

FINANCIAL STATEMENTS OF



YEARS ENDED DECEMBER 31, 2006 AND 2005

ALTERNATIVES FEDERAL CREDIT UNION

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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

April 11, 2007

Supervisory Committee
Alternatives Federal Credit Union
Ithaca, New York

We have audited the accompanying statements of financial condition of Alternatives Federal Credit Union as of December 31, 2006 and 2005, and the related statements of income, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alternatives Federal Credit Union as of December 31, 2006 and 2005, and the results of its operations, changes in members' equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sciarabba Walker & Co., LLP

Certified Public Accountants

ALTERNATIVES FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION

December 31,

ASSETS

	2006	2005
ASSETS:		
Cash and cash equivalents	\$ 12,585,751	\$ 12,599,765
Investments available for sale	1,188,002	1,185,438
Investments - other	964,484	841,037
Loans receivable, net of allowance for loan losses	31,981,348	32,417,610
Accrued interest receivable	272,937	187,204
Property and equipment, net	3,272,763	3,306,090
NCUSIF deposit	415,391	417,286
Other assets	686,096	328,605
TOTAL ASSETS	\$ 51,366,772	\$ 51,283,035

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:		
Members' shares and savings accounts	\$ 45,265,026	\$ 44,654,650
Accrued expenses and other liabilities	309,544	314,512
Borrowed funds	4,000,054	4,078,673
TOTAL LIABILITIES	49,574,624	49,047,835
MEMBERS' EQUITY:		
Appropriated regular reserve	495,095	495,095
Unappropriated earnings	1,309,051	1,754,667
Accumulated other comprehensive income	(11,998)	(14,562)
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 51,366,772	\$ 51,283,035

See accompanying notes.

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF OPERATIONS

Years Ended December 31,

	2006	2005
INTEREST INCOME:		
Loans receivable	\$ 2,379,592	\$ 2,239,697
Investment securities	513,929	380,885
TOTAL INTEREST INCOME	2,893,521	2,620,582
INTEREST EXPENSE:		
Members' shares and savings accounts	595,964	519,898
Borrowed funds	194,026	163,644
TOTAL INTEREST EXPENSE	789,990	683,542
NET INTEREST INCOME	2,103,531	1,937,040
PROVISION FOR LOANS LOSSES	(609,189)	(199,263)
NET INTEREST INCOME AFTER PROVISION FOR LOAN Losses	1,494,342	1,737,777
NON-INTEREST INCOME:		
Realized gain (loss) on sale of assets	1,799	(3,960)
Service fees and other income	792,012	738,460
Grant income	321,641	932,913
TOTAL NON-INTEREST INCOME	1,115,452	1,667,413
NON-INTEREST EXPENSE:		
General and administrative:		
Compensation and benefits	1,777,767	1,752,396
Occupancy	322,649	290,339
Other	954,994	854,782
TOTAL NON-INTEREST EXPENSE	3,055,410	2,897,517
NET (LOSS) PROFIT	\$ (445,616)	\$ 507,673

See accompanying notes.

ALTERNATIVES FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years Ended December 31,

	Appropriated Regular Reserve	Unappropriated Earnings	Accumulated Other Comprehensive Income	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BEGINNING BALANCE, JANUARY 1, 2004	\$ 495,095	\$ 1,246,994	\$ 816	\$ 1,742,905
Comprehensive Income:				
Net income	-	507,673	-	507,673
Other comprehensive income				
Net unrealized change on investments	<u>-</u>	<u>-</u>	<u>(15,378)</u>	<u>(15,378)</u>
ENDING BALANCE, DECEMBER 31, 2005	495,095	1,754,667	(14,562)	2,235,200
Comprehensive Income:				
Net loss	-	(445,616)	-	(445,616)
Other comprehensive income				
Net unrealized change on investments	<u>-</u>	<u>-</u>	<u>2,564</u>	<u>2,564</u>
ENDING BALANCE, DECEMBER 31, 2006	<u>\$ 495,095</u>	<u>\$ 1,309,051</u>	<u>\$ (11,998)</u>	<u>\$ 1,792,148</u>

See accompanying notes.

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (445,616)	507,673
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	144,730	147,725
Provision for loan losses	609,189	199,263
Amortization and accretion of investment premiums and discounts	-	(8,052)
Change in NCUSIF deposit	1,895	(44,254)
Change in due from related party	-	2,820
Change in accrued interest receivable	(85,733)	(7,987)
Change in other assets	(357,491)	(143,294)
Change in accrued expenses and other liabilities	(4,968)	82,051
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(137,994)	735,945
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net activity in loans	(172,923)	(2,588,319)
Purchases of investments – available for sale	-	(800,000)
Maturities/Sales of investments – available for sale	-	1,000,000
Purchase of investments – other	(123,448)	(93,168)
Maturities/Sales of investments – other	-	134,600
Purchases of property and equipment	(111,406)	(59,881)
NET CASH USED IN INVESTING ACTIVITIES	(407,777)	(2,406,768)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in members' shares and savings accounts	610,376	1,425,332
Principal payments on borrowed funds	(78,619)	(63,273)
Proceeds from borrowed funds	-	1,050,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	531,757	2,412,059
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,014)	741,236
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,599,765</u>	<u>11,858,529</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 12,585,751</u>	<u>\$ 12,599,765</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Dividends	\$ 595,964	519,898
Interest	194,026	163,644

See accompanying notes.

ALTERNATIVES FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

A. Summary of Significant Accounting Policies:

1. Organization - Alternatives Federal Credit Union provides a variety of financial services to its members. The Credit Union's field of membership includes various members of associational groups, geographic areas and select employee groups within the upstate New York area. The Credit Union's primary source of revenue is from loans to members and investment income.
2. Investment securities -The Credit Union's investments in securities are classified and accounted for as follows:

Available-for-Sale: Government and government agency bonds, notes, and certificates are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive income. Cost of securities sold is recognized using the specific identification method. The Credit Union does not maintain a trading portfolio.

3. Loans receivable and allowance for loan losses - Loans receivable are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans is recognized on the term of the loan and is calculated using the simple-interest method on principal amounts outstanding or 360 day for mortgages.

The credit union's allowance for loan losses is the sum of various components recognized pursuant to SFAS No. 5 (for pools of loans). The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the credit union's past loan loss experience, known and other risks inherent in the portfolio, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. A significant portion of the credit union's allowance is based on historical charge-off experience by consumer loan pools.

The credit union considers a loan impaired when, based on current information or factors, it is probable that the credit union will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history, value of collateral, and changes in the employment of the member. Past due status is determined based on contractual terms. Loans that are delinquent less than two months are generally not considered impaired, unless the member has claimed bankruptcy or the credit union has received specific information concerning the

loan impairment. Therefore, the credit union reviews delinquent loans to determine impaired accounts. The credit union measures impairment on a loan-by-loan basis by using the fair value of collateral. Substantially all of the credit union loans that are identified as impaired have been measured using the fair value of the collateral.

Loans are placed on nonaccrual when they are 90 days past due. Uncollectible interest previously accrued is charged off. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

4. NCUSIF deposit - The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.
5. NCUSIF Insurance Premium – The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board.
6. Property and equipment - Land is carried at cost. Building, improvements, furniture, fixtures, and equipment are carried at cost. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.
7. Members' share and savings accounts - Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the board of directors, based on an evaluation of current and future market conditions.
8. Income taxes - The Credit Union is exempt by statute from federal and state income taxes.
9. Pension plan - The Credit Union has a qualified, defined contribution 401(k) plan covering substantially all of its employees. The Credit Union's policy is to fund the minimum amount required under ERISA. (see Note K)
10. Estimates and assumptions – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
11. Indemnification insurance – The Credit Union, pursuant to National Credit Union Administration authorization, provides indemnification of, and indemnification insurance for, its volunteer officials and employees to protect them from liabilities which may be incurred in the course of faithful performance of their official duties.

B. Investments Available For Sale:

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

		2006			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
FHLB Securities		\$ 1,200,000	\$ -	\$ (11,998)	\$ 1,188,002

		2005			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
FHLB Securities		\$ 1,200,000	\$ -	\$(14,562)	\$ 1,185,438

The amortized cost and estimated market value of investment securities at December 31, 2006 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Amounts maturing in:	Amortized cost	Estimated fair value
Due in one year or less	\$ -	\$ -
Due after one year through five years	1,200,000	1,188,002
Due after five years through ten years	-	-
Due after ten years	-	-
	<u>\$ 1,200,000</u>	<u>\$ 1,188,002</u>

Information pertaining to securities with gross unrealized losses at December 31, 2006, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
FHLB	\$ -	\$ -	\$ (11,998)	\$ 1,188,002

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Credit Union has determined that there are not additional other-than-temporary impairment associated with these securities at December 31, 2006.

C. Investments - Other:

The Federal Home Loan Bank (FHLB) stock was purchased to allow the credit union access to the services of the Bank. The stock is considered restricted, as it may only be resold back to the FHLB at cost.

The Members United Corporate Federal Credit Union Membership Capital Shares were purchased to allow the credit union access to services of the corporate credit union at preferable prices. The Membership Capital Shares are considered restricted, as they may only be resold to Members United Corporate Federal Credit Union at cost.

The U.S. Bank Money Market Fund is required by Visa USA, Inc., who provides credit card service to the credit union's members. The account is held as collateral and the required balance is based on the outstanding credit card balance.

	<u>2006</u>	<u>2005</u>
FHLB Stock	\$ 33,700	\$ 33,700
Members United Corporate FCU Membership Shares	512,800	482,923
U.S. Bank Money Market	364,633	324,414
Goldman Sachs Funds	53,351	-
	<u>\$ 964,484</u>	<u>\$ 841,037</u>

D. Loans Receivable:

The composition of loans to members is as follows:

	<u>2006</u>	<u>2005</u>
Credit Cards	\$ 759,821	\$ 653,590
Unsecured personal	1,702,451	1,806,389
New auto	593,176	772,170
Used auto	2,586,974	3,210,804
Mortgage and home equity	19,918,931	18,413,706
Construction loans	111,250	94,714
Lines of credit	2,425,064	2,387,177
Business	3,697,534	4,861,416
Other loans	424,356	400,246
Net deferred loan origination fees	75,567	85,697
	<u>32,295,124</u>	<u>32,685,909</u>
Less: allowance for loan losses	<u>(313,776)</u>	<u>(268,299)</u>
	<u>\$ 31,981,348</u>	<u>\$ 32,417,610</u>

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

	<u>2006</u>	<u>2005</u>
BALANCE , beginning of year	\$ 268,229	\$ 236,561
Provision charged to operations	609,189	199,263
Loans charged off	(586,336)	(224,415)
Recoveries	22,694	56,890
BALANCE , end of year	<u>\$ 313,776</u>	<u>\$ 268,299</u>

Loans on which the accrual of interest has been discounted or reduced amounted to approximately \$604,000 and \$407,000 at December 31, 2006 and 2005, respectively. If interest on non-accrual loans had been accrued at their original rates, such income would have approximated \$13,000 for 2006 and \$11,000 for 2005. All loans past due 90 days or more are on non-accrual status.

The Credit Union has no commitments to loan additional funds to the borrowers whose loans have been modified.

Certain officers, directors, and employees of the Credit Union, including their immediate families, were loan customers during 2006 and 2005. Such loans are made in the ordinary course of business at normal credit terms, including interest rates and collateralization. Included in loans receivable at December 31, 2006 and 2005, are loans of \$451,472 and \$385,407, respectively to directors and officers of the Credit Union.

E. Property and Equipment:

Property and equipment is summarized as follows:

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 588,364	\$ 704,919
Building and improvements	2,736,040	2,619,485
Furniture and equipment	<u>1,113,618</u>	<u>1,030,269</u>
	4,438,022	4,354,673
Accumulated depreciation	<u>(1,165,259)</u>	<u>(1,048,583)</u>
	<u>\$ 3,272,763</u>	<u>\$ 3,306,090</u>

Depreciation amounted to \$144,730 and \$147,725 in 2006 and 2005, respectively.

F. Line of Credit:

The Credit Union has a credit agreement with Federal Home Loan Bank of New York (Bank) under which it may borrow funds for sound business purposes. The Credit Union may obtain a term advance for up to 20 times its stock position with the bank, not to exceed 25% of total assets. The loans would be collateralized by specific Credit Union assets. Interest would be based on the Bank's "posted rate".

The Credit Union also has an \$850,000 line of credit agreement with Members United Corporate Federal Credit Union (Members United). The terms of the agreement provide that the interest rate will be established by Members United at the date of advance. Under the agreement, borrowings are collateralized by a lien on specific assets of the Credit Union. There were no borrowings at December 31, 2006 and 2005.

G. Members' Shares and Savings Accounts:

A summary of share and savings accounts is as follows:

	<u>2006</u>	<u>2005</u>
Share draft	\$ 13,737,921	\$ 12,586,427
Share savings	16,655,489	17,197,571
Share certificates	5,787,895	6,069,132
IRA shares	1,109,191	1,143,530
IRA certificates	3,789,746	3,372,092
Other certificates	<u>4,184,784</u>	<u>4,285,898</u>
	<u>\$ 45,265,026</u>	<u>\$ 44,654,650</u>

The aggregate amount of members' shares and certificates over \$100,000 were approximately \$2,492,362 at December 31, 2006.

At December 31, 2006, scheduled maturities of share and IRA certificates are as follows:

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>\$ 5,673,356</u>	<u>\$ 2,399,965</u>	<u>\$ 1,736,751</u>	<u>\$ 2,835,348</u>	<u>\$ 1,117,005</u>

Interest expense on members' share and savings accounts is summarized as follows:

	<u>2006</u>	<u>2005</u>
Share savings	\$ 152,368	\$ 59,941
Share drafts	10,467	3,778
Share certificates	286,460	308,710
IRA shares (including IRA certificates)	140,934	143,875
Other	5,735	3,594
	<u>\$ 595,964</u>	<u>\$ 519,898</u>

H. Cash and Cash Equivalents:

For purposes of balance sheet classification and the statement of cash flows, the Credit Union considers funds due from banks, all highly liquid debt instruments with a maturity date of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash and cash equivalents. The composition of these items is as follows:

	<u>2006</u>	<u>2005</u>
Cash	\$ 657,342	\$ 693,201
Deposits with a Corporate Federal Credit Union	3,420,877	3,925,626
Certificates of Deposit	8,507,000	7,979,070
Other	532	1,868
	<u>\$ 12,585,751</u>	<u>\$ 12,599,765</u>

I. Commitments and Contingencies:

The Credit Union is a party to various legal actions normally associated with financial institutions including credit unions. In management's opinion, the aggregate effect of these actions would not be material to the financial conditions or results of operations of the Credit Union.

Financial Instruments with Off-balance-sheet Credit Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments are commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the credit union has in particular classes of financial instruments.

The Credit Union's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Unless noted otherwise, the Credit Union does not require collateral or other security to support off balance sheet financial instruments with credit risk.

Financial instruments whose contract amounts represent credit risk:	<u>Contract or Notional Amount</u>	
	<u>2006</u>	<u>2005</u>
Commitments to extend credit		
Business loans	\$ 172,800	\$ 150,000
First mortgage loans	4,491,167	3,877,408
Lines of credit	5,519,717	5,407,098
Credit cards	<u>2,116,057</u>	<u>1,990,560</u>
	<u>\$ 12,299,741</u>	<u>\$ 11,425,066</u>

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. Since 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 credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

Financial Instruments with Concentrations of Credit Risk

The Credit Union uses Members United Corporate Federal Credit Union (Members United) as its principal depository and for other financial and investment services. While deposits with Members United are insured for \$100,000, it is customary to maintain demand and time deposits with Members United in excess of the insured limit. At December 31, 2006, the total deposits with Members United aggregated \$8,560,877.

J. Borrowed Funds:

Borrowed funds are as follows:

	<u>2006</u>	<u>2005</u>
Secondary Capital Loan payable, interest is fixed at 5.0%, quarterly interest payments began March 31, 1998, with a maturity of December 30, 2008. Debt is unsecured.	\$ 250,000	\$ 250,000
Secondary Capital Loan payable, interest is fixed at 4.0%, quarterly interest payments began January 1, 2000 with a maturity of October 5, 2008. Debt is unsecured.	300,000	300,000
Secondary Capital Loan payable, interest is fixed at 5.0%, quarterly interest payments began July 21, 2000, with a maturity of July 21, 2009. Debt is unsecured.	250,000	250,000
Secondary Capital Loan payable, interest is fixed at 4.0%, quarterly interest payments began July 21, 2000, with a maturity of July 21, 2009. Debt is unsecured.	300,000	300,000
Secondary Capital Loan payable, interest is fixed at 4.5%, quarterly interest payments began March 28, 2000 with a maturity of July 31, 2010. Debt is unsecured.	300,000	300,000

Secondary Capital Loan payable, interest is fixed at 4.5%, semi-annual interest payments began March 31, 2002, with a maturity of March 31, 2009. Debt is unsecured.	250,000	250,000
Secondary Capital Loan payable, interest is fixed at 5.0%, quarterly interest payments began January 15, 2004, with a maturity of July 31, 2010. Debt is unsecured.	50,000	50,000
Secondary Capital Loan payable, interest is fixed at 5.5%, annual interest payments began March 31, 2004, with a maturity of September 30, 2014. Debt is unsecured.	400,000	400,000
Secondary Capital Loan payable, interest is fixed at 6.0%, annual interest payments began January 27, 2004, with a maturity of January 1, 2010. Debt is unsecured.	30,000	30,000
Secondary Capital Loan payable, interest is fixed at 6.0%, annual interest payments began February 10, 2004, with a maturity of February 10, 2010. Debt is unsecured.	30,000	30,000
Secondary Capital Loan payable, interest is fixed at 6.0%, annual interest payments began April 17, 2004, with a maturity of April 1, 2010. Debt is unsecured.	25,000	25,000
Secondary Capital Loan payable, interest is variable at prime rate plus .25%, annual interest payments began October 1, 2003, with a maturity of June 17, 2010. Debt is unsecured.	250,000	250,000
Secondary Capital Loan payable, interest is fixed at 4.5%, annual interest payments began April 12, 2005, with maturity of April 15, 2011. Debt is unsecured.	50,000	50,000
Secondary Capital Loan payable, interest is fixed of 4.91%. Annual interest payments began September 30, 2005, with a maturity of September 14, 2020. Debt is unsecured.	800,000	800,000
Two SBA line of credit loans, interest is fixed at 3.875% and 2.875% variable, monthly payments of \$8,970 including principal and interest, payments began April 7, 2001, with a maturity of August 8, 2013. Debt is unsecured.	<u>715,054</u>	<u>793,673</u>
	4,000,054	4,078,673
Less current portion of long term debt	<u>79,462</u>	<u>76,361</u>
	<u>\$ 3,920,592</u>	<u>\$ 4,002,312</u>

Future principal payments are as follows:

2007	\$ 79,462
2008	632,633
2009	886,059
2010	774,572
2011 and thereafter	<u>1,627,328</u>
	<u>\$ 4,000,054</u>

K. Pension Plans:

The Credit Union adopted the “Alternatives Federal Credit Union 401(k) Savings and Retirement Plan” covering substantially all employees. Employees are eligible to participate after one year of service and are vested in the plan after three years of service. Eligible employees can defer a percentage of their salary and the amounts deferred by each employee are matched at a rate of 100% by the Credit Union up to 3% of their compensation. In addition the Credit Union will contribute a discretionary amount to the plan. The Credit Union’s 2006 expense under this plan amounted to \$81,096.

L. Regulatory Capital

The Credit Union is subject to regulatory net worth requirements administered by the NCUA. In addition, the NCUA has also established Risked Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. Failure to meet minimum net worth or RBNW 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 financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2006, that the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the institution's category. The Credit Union's RBNW ratio is below the 6% minimum requirement to be considered a complex credit union. As of December 31, 2006, the Credit Union's RBNW ratio was 4.67%.

As of December 31, 2006, the Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%. Included in the regulatory capital calculation is Secondary Capital of \$2,081,000, which is listed under borrowed funds on the Statement of Condition.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2006	\$ 3,885,172	7.56%	≥ \$3,082,006	≥ 6.0%≥	\$ 3,595,674	≥ 7.0%
December 31, 2005	\$ 4,747,762	9.26%	≥ \$3,076,982	≥ 6.0%≥	\$ 3,589,812	≥ 7.0%

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

April 11, 2007

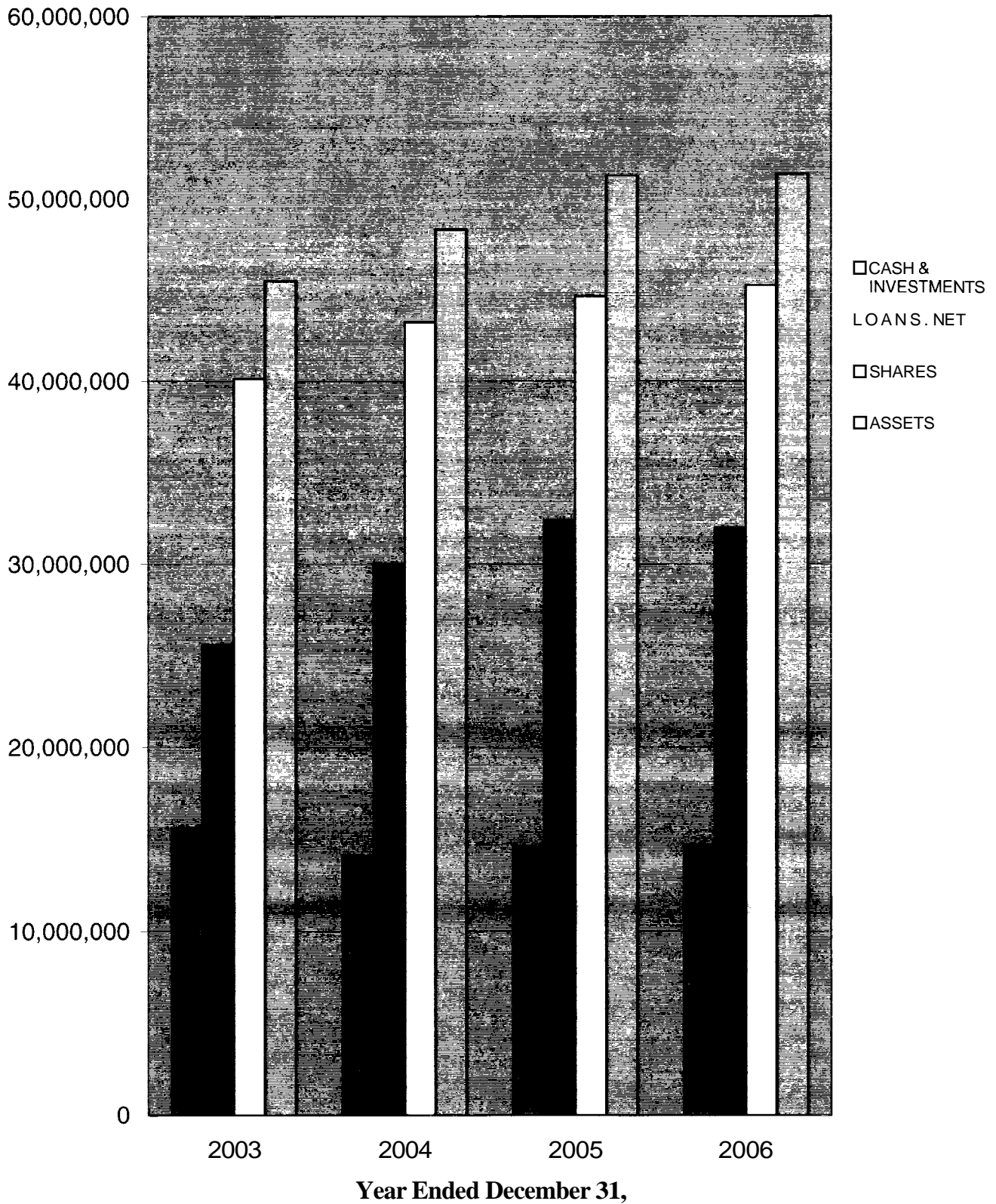
Supervisory Committee
Alternatives Federal Credit Union
Ithaca, NY

Our report on our audit of the basic financial statements of Alternatives Federal Credit Union for December 31, 2006 and 2005, appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The graphic analyses are presented for purposes of additional information and are not a required part of the basic financial statements. We express no opinion on the graphic analysis.

Sciarabba Walker & Co., LLP
Certified Public Accountants

ALTERNATIVES FEDERAL CREDIT UNION

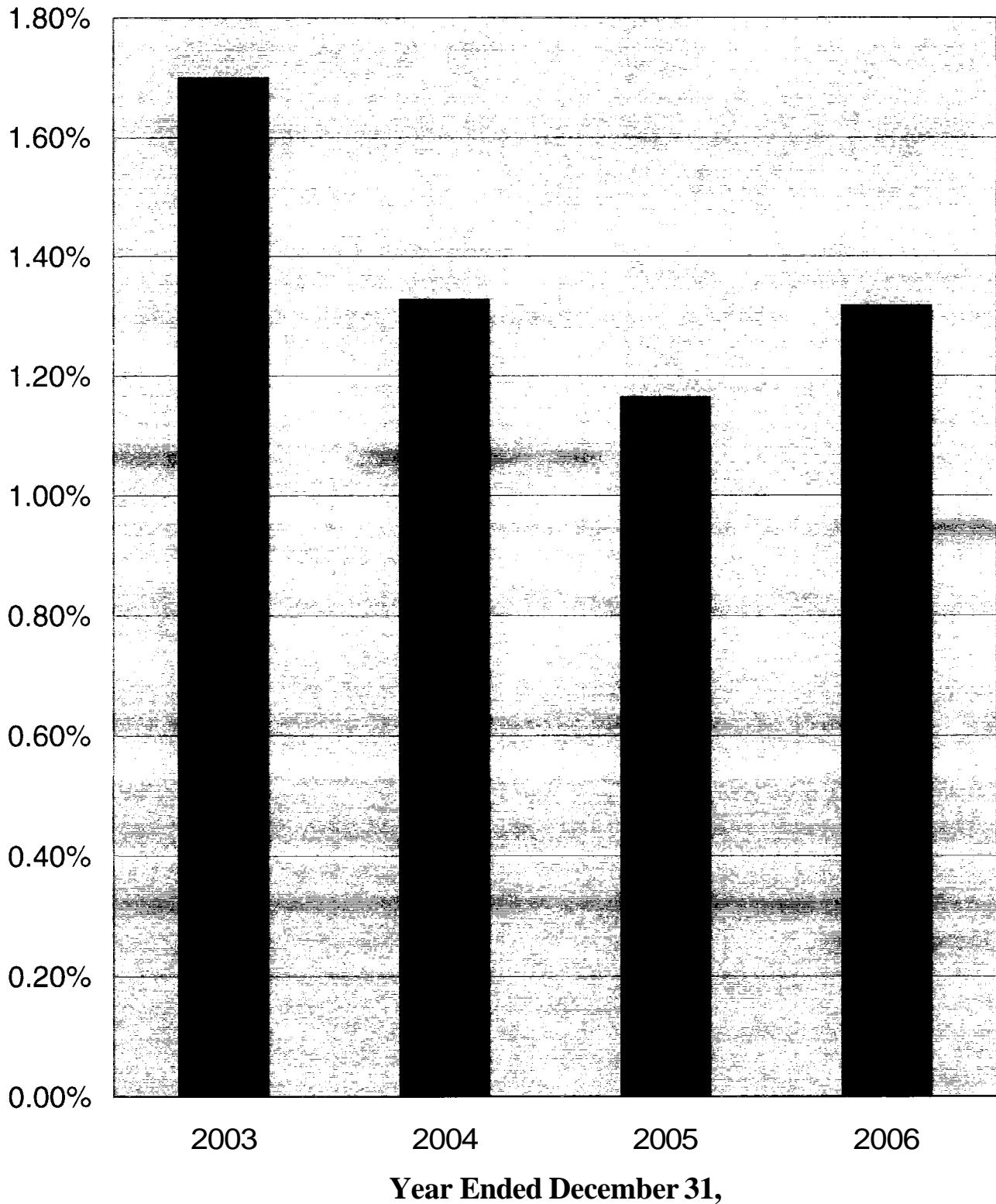
Significant Balance Sheet Items



See independent auditor's report on additional information.

ALTERNATIVES FEDERAL CREDIT UNION

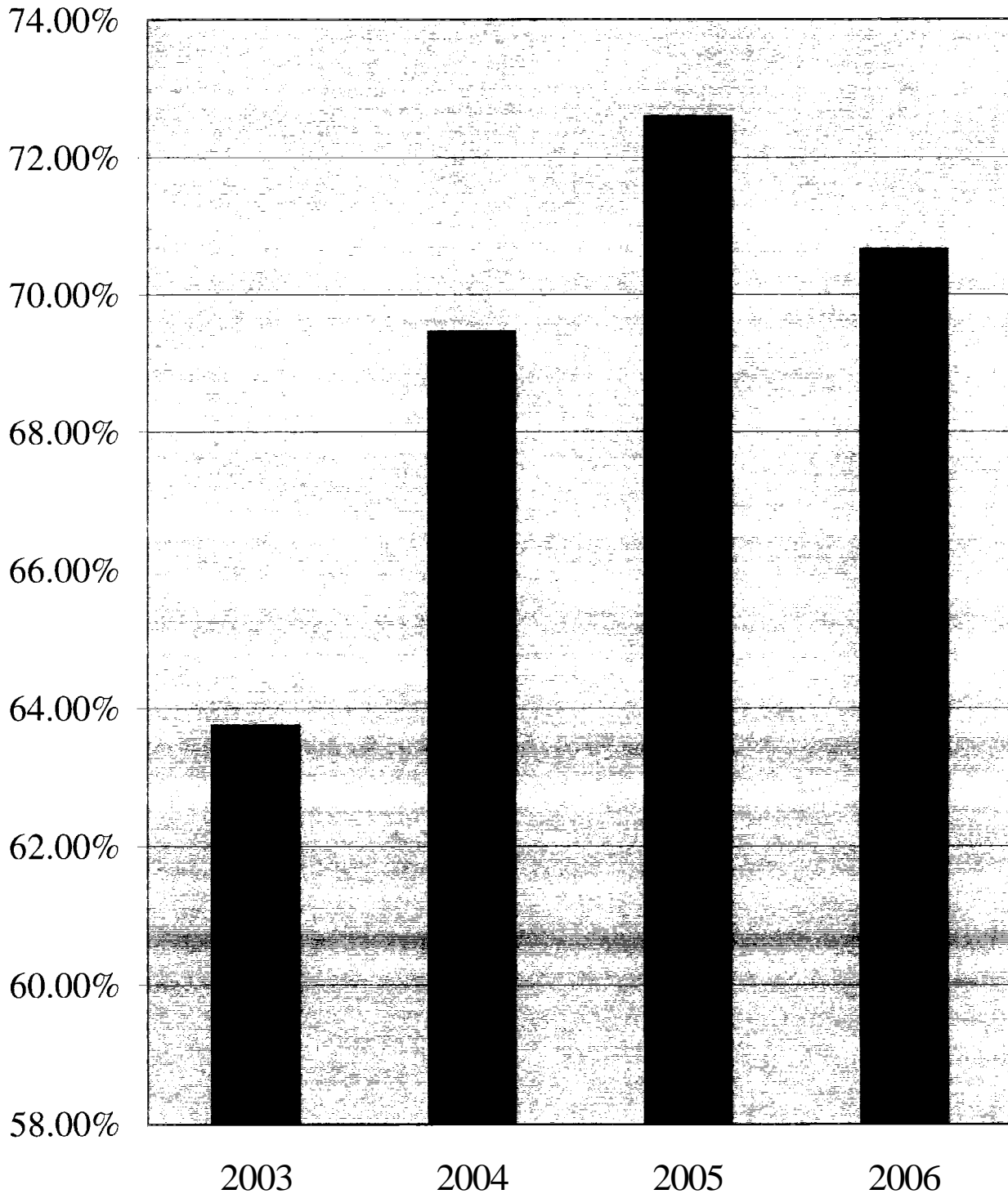
Dividends Paid/Average Share Balance



See independent auditor's report on additional information.

ALTERNATIVES FEDERAL CREDIT UNION

Total Loans/Total Shares

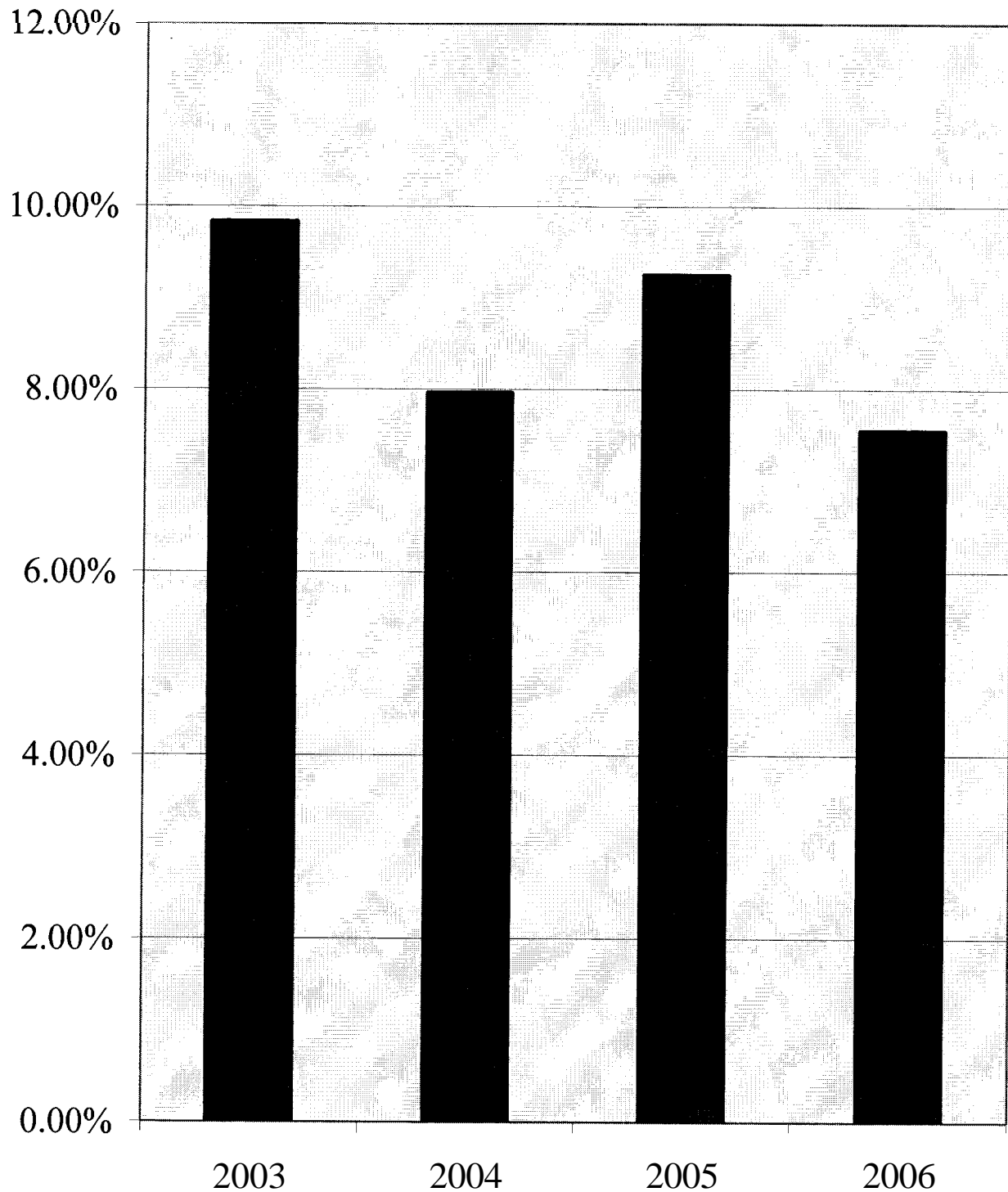


Year Ended December 31,

See independent auditor's report on additional information.

ALTERNATIVES FEDERAL CREDIT UNION

Regulatory Net Worth

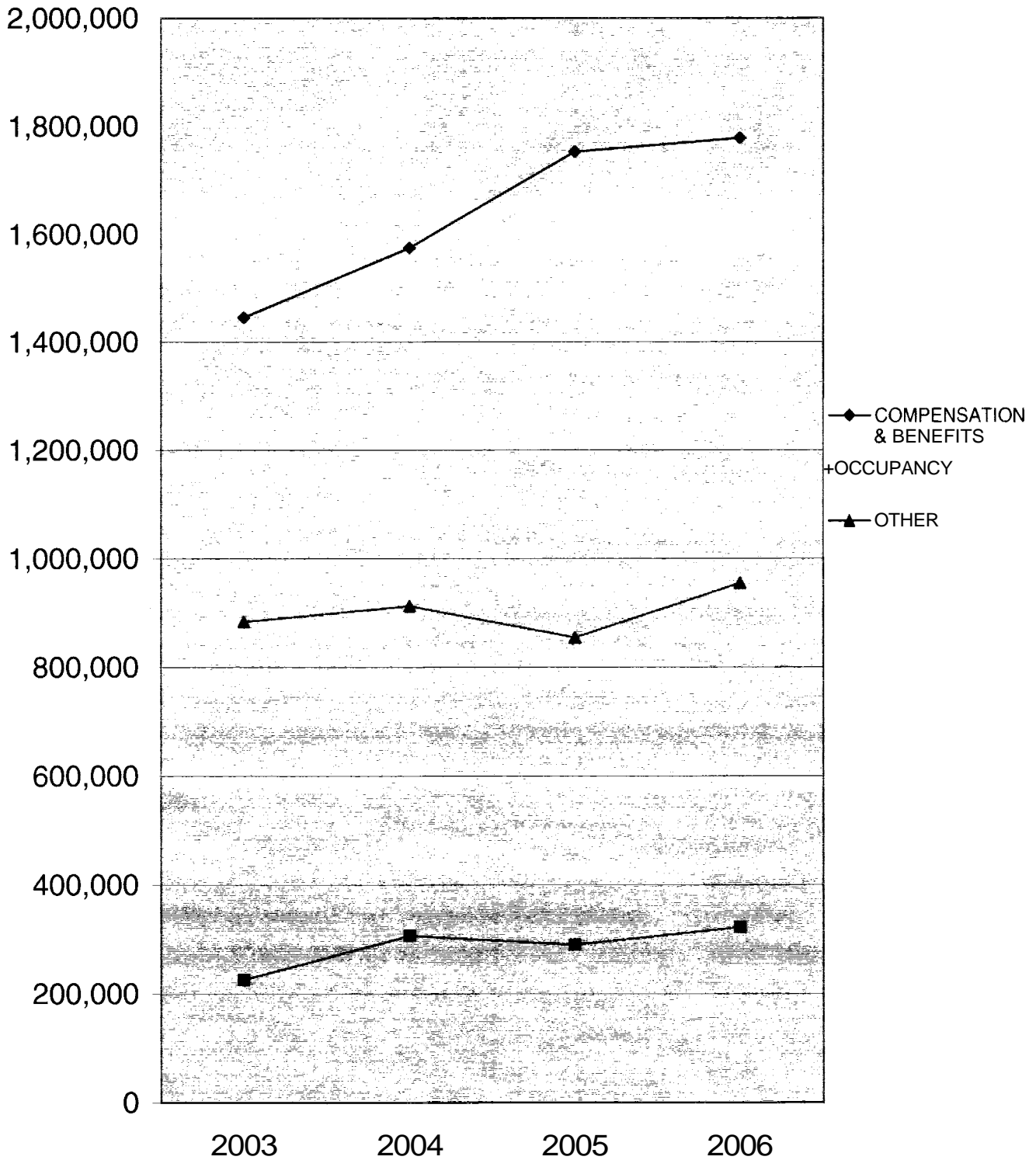


Year Ended December 31,

See independent auditor's report on additional information.

ALTERNATIVES FEDERAL CREDIT UNION

Expenses



Year Ended December 31,

See independent auditor's report on additional information.