ALTERNATIVES FEDERAL CREDIT UNION

ITHACA, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008 AND 2007

CONTENTS

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Mengel Metzger Barr MMB & Co. LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors and Supervisory Committee
Alternatives Federal Credit Union

We have audited the accompanying statement of financial condition of Alternatives Federal Credit Union as of December 31, 2008 and the related statements of income, changes in members' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Alternatives Federal Credit Union as of December 31, 2007 were audited by other auditors whose report dated March 28, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mengel, Metzger, Barr & Co. LLP

Elmira, New York
April 3, 2009

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

	December 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 4,837,990	$ 5,690,569
Certificates of deposit	11,240,000	10,034,000
Investment securities - available for sale	388,929	599,626
Other investments	1,040,199	1,011,570
Loans receivable, net of allowance for loan losses	34,436,502	31,035,509
Accrued interest receivable	215,992	281,529
Property and equipment, net	2,970,804	3,113,247
NCUSIF deposit (share insurance fund)	468,222	437,926
Other assets	138,720	488,171
TOTAL ASSETS	$ 55,737,358	$ 52,692,147
LIABILITIES AND MEMBERS' EQUITY		
Members' share and savings accounts	$ 50,522,231	$ 46,577,733
Accrued interest payable	47,931	136,194
Accrued expenses and other liabilities	246,514	178,484
Borrowed funds	2,765,222	3,940,979
TOTAL LIABILITIES	53,581,898	50,833,390
Members' equity:		
Appropriated regular reserve	551,000	495,095
Unappropriated earnings	1,600,278	1,364,036
Accumulated other comprehensive income (loss)	4,182	(374)
TOTAL MEMBERS' EQUITY	2,155,460	1,858,757
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 55,737,358	$ 52,692,147

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

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF INCOME

	Year ended December 31, 2008	2007
Interest income:		
Loans receivable	$ 2,496,815	$ 2,360,457
Investment securities	520,871	704,861
TOTAL INTEREST INCOME	3,017,686	3,065,318
Interest expense:		
Members' shares and savings accounts	646,735	670,867
Borrowed funds	166,835	188,908
TOTAL INTEREST EXPENSE	813,570	859,775
NET INTEREST INCOME	2,204,116	2,205,543
Provision for loan losses	183,800	245,781
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,020,316	1,959,762
Non-interest income:		
Service and other fees	528,303	541,289
Other income	597,804	434,810
Grant income	451,481	339,633
TOTAL NON-INTEREST INCOME	1,577,588	1,315,732
	3,597,904	3,275,494
Non-interest expense:		
Employee compensation and benefits	2,028,081	1,843,253
Office occupancy	296,114	264,568
Other operating expense	981,562	1,112,688
TOTAL NON-INTEREST EXPENSE	3,305,757	3,220,509
NET INCOME	$ 292,147	$ 54,985

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

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF CHANGES IN MEMBERS' EQUITY AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

	Appropriated Regular reserve	Unappropriated earnings	Accumulated other comprehensive income (loss)	Total
Balances at January 1, 2007	$ 495,095	$ 1,309,051	$ (11,998)	$ 1,792,148
Comprehensive income:				
Net income	-	54,985	-	54,985
Other comprehensive income:				
Change in net unrealized loss on securities available for sale	-	-	11,624	11,624
Total comprehensive income	-	54,985	11,624	66,609
BALANCE AT DECEMBER 31, 2007	495,095	1,364,036	(374)	1,858,757
Comprehensive income:				
Net income	-	292,147	-	292,147
Transfer to regular reserve	55,905	(55,905)	-	-
Other comprehensive income:				
Change in net unrealized gain on securities available for sale	-	-	4,556	4,556
Total comprehensive income	55,905	236,242	4,556	296,703
BALANCE AT DECEMBER 31, 2008	$ 551,000	$ 1,600,278	$ 4,182	$ 2,155,460

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

ALTERNATIVES FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008	2007
CASH FLOWS - OPERATING ACTIVITIES		
Net income for the year	$ 292,147	$ 54,985
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	153,693	154,053
Provision for loan losses	183,800	245,781
Amortization of premiums on investments	4,711	-
Loss on disposal of property	-	16,593
Changes in certain assets and liabilities affecting operations:		
NCUSIF deposit	(30,296)	(22,535)
Accrued interest receivable	65,537	(8,592)
Other assets	349,451	197,925
Accrued interest payable	(88,263)	-
Accrued expenses and other liabilities	68,030	5,134
NET CASH PROVIDED FROM OPERATING ACTIVITIES	998,810	643,344
CASH FLOWS - INVESTING ACTIVITIES		
Net (increase) decrease in loans receivable	(3,584,793)	700,058
Maturities/sales of investment securities available for sale	600,000	600,000
Net purchases of certificates of deposit	(1,206,000)	(1,527,000)
Purchase of investment securities available for sale	(525,414)	-
Principal payments on investment securities available for sale	135,956	-
Purchase of other investments	(28,629)	(47,086)
Proceeds on sale of property and equipment	-	116,555
Purchases of property and equipment	(11,250)	(127,685)
NET CASH USED FOR INVESTING ACTIVITIES	(4,620,130)	(285,158)
CASH FLOWS - FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	3,944,498	1,312,707
Principal payments on borrowed funds	(1,181,757)	(79,075)
Proceeds from borrowed funds	6,000	20,000
NET CASH PROVIDED FROM FINANCING ACTIVITIES	2,768,741	1,253,632
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(852,579)	1,611,818
Cash and cash equivalents at beginning of year	5,690,569	4,078,751
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,837,990	$ 5,690,569
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 901,833	$ 821,040

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

NOTE A: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Alternatives Federal Credit Union provides a variety of financial services to its members. The Credit Union is a regional community development financial institution and has a federal community charter. Accordingly, its field of membership includes persons located in Tompkins, Cayuga, Chemung, Cortland, Seneca, Schuyler and Tioga counties. The Credit Union's primary source of revenue is from loans to members and investment income.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and short-term investments with an original maturity of three months or less when purchased.

Certificates of deposit

Certificates of deposit have original maturities from four to ninety six months. Certificates of deposit are recorded at cost, which approximates market value, and are generally held until maturity.

Investment securities

The Credit Union classifies debt and equity securities into three reporting categories: (1) held to maturity, (2) available for sale, or (3) trading. The Credit Union has no securities classified as held to maturity or trading.

The available-for-sale securities consist of U.S. agency mortgage backed securities in 2008 and FHLB securities in 2007. Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in a separate component of members' equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Accumulated other comprehensive income increased by $4,556 and $11,624 for 2008 and 2007, respectively.

Loans receivable

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Accrual of interest on a loan is discontinued when management believes, after considering economic conditions, business conditions and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off or an allowance is established by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

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 confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE A: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

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 effect the borrower's ability to repay, estimated value of any 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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delay and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrowers' prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Property and equipment

Property and equipment are carried at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets which range from three to forty years. Repairs and maintenance, as well as renewals and replacements of a routine nature, are charged to operations, while costs incurred to improve or extend the life of existing assets are capitalized. Upon sale or disposition, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

NOTE A: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Valuation of long-lived assets

The Credit Union accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

NCUSIF deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% 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. See also Note L.

Members' share and savings accounts

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation other than subordinated secondary capital loans. Interest on members' share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' equity

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

Reserve requirement

The NCUA has revised the regulatory net worth requirements for credit unions. Credit unions that are classified as "well capitalized" (net worth ratio of 7% or higher) are not required to make statutory transfers to the regular reserve. However, if the net worth ratio is greater than 6% but less than 7%, (classified as "adequately capitalized"), an earnings transfer of .1% of total assets is required. The regular reserve has been established at the discretion of the Board of Directors to protect the interest of the members. The Board may at times change the reserved amount for specific requirements.

Income taxes

The Credit Union is exempt, by statute, from federal and state income taxes.

Off-balance-sheet credit related financial instruments

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, the Credit Union is a party to financial instruments with off-balance sheet risk. Such financial instruments are recorded when they are funded.

NOTE A: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Use of estimates in the preparation of financial statements

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentation. These changes had no impact on previously reported results of operations or member' equity.

NOTE B: INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available for sale are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2008:				
Mortgage backed securities	$ 384,747	$ 4,182	$ -	$ 388,929
December 31, 2007:				
FHLB certificates	$ 600,000	$ -	$ (374)	$ 599,626

The amortized cost and estimated fair value of investment securities at December 31, 2008 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
Due in one year or less	$ -	$ -
Due after one year through five years	384,747	388,929
Due after five years through ten years	-	-
Due after ten years	-	-
	$ 384,747	$ 388,929

NOTE B: INVESTMENT SECURITIES, Cont'd

There were no securities in an unrealized loss position at December 31, 2008. Securities with unrealized losses at December 31, 2007 were in a loss position for greater than twelve months.

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.

Securities are exposed to various risks, such as interest rate, market and credit risk. Due to the risks associated with securities and the uncertainty related to changes in their fair value, it is at least reasonably possible that changes in risk could affect the Credit Union.

The fair value at the reporting date was determined by quoted market prices in active markets for identical assets (Level I).

NOTE C: OTHER INVESTMENTS

Other investments represent restricted funds necessary for the Credit Union to take advantage of certain business services. The investments are recorded at cost and consist of the following:

	December 31,	
	2008	2007
FHLB Stock	$ 41,000	$ 40,100
Members United Corporate FCU Membership Shares	525,200	513,700
U.S. Bank Money Market	395,856	383,406
Goldman Sachs Funds	78,143	74,364
	$ 1,040,199	$ 1,011,570

NOTE D: LOANS RECEIVABLE

The composition of loans to members is as follows:

	December 31, 2008	December 31, 2007
Mortgage and home equity	$ 23,612,994	$ 20,266,117
Business loans	2,476,045	2,885,606
Lines of credit	2,536,406	2,453,415
Used auto	2,466,566	2,204,346
Unsecured personal	1,417,856	1,480,910
Credit cards	1,049,790	1,029,322
New auto	823,476	493,982
Other loans	248,814	258,835
Construction loans	51,000	191,200
Net deferred loan origination fees	70,255	60,044
	34,753,202	31,323,777
Less allowance for loan losses	(316,700)	(288,268)
	$ 34,436,502	$ 31,035,509

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

	Year ended December 31, 2008	Year ended December 31, 2007
Balance at beginning of year	$ 288,268	$ 313,776
Provision charged to operations	183,800	245,781
Loans charged off	(212,272)	(304,346)
Recoveries	56,904	33,057
Balance at end of year	$ 316,700	$ 288,268

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31, 2008	December 31, 2007
Loans on non-accrual status	$ 344,966	$ 938,000

NOTE D: LOANS RECEIVABLE, Cont'd

Certain officers, directors, and employees of the Credit Union, including their immediate families, were loan customers during 2008 and 2007. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection. Total loans outstanding to these persons at December 31, 2008 and 2007, amounted to $857,981 and $406,139, respectively.

NOTE E: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2008	December 31, 2007
Land	$ 588,364	$ 588,364
Building and improvements	2,619,485	2,619,485
Furniture and equipment	710,097	698,847
	3,917,946	3,906,696
Less allowances for depreciation	(947,142)	(793,449)
	$ 2,970,804	$ 3,113,247

NOTE F: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	December 31, 2008	December 31, 2007
Share savings	$ 17,973,587	$ 15,601,686
Share drafts	14,332,541	14,511,510
Share and other certificates	12,539,251	11,121,446
IRA shares and certificates	5,676,852	5,343,091
	$ 50,522,231	$ 46,577,733

The aggregate amounts of members' share and savings accounts over $100,000 were approximately $6,200,000 at December 31, 2008.

NOTE F: MEMBERS' SHARE AND SAVINGS ACCOUNTS, Cont'd

At December 31, 2008 scheduled maturities of share and IRA certificates are as follows:

Year ending December 31,	Amount
2009	$ 8,792,028
2010	4,358,624
2011	1,967,040
2012	1,134,001
Thereafter	878,092
	$ 17,129,785

Interest rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

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

	Year ended December 31,	
	2008	2007
Share savings	$ 89,627	$ 132,855
Share drafts	8,748	4,313
Share and other certificates	368,047	360,517
IRA shares and certificates	180,313	173,182
	$ 646,735	$ 670,867

NOTE G: LINE OF CREDIT

The Credit Union maintains an $850,000 line of credit with the Member's United Corporate Federal Credit Union at a rate to be determined by the lender when funds are borrowed. At December 31, 2008 and 2007, the Credit Union had no outstanding balance on this line of credit. The line is collateralized by specific assets determined at the time of the borrowing.

NOTE H: COMMITMENTS AND CONTINGENT LIABILITIES

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

Financial instruments with off-balance-sheet credit risk
The Credit Union is a 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 which 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 the amount recognized in the financial statements.

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

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2008	2007
Commitments to grant loans	$ 1,028,374	$ -
Unfunded commitments under lines of credit	17,135,970	14,172,648
	$ 18,164,344	$ 14,172,648

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 creditworthiness 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.

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

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 $250,000, it is customary to maintain demand and time deposits with Members United in excess of the insured limit.

NOTE I: BORROWED FUNDS

Borrowed funds are comprised of the following:

	December 31, 2008	December 31, 2007
Secondary Capital Loans which are unsecured and subordinated to all other liabilities of the Credit Union:		
Interest only payments at 5%, due July 2009.	$ 250,000	$ 250,000
Interest only payments at 6%, due January 2010.	30,000	30,000
Interest only payments at 6%, due February 2010.	30,000	30,000
Interest only payments at 5%, due July 2010.	50,000	50,000
Interest only payments at 4.5%, due April 2011.	50,000	50,000
Interest only payments at 6.25%, due June 2014.	250,000	250,000
Interest only payments at 5.69% to 6.91%, due June 2014.	20,000	20,000
Interest only payments at 5.5%, due September 2014.	400,000	400,000
Interest only payments at 6%, due April 2015.	25,000	25,000
Interest only payments at 4.5%, due June 2015.	6,000	-
Interest only payments at 4.5%, due July 2015.	300,000	300,000
Interest only payments at 4.91%, due September 2020.	800,000	800,000
Loans paid in 2008.	-	1,100,000
	2,211,000	3,305,000
Two SBA loans with interest rates of 4.625% and 2.875% with monthly payments of $8,970 including interest through August 2013, secured by certain cash accounts.	554,222	635,979
	$ 2,765,222	$ 3,940,979

NOTE I: BORROWED FUNDS, Cont'd

Future principal payments are as follows:

Year ending December 31,	Amount
2009	$ 457,321
2010	174,127
2011	115,995
2012	67,918
2013	69,897
Thereafter	1,879,964
	$ 2,765,222

NOTE J: RETIREMENT PLAN

The Credit Union has a 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 by the Credit Union (up to 4% in 2008 and up to 3% in 2007) of their compensation. In addition, the Credit Union may contribute a discretionary amount to the Plan. The Credit Union's 2008 and 2007 expense under this Plan amounted to $106,758 and $87,664, respectively.

NOTE K: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth 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 (as defined in the regulations) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2008 and 2007 was 5.26% and 4.83%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes as of December 31, 2008 and 2007, that the Credit Union meets all capital adequacy requirements to which it is subject.

NOTE K: REGULATORY CAPITAL, Cont'd

As of December 31, 2008, the most recent call reporting period, 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 and meet any applicable RBNW Requirement. There are no conditions or events since that notification that management believes have changed the Credit Union's category, other than the potential effect on net worth relative to the NCUSIF impairment as discussed in Note L.

The Credit Union's actual capital amounts and ratios at December 31, 2008 and 2007 are as follows:

	Actual		To be Adequately Capitalized under the Prompt Corrective Action Provisions		To be Well Capitalized under the Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008	$ 3,994,278	7.17%	≥ $ 3,344,241	≥ 6.00%	≥ $ 3,901,615	≥ 7.00%
December 31, 2007	$ 3,693,131	7.01%	≥ $ 3,161,529	≥ 6.00%	≥ $ 3,688,450	≥ 7.00%

NOTE L: SUBSEQUENT EVENTS

During January 2009, due to unprecedented strains on the liquidity and capital of corporate credit unions due to extraordinary market disruptions and the current adverse economic climate, the NCUA, in its Letter to Credit Unions ("LTCU") No. 09-CU-02, implemented the following:

(a) An action taken by the National Credit Union Board to precipitate a partial write-off (51%) of each Credit Union's NCUSIF Capitalization Deposit, and;

(b) A planned assessment expected in 2009 to return the NCUSIF capitalization ratio to 1.30%.

Subsequently, on March 19, 2009, the NCUA Board reported in LTCU No. 09-CU-06 they had refined the assumptions used in determining the NCUSIF's required reserve for potential loss. The revised assumptions indicate that the impairment of the NCUSIF Deposit is an additional 18% or 69%.

The Credit Union has concluded that the impairment of the NCUSIF deposit and the required additional assessment constitute Type 2 subsequent events since these conditions arose subsequent to December 31, 2008. Therefore, the impairment loss and additional premiums will be reflected in 2009. The impairment loss on the NCUSIF deposit is expected to be $330,542.

In addition, in a letter to Member Credit Unions from Members United Corporate Federal Credit Union ("Members United") dated March 24, 2009, Members United has indicated that it is likely that Members United will incur losses which will exceed its current retained earnings balances. However, it is unclear whether certain events will be considered 2008 or 2009 events. The effect, if any, on the Credit Union's Members United Corporate FCU Membership Shares (see Note C) is uncertain and no provision for loss has been reflected in the accompanying financial statements.