,170
Funded status	$(15,808,027)	$(21,809,615)
Accumulated benefit obligation	$30,049,484	$29,604,466
Net pension cost	$3,837,553	$2,052,253
Employer contribution	1,800,000	1,800,000
Benefit payments	470,417	413,149

The components of pension expense are as follows June 30:

	2013	2012
Service cost	$ 2,266,339	$ 1,471,323
Interest cost	1,804,002	1,664,482
Expected return on Plan assets	(1,763,425)	(1,681,474)
Amortization of transition obligation	230,175	230,175
Amortization of loss	1,300,462	367,747
Net periodic pension cost (NPPC)	$3,837,553	$2,052,253

The change in fair value of plan assets is as follows June 30:

	2013	2012
Fair value of Plan assets at beginning of year	$21,414,170	$20,318,183
Actual return on Plan assets	3,330,040	(290,864)
Employer contributions	1,800,000	1,800,000
Benefits paid	(470,417)	(413,149)
Fair value of Plan assets at end of year	$26,073,793	$21,414,170

The change in projected benefit obligation is as follows June 30:

	2013	2012
Projected benefit obligation at beginning of year	$43,223,785	$28,799,108
Service cost	2,266,339	1,471,323
Interest cost	1,804,002	1,664,482
Benefits paid	(470,417)	(413,149)
Actuarial (loss) gain	(4,941,889)	11,702,021
Projected benefit obligation at end of year	$41,881,820	$43,223,785

Amounts recognized in the statements of financial condition consist of:

	2013	2012
Noncurrent liabilities	$15,808,027	$21,809,615
Total recognized	$15,808,027	$21,809,615

Amounts recognized in accumulated other comprehensive income consist of:

	2013	2012
Unrealized losses	$13,055,294	$20,864,260
Transition obligation	115,080	345,255
Funded status	13,170,374	$21,209,515

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost over the next fiscal year ending June 30, 2014:

Amortization of loss	$700,957
Transition assets/obligation	115,080

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

The Plan seeks to beat inflation, meet actuarial assumptions, meet or exceed benchmark returns, and fund Plan operating needs. The goal is to control risk through portfolio diversification and to reflect, among other possible factors, the previously stated objectives in conjunction with current and anticipated funding levels and economic and industry trends. Plan assets are primarily invested in funds with a high degree of liquidity and/or marketability. Quantitative and qualitative determinants will establish the appropriate asset allocation on a periodic, but not less than annual basis.

	2013	2012
Assumptions used to determine benefit obligation		
Discount rate	4.90%	4.20%
Rate of compensation increase	5.00%	5.00%
Assumptions used to determine net pension cost		
Discount rate	4.90%	4.20%
Expected long-term return on Plan assets	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%

The Credit Union expects to contribute approximately $1,800,000 to the Plan in fiscal year 2014.

The Credit Union's pension plan weighted average asset allocations by asset category are as follows:

	2013	2012
Equity securities	84.6%	82.6%
Fixed income	13.9%	15.6%
Money market funds and cash	1.5%	1.8%

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

Years ending June 30:	
2014	$542,712
2015	764,208
2016	847,165
2017	957,333
2018	1,095,250
2019-2023	8,156,015
	$12,362,683

The following table discloses the fair value of Pension Plan assets by level:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:				
Money market fund	$ 442,745	$ 442,745	$ -	$ -
Mutual funds				
Domestic equity				
Value funds	6,702,309	6,702,309	-	-
Growth funds	4,118,100	4,118,100	-	-
Blended funds	6,669,907	6,669,907	-	-
International equity	3,794,149	3,794,149	-	-
Specialty funds	730,404	730,404	-	-
Fixed income	3,616,179	3,616,179	-	-
	$26,073,793	$26,073,793	$ -	$ -
June 30, 2012:				
Money market fund	$ 377,599	$ 377,599	$ -	$ -
Mutual funds				
Domestic equity				
Value funds	5,428,755	5,428,755	-	-
Growth funds	3,081,151	3,081,151	-	-
Blended funds	5,427,523	5,427,523	-	-
International equity	3,090,028	3,090,028	-	-
Specialty funds	666,462	666,462	-	-
Fixed income	3,342,652	3,342,652	-	-
	$21,414,170	$21,414,170	$ -	$ -

Postretirement Benefit Plan

The Credit Union provides certain health care benefits for all retired employees who meet eligibility requirements. The Credit Union's share of the benefits that will be paid after requirement is being accrued by charges to expense over each employee's service period to the dates they are fully eligible for benefits.

The funded status of the Plan is as follows:

	2013	2012
Benefit obligation at June 30	$9,874,542	$10,134,782
Fair value of Plan assets	-	-
Funded status	$9,874,542	$10,134,782
Benefits cost	$ 963,496	$ 762,548
Employer contribution	139,329	94,538
Benefits payments	139,329	94,538

The Credit Union expects to contribute $227,757 to the Plan in fiscal year 2014.

Amounts recognized in the statement of financial condition consist of:

	2013	2012
Noncurrent liabilities	$9,874,542	$10,134,782
Total recognized	$9,874,542	$10,134,782

Amounts recognized in accumulated other comprehensive loss consist of the following:

	2013	2012
Actuarial losses	$(887,958)	$(1,972,365)

The following are assumptions used to determine net periodic benefit cost for the Plan at June 30:

	2013	2012
Weighted-average assumptions as of June 30		
Discount rate	4.90%	4.20%
Healthcare cost trend		
Current	7.00%	7.00%
Ultimate	5.00%	5.00%

The following benefits are expected to be paid as follows:

Years ending June 30:	
2014	$227,757
2015	272,200
2016	254,810
2017	295,032
2018	316,563
2019-2023	2,936,924
	$4,303,286

The Credit Union has a 401(k) defined contribution plan (Plan) that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage reductions. The Credit Union contributed $1,463,421 and $1,365,931 to the Plan for the years ending June 30, 2013 and 2012, respectively.

The Credit Union has a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457(b). The Plan permits the eligible employees to defer a portion of their salary until future years. The recorded obligation of approximately $446,350 and $342,069 as of June 30, 2013 and 2012, respectively, was included in other liabilities.

The Credit Union also has a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457(f). The Plan allows the Credit Union to contribute a specific amount of pre-tax income in a variable annuity for eligible employees with benefits to be paid on a specific date or when they retire. The recorded asset of $6,852,367 and

$5,999,760 as of June 30, 2013 and 2012, respectively, was included in other assets. The recorded obligation of $1,493,619 and $1,154,778 as of June 30, 2013 and 2012, respectively, was recorded in other liabilities.

Note 12. Members' Equity

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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over $10,000,000 in assets 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 requirements as of June 30, 2013 and 2012, were 7.21% and 6.93%, respectively. The minimum requirement to be considered – complex under the regulatory framework is 6.00%. Management believes, as of June 30, 2013 and 2012, that the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	----------- 2013 -----------		----------- 2012 -----------	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as well capitalized for RBNW	$255,275,949	7.21%	$234,032,236	6.93%
Amount needed to be classified as well capitalized	247,840,727	7.00%	236,396,198	7.00%
Actual net worth	378,101,246	10.68%	347,448,371	10.29%

As of June 30, 2013 and 2012, 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% of assets. There are no conditions or events since that notification that management believes have changed the institution's category. In performing its calculation of total assets, the Credit Union used the quarter end balance option, as permitted by regulation.

Note 13. Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, Supervisory Committee members, and executive officers. The aggregate loans to related parties at June 30, 2013 and 2012, are approximately $503,364 and $503,684, respectively. Deposits from related parties at June 30, 2013 and 2012, amounted to approximately $2,656,468 and $1,320,831, respectively.

Note 14. Fair Value Measurements

The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets.

Fair value measurements are disclosed by level within the fair value hierarchy. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange (Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.)

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets (Valuations are obtained from observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.)

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions (Level 3 valuations incorporate certain assumptions and projections for which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.)

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values follows:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate their fair value.

Investments

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities would include U.S. agency debentures and agency issued mortgage backed securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

U.S. agency and agency issued mortgage-backed securities are generally based upon a matrix pricing model from an investment reporting and valuation service. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The Level 3 measurements are based primarily on unobservable inputs. In developing Level 3 measurements, management incorporates whatever market data might be available and uses discounted cash flow models where appropriate. These calculations include projections of future cash flows, including appropriate default and loss assumptions, and market-based discount rates. The Credit Union maintains a Board approved investment policy that includes valuation considerations of the investment portfolio. At least annually, management updates the policy for any necessary changes due to operational or regulatory changes and presents the policy to the Board of Directors for approval. Management reviews the model and assumptions used in determining the fair value of Level 3 investments.

The auction rate securities, floating-rate long-term bonds, are valued using discounted cash flow models where appropriate. The unobservable inputs considered in the projections of future cash flow include, but are not limited to: time remaining until maturity and the provisions for repayment of principal, interest rate and the timing of interest payments, credit-worthiness of the issuer and guarantor(s), trading characteristics of the securities, and evidence from secondary market transactions for identical or similar securities.

Other Investments

The carrying value approximates fair value based on the redemption provisions of the underlying investments.

Loans Held for Sale

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

Loans, Net

For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans and other consumer loans are estimated using a discounted cash flow calculation that applies interest rates currently being offered similar loans to a schedule of aggregated expected monthly maturities of these loans. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds and default rates.

Accrued Interest

Accrued interest receivable represents interest on loans and investments. The carrying amount of accrued interest receivable approximates fair value.

Members' Shares

The fair values disclosed for regular share, share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of regular share, share draft and money market accounts approximate their fair values at the reporting date. Fair values for share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on the Credit Union's current share certificates.

Borrowed Funds

The fair values of the Credit Union's borrowed funds are estimated using discounted cash flow analyses based on the Credit Union's incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value for such financial instruments is nominal.

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured and presented in the statement of financial condition at fair value on a recurring basis:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:				
Available for sale:				
Federal agency securities	$638,200,609	$ -	$638,200,609	$ -
Mortgage-backed securities	257,016,887	-	257,016,887	-
Municipal bonds (auction rate securities)	25,904,648	-	-	25,904,648
Mutual funds	140	140	-	-
	$921,122,284	$140	$895,217,496	$25,904,648
June 30, 2012:				
Available for sale:				
Federal agency securities	$658,530,034	$ -	$658,530,034	$ -
Mortgage-backed securities	234,924,823	-	234,924,823	-
Municipal bonds (auction rate securities)	26,131,422	-	-	26,131,422
Mutual funds	140	140	-	-
	$919,586,419	$140	$893,454,857	$26,131,422

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Auction Rate Securities
Balance, June 30, 2011	$27,579,011
Total net gains (losses) included in	
Net income	-
Other comprehensive income	402,688
Purchases, sales, issuances and settlements	
Sales	(1,850,277)
Balance, June 30, 2012	26,131,422
Total net gains (losses) included in:	
Net income	-
Other comprehensive income	297,949
Purchases, sales, issuances and settlements	
Settlements	(524,723)
Balance, June 30, 2013	$25,904,648

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the statement of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3	Year Ended Total Expense (Income) Recognized)
June 30, 2013					
Impaired loans	$8,245,090	$ -	$ -	$8,245,090	$5,418,692
Mortgage servicing rights	3,292,107	$ -	$ -	3,292,107	(161,907)
Other real estate owned	2,875,382	$ -	$ -	2,875,382	292,905
June 30, 2012					
Impaired loans	$5,940,023	$ -	$ -	$5,940,023	$2,335,753
Mortgage servicing rights	3,132,978	$ -	$ -	3,132,978	171,712
Other real estate owned	2,666,826	$ -	$ -	2,666,826	382,988

Impaired Loans

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2013, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate loans, the Credit Union obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information.

Quantitative Information about Level 3 Fair Value Measurements

The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the year ending June 30, 2013, along with the valuation techniques used, are shown in the following table:

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Range (Weighted-Average)[1]
Other real estate owned	$2,875,382	Lower of cost/market	Adjustment to valuation	0% (0%)
Impaired loans	8,245,090	Various	Adjustment to valuation	3.35% - 9.75%
Mortgage servicing rights	3,292,107	Discounted cash flow	Constant prepayment rate	6%-18% (8 CPR)
			Discount rate	9.4%-14.59% (10.41%)

[1] Discount to appraisal value. Amounts are estimated and carrying amount is generally lower than estimated fair value.

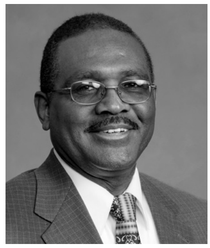
The estimated fair value of the Credit Union's financial instruments is summarized as follows at June 30:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$122,552,172	$122,552,172	$138,577,477	$138,577,477
Investments available for sale	921,122,284	921,122,284	919,586,419	919,586,419
Investments held to maturity	1,014,093,344	1,036,293,414	916,802,262	933,126,973
Other investments	6,269,348	6,269,348	11,987,048	11,987,048
Loans held for sale	22,211,887	22,211,887	15,790,485	15,790,485
Loans to members, net	1,273,495,324	1,266,467,279	1,221,342,516	1,228,065,844
Accrued interest receivable	12,312,516	12,312,516	12,911,257	12,911,257
Financial liabilities:				
Members' shares	3,077,231,996	3,074,606,232	2,947,490,582	2,956,404,099
Borrowed funds	47,974,419	48,262,595	25,568,135	25,666,866

Leadership

Board of Directors

Dr. Dorothy W. Huston
Chair



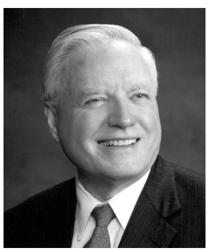
Mr. Charlie Miller
1st Vice Chair

Mr. Dave Hargrove
2nd Vice Chair

Mr. Richard L. Morris
Secretary

Mr. Steve Fisher
Treasurer

Dr. Delia W. Black
Director



Dr. Pat R. Odom
Director

Ms. Pamela H. Philyaw
Director

Ms. Nancy H. Walker
Director

Committee Volunteers

Mr. William Andrews
Ms. Charlene Brueggeman
Mr. Don Chandler
Mr. Terrence L. Clay, Jr.
Mr. Rick Corn
Mr. Paul Finley
Ms. Mary Beth Jackson
Ms. Kathleen Leonard
Mr. Craig Naudain
Mr. Javier Ramos
Ms. Dawn Stanley
Mr. Richard Thelen

Directors Emeriti

Mr. Charles L. Ray, Jr.
Mr. Benny Rogers

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Mr. Joseph H. Newberry
President and CEO

Ms. Yvette M. Banks
Executive Vice President
Chief Retail Officer

Ms. Kathryn Cook
Executive Vice President
Chief Financial Officer

Mr. Harry F. Gunsallus
Executive Vice President
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Strategic Planning

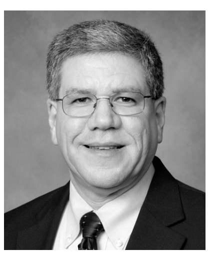
Ms. Terri Bentley
Vice President
Technology

Ms. Jan Bias
Vice President
Human Resources

Mr. John Cook
Vice President
Lending

Ms. Liz Ponder
Vice President
Retail Delivery

Ms. Roberta Rodgers
Vice President
Chief Compliance Officer



Mr. G. Wayne Sisco
Vice President /
Controller

Ms. Mary H. Turner
Vice President
Chief Audit Officer

Volunteer Committees

Supervisory Committee
Ms. Nancy H. Walker, Chair
Ms. Kathleen Leonard
Mr. Javier Ramos
Mr. Don Chandler
Mr. Richard Thelen

Asset Liability Committee
Mr. Steve Fisher, Chair
Ms. Pamela H. Philyaw
Dr. Pat R. Odom
Mr. Dave Hargrove
Ms. Mary Beth Jackson
Mr. Craig Naudain

Member Connections Committee
Mr. Richard L. Morris, Chair
Ms. Nancy H. Walker
Mr. William Andrews
Ms. Charlene Brueggeman
Mr. Rick Corn
Mr. Paul Finley
Ms. Dawn Stanley

Governance Committee
Mr. Dave Hargrove, Chair
Dr. Delia W. Black
Mr. Charlie Miller
Ms. Pamela H. Philyaw
Mr. Terrence L. Clay, Jr.

Condolences

This year Redstone Federal Credit Union mourns the loss of two of our longtime volunteers; Director Emeritus, Charles L. Ray, Jr. and Director, Pamela H. Philyaw.

Mr. Ray began as a volunteer in 1977. He served as the Chair of the Board of Directors from 1983 to 2011.

Ms. Philyaw was a volunteer with Redstone for 28 years – 18 of which were served as a member of the Board of Directors.

Mr. Ray and Ms. Philyaw were champions of the Credit Union movement. Their commitment to our cooperative is truly admired, and they are greatly missed.