

GROWTH

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EXPERIENCE FINANCIAL FREEDOM

2007 **ANNUAL REPORT**



MESSAGE FROM THE CHAIRMAN AND PRESIDENT

“AmeriCU Credit Union strives to be the primary financial services resource for its members.”

At AmeriCU we believe that building relationships based on trust and respect is the top priority. We are committed to helping you meet your financial life goals, whatever they may be. And with that commitment comes the promise of delivering the highest level of service – a level that consistently exceeds your expectations. We also believe that you choose to do business with AmeriCU because you trust that we will continue to offer expanded service opportunities that can make your life easier and save you time.

Three new branches complete with state-of-the-art technology to make your banking experience easier, more convenient and hassle-free, opened in 2007. The branches are located in Cicero, Onondaga County; Herkimer, Herkimer County; and Lowville, Lewis County. Each of these new branches are equipped with full-service ATMs and kiosks, our newest convenience for members. A kiosk looks similar to an ATM and offers even more services for members. For example, you can make a loan payment, check your Account Transaction History, or process an official check, to name just a few of the advantages. The kiosks and ATMs are accessible 24 hours a day, 7 days a week, and 365 days a year. Talk about convenience! We placed a free coin counter in the Cicero branch – kids and adults alike love bringing in their buckets and jars of change and turning it into savings.

As we continue to grow, we remain committed to providing personal, customized, one-to-one service for each of our members. Our staff has pledged to inform you of the multitude of convenience options available in our branches and online at americu.org. We'll continue to add additional services to expand access for members and will never compromise on insuring that your experience with AmeriCU is pleasant, efficient and valuable.

You spoke and we listened. We expanded our Member Service Center hours of operation to include evenings. By adding 15 additional hours each week, our friendly and professional Member Service Center representatives are now available to you by phone, 63 hours a week. Give us a call Monday through Friday 8am-8pm, and Saturday from 9am-Noon, with any of your questions or concerns.

In 2007, we tested a Skip-A-Pay program for members. This program offered members the ability to skip-a-payment – a loan payment, during the month of November or December, providing additional cash flow for members during the holiday season. A nominal administrative fee was assessed with a portion of that fee benefiting the Wounded Soldiers Fund at Fort Drum, supported by AmeriCU. Over \$2,500 was contributed from the skip-a-pay program – we call that a success both for members and for Fort Drum soldiers. Look for expansion of the program in 2008 and beyond.

AmeriCU has long been involved in the communities in which we do business, and in 2007 we brought financial literacy to two groups of high school students. In Onondaga County, AmeriCU partnered with Clear Channel Radio to provide internships and financial education to a group of 11 Syracuse City School District high school students. The students created the *Think you know Syracuse City Schools? Think again* campaign in an effort to “re-image” the school district in the eyes of the media and the community. AmeriCU provided savings accounts for the students and a matching incentive for saving. In Oneida County, AmeriCU worked with the Teen Leader group at the Rome YMCA. We helped young entrepreneurs set-up, staff, order inventory and establish cash box procedures and policies for a concession stand in the newly opened Teen Community Center.

In December, we held our first *Mitten Challenge*. All AmeriCU branches were drop-off sites for donations of mittens, hats, and gloves. Our media partners donated air time to help get the word out, and generous members donated cold weather items (many handmade) to assist the chapters of the Salvation Army keep more than 3,000 local families warm during the chilly winter months. Herb Philipson's Army & Navy store partnered with AmeriCU and donated 1,000 pairs of mittens to the *Mitten Challenge*. With the generous donations from members and Herb Philipson's donation, we exceeded our goal of 2,000 pairs. We extend our humble gratitude to all for making the *Mitten Challenge* a huge success for families in our communities.

In 2008, AmeriCU will continue to expand our operations across our eight-county market area to serve you, our members, even more efficiently. You can expect to see ongoing improvements in branch design, convenient and user-friendly technology and most importantly, a strong focus on building and maintaining lasting relationships with our members.

Thank you for your commitment and dedication to AmeriCU Credit Union. Your support has made AmeriCU the most valuable financial cooperative in the region. It's because of you that we continue to look ahead to find ways to serve you better and to exceed your expectations of a financial institution. No matter where you are in life, AmeriCU has the knowledgeable staff and full product line to meet your every need.

Your membership is most important to us. We look forward to serving the financial needs of you, your family and friends in the years to come.

Thank you for choosing to be an AmeriCU member.



Ann S. Tyler, Chairman of the Board



Mark A. Pfisterer, President and CEO



2007 Annual Report

Audited Consolidated Financial Statements

AmeriCU CREDIT UNION
AND SUBSIDIARIES

December 31, 2007 and 2006

Audited Consolidated Financial Statements

AmeriCU CREDIT UNION AND SUBSIDIARIES

December 31, 2007 and 2006



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SUPERVISORY COMMITTEE MESSAGE

The Supervisory Committee is appointed by the Board of Directors to represent the membership. As your representatives, the Committee attends monthly Board meetings and has free and open access to Credit Union personnel and financial records. In conjunction with the Internal Audit Department, the Committee actively performs cash counts, resolves member concerns and determines that internal controls are established and effectively maintained. A primary function of the Supervisory Committee is to ensure that the Credit Union's financial records are properly maintained and that they accurately reflect the operations of the

Credit Union. To accomplish this function, the Independent Certified Public Accounting firm of Firley, Moran, Freer & Eassa, P.C. conducted a certified audit of the Credit Union's financial statements for the period ending December 31, 2007. Based on the favorable audit that has been conducted by the external auditors, the Supervisory Committee is satisfied that your Credit Union is in good financial condition and that financial statements are reported in accordance with accounting principles generally accepted in the United States of America (GAAP).

Supervisory Committee

Robert J. Angelhow, Chairman

Luis M. Marina, Member

James Saporito, Member

John A. Nash, Member

Carol A. Volles, Member

Experience
Financial Freedom

FIRLEY, MORAN, FREER, & EASSA, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

*To the Supervisory Committee
 and Board of Directors
 AmeriCU Credit Union
 Rome, New York*

We have audited the accompanying consolidated statements of financial condition of AmeriCU Credit Union and Subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of income, comprehensive income, members' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriCU Credit Union and Subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Firley, Moran, Freer & Eassa, P.C.

East Syracuse, New York

March 1, 2008

An Independently Owned Member of the RSM McGladrey Network

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AmeriCU CREDIT UNION AND SUBSIDIARIES

	December 31,	
	2007	2006
ASSETS		
Cash	\$ 40,507,272	20,406,502
Deposits at corporate credit unions	5,193,247	6,803,078
Investments – available for sale	26,066,217	28,821,170
Loans to members, net of allowance for loan losses	496,463,403	481,979,739
Loans held for sale	1,099,010	1,401,600
Accrued interest receivable	1,940,154	1,972,290
Other assets	18,318,259	18,052,487
Property and equipment, net	19,996,645	19,580,181
	<u>\$ 609,584,207</u>	<u>579,017,047</u>
TOTAL ASSETS		
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share accounts	\$ 528,911,941	518,294,328
Borrowed funds	25,089,003	8,203,388
Accounts payable and accrued liabilities	6,274,360	8,518,231
	<u>560,275,304</u>	<u>535,015,947</u>
TOTAL LIABILITIES		
COMMITMENTS AND CONTINGENCIES		
RELATED PARTY TRANSACTIONS		
MEMBERS' EQUITY	<u>49,308,903</u>	<u>44,001,100</u>
	<u>\$ 609,584,207</u>	<u>579,017,047</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY		

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

AmeriCU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2007	2006
Interest Income		
Interest on loans	\$ 31,301,217	30,647,749
Interest on investments	2,470,998	2,178,726
	<u>33,772,215</u>	<u>32,826,475</u>
Interest Expense		
Dividends	15,166,988	13,374,759
Borrowed funds	317,720	391,846
	<u>15,484,708</u>	<u>13,766,605</u>
	NET INTEREST INCOME	18,287,507
		19,059,870
Provision for Loan Losses	<u>1,310,000</u>	<u>3,690,000</u>
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,977,507
		15,369,870
Noninterest Income		
Fees, service charges and other income	14,312,200	12,169,504
Gain on sales of loans	1,237,526	1,303,331
Gain on sales of investments	1,300	2,925
	<u>15,551,026</u>	<u>13,475,760</u>
Noninterest Expense		
Compensation and benefits	11,212,539	10,838,223
Office occupancy and operations	9,837,098	9,937,168
Professional services	4,088,396	3,834,954
Membership services	922,958	686,511
Member promotions and other	1,235,068	549,486
	<u>27,296,059</u>	<u>25,846,342</u>
	NET INCOME	\$ 5,232,474
		<u>\$2,999,288</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AmeriCU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2007	2006
Net Income	\$ 5,232,474	\$2,999,288
Other Comprehensive Income:		
Unrealized holding gains on investments arising during period, net	74,585	38,261
Reclassification adjustment for realized gains on sales of investments included in net income	(1,300)	(2,925)
OTHER COMPREHENSIVE INCOME	73,285	35,336
TOTAL COMPREHENSIVE INCOME	\$ 5,305,759	\$ 3,034,624

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

AmeriCU CREDIT UNION AND SUBSIDIARIES

	Regular Reserve	Appropriated Undivided Earnings	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2005	\$ 25,714,547	\$ 200,000	\$ 15,706,290	\$ (660,594)	\$ 40,960,243
Transfers and Other	6,233				6,233
Net Income			2,999,288		2,999,288
Other Comprehensive Income				35,336	35,336
BALANCES AT DECEMBER 31, 2006	25,720,780	200,000	18,705,578	(625,258)	44,001,100
Transfers and Other	2,044				2,044
Net Income			5,232,474		5,232,474
Other Comprehensive Income				73,285	73,285
BALANCES AT DECEMBER 31, 2007	<u>\$ 25,722,824</u>	<u>\$ 200,000</u>	<u>\$ 23,938,052</u>	<u>\$ (551,973)</u>	<u>\$ 49,308,903</u>



See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AmeriCU CREDIT UNION AND SUBSIDIARIES

	Year ended December 31,	
	2007	2006
Cash Flows From Operating Activities		
Net income	\$ 5,232,474	\$ 2,999,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,310,000	3,690,000
Provision for other real estate owned losses	168,814	60,911
Depreciation and amortization	1,678,834	1,559,886
Investment premium and discount amortization	5,609	12,056
Gain on sales of loans	(1,237,526)	(1,303,331)
Loss (gain) on sale of other real estate owned	91,733	(36,255)
Gain on sales of investments	(1,300)	(2,925)
Changes in operating assets and liabilities:		
Loans held for sale	302,590	(290,500)
Accrued interest receivable	32,136	(218,544)
Other assets	(278,697)	304,356
Accounts payable and accrued liabilities	(2,243,871)	1,374,483
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,060,796	8,149,425
Cash Flows From Investing Activities		
Decrease in deposits at corporate credit unions	1,609,831	11,102,064
Proceeds from maturities of investments--available for sale	2,822,629	2,759,924
Loan originations, net of principal collected	(78,596,305)	(111,849,518)
Proceeds from loans sold	63,623,248	83,083,187
Proceeds from sale of other real estate owned	172,642	103,258
Purchases of property and equipment	(2,095,299)	(4,328,119)
NET CASH USED IN INVESTING ACTIVITIES	(12,463,254)	(19,129,204)
Cash Flows From Financing Activities		
Net increase in members' share accounts	10,617,613	18,962,788
Increase (decrease) in borrowed funds, net	16,885,615	(7,209,312)
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,503,228	11,753,476
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,100,770	773,697
Cash and cash equivalents at beginning of year	20,406,502	19,632,805
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 40,507,272	\$ 20,406,502
Supplemental Disclosures		
Dividends on members' share accounts	\$ 15,166,988	\$ 13,374,759
Interest on borrowed funds	\$ 317,720	\$ 391,846
Non-cash investing and financing activities		
Interest spread retained as a result of loans sold through participations	\$ 0	208,156
Transfer of loans to other real estate owned	\$ 365,989	\$ 299,435

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AmeriCU CREDIT UNION AND SUBSIDIARIES

December 31, 2007 and 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of AmeriCU Credit Union (AmeriCU or the Credit Union) and its wholly owned subsidiaries, Hamilton Associates, Inc., AmeriCU Services, LLC and AmeriCU Capital Management, LLC. These subsidiaries are credit union organizations (collectively the CUOs) incorporated and organized for the primary purpose of providing services to AmeriCU's members. These services include electronic tax filing, insurance and investment services. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Organization and Nature of Business: AmeriCU is a state chartered cooperative association organized in accordance with the provisions of the State of New York and is administratively responsible to the New York State Banking Department. It promotes thrift among, and creates a source of credit for, its members located primarily in the New York State counties of Oneida, Onondaga, Cayuga, Madison and Jefferson.

Use of Estimates: The preparation of the 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 that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments: The Credit Union is required to categorize each investment as either held-to-maturity, available-for-sale, or trading. At December 31, 2007 and 2006, the Credit Union did not maintain an investment trading or held-to-maturity portfolio. Securities not classified as held-to-maturity or trading 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. 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 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 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans to Members: Loans receivable that the Credit Union has the intent and ability to hold for the foreseeable future 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.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the sum of the years digits method over the weighted average 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 confirmed. 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 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. Because of uncertainties inherent in the estimation process, management's estimate of loan losses within the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible, if any, cannot be estimated.

The allowance consists of general and unallocated components. The general component 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 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 delays 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 borrower's 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 as determined by the fair value of the collateral.

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.

Retained Interests in Loans Sold: The Credit Union regularly evaluates its liquidity needs and will decide to sell loans, via participation agreements, based on these needs. In addition to retaining a portion of the loans sold, it retains an interest spread, the difference between the weighted average coupon rate and the rate passed through to the investor, which is considered a retained interest in those loans sold. Retained interests in the loans sold amounted to \$2,817,426 and \$5,703,485 at December 31, 2007 and 2006, respectively, and is included in loans in the statements of financial condition. Additionally, the interest spread retained amounted to \$294,906 and \$622,354 at December 31, 2007 and 2006, respectively, and is included in investments available for sale in the statements of financial condition.

Gain or loss on sale of the receivables depends, in part, on the carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Credit Union estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of the key assumptions such as credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

The Credit Union performs an evaluation of its retained interests for impairment losses on a quarterly basis. The evaluation is based on results of actual cash flows and internal valuations as well as other factors.

Servicing: Servicing assets are recognized as separate assets when servicing rights are retained as mortgage loans are sold. When sold, a portion of the basis in the mortgage loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable loan 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 non-interest 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 recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Credit Union later determines that all or a portion of the impairment no longer exists, 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 loan servicing rights is netted against loan servicing fee income.

Loans Held for Sale: Loans held for sale are those mortgage loans the Credit Union has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sales of mortgage loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans after allocating cost to servicing rights retained. All sales are made without recourse.

Off-Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Property and Equipment: Land is carried at cost. Building, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

National Credit Union Share Insurance Fund 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 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.

NCUSIF Insurance Premiums: 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. The NCUA Board waived the 2007 and 2006 insurance premiums.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation; however, their accounts are insured in accordance with NCUA regulations through the National Credit Union Share Insurance Fund (NCUSIF). 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 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 undivided earnings is not available for the payment of dividends. The appropriated undivided earnings was established at the discretion of the Board of Directors and is not available for the payment of dividends.

Advertising Costs: The Credit Union follows the policy of expensing its advertising costs (including any production costs) as incurred. Advertising expense was approximately \$1,200,000 and \$500,000 for the years ended December 31, 2007 and 2006, respectively.

Income Taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's subsidiary, Hamilton Associates, Inc. is a C corporation and is subject to federal and state income taxes. Its other CUOs are each limited liability companies and are disregarded as separate tax entities. Operations of the CUOs resulted in immaterial amounts of income tax expense in 2007 and 2006.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, cash and cash equivalents includes cash on hand, certain operating bank account balances and money market funds..

Reclassifications: Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

NOTE B--DEPOSITS AT CORPORATE CREDIT UNIONS

Corporate credit unions are state or federal chartered credit unions organized to offer a central facility for investing and borrowing funds to meet liquidity excesses and deficiencies. Participating credit unions acquire membership privileges by maintaining a deposit with a corporate credit union. The Credit Union is a member of, and transacts business with, Members United Corporate Federal Credit Union and Western Corporate Federal Credit Union. Deposits at the corporate credit unions consist of the following:

	December 31, <u>2007</u>	December 31, <u>2006</u>
Plateau and money market accounts	\$1,183,247	\$2,793,078
Capital shares	3,010,000	3,010,000
Community Investment Fund	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$5,193,247</u>	<u>\$6,803,078</u>

Capital Shares: As a requirement of participation as a member of a corporate credit union the Credit Union is required to maintain a capital share account with the corporate credit union. The capital share accounts are liabilities of that corporate credit union which are subordinate to all other liabilities of the corporate credit union.

Community Investment Fund: The Credit Union has invested in a Community Investment Fund (the Fund), through Members United Corporate Federal Credit Union, established by the New York Credit Union Foundation (the Foundation). The Fund provides money for national and state initiatives and is a stable source of funding for the Foundation's grant making capabilities and endowment growth. Dividends earned on the Credit Union's investment are divided equally between the Fund and the Credit Union and are paid monthly.



NOTE C – INVESTMENTS

The amortized cost of investments and their approximate fair value are as follows (in 000's):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments Available For Sale				
<u>December 31, 2007</u>				
Federal agency securities	\$ 6,323	\$ 9	\$ (40)	\$ 6,292
Mutual fund investments	20,000	-0-	(521)	19,479
Interest rate spread retained on loans sold	295	-0-	-0-	295
	<u>\$ 26,618</u>	<u>\$ 9</u>	<u>\$ (561)</u>	<u>\$ 26,066</u>
<u>December 31, 2006</u>				
Federal agency securities	\$ 8,824	\$ 1	\$ (186)	\$ 8,639
Mutual fund investments	20,000	-0-	(440)	19,560
Interest rate spread retained on loans sold	622	-0-	-0-	622
	<u>\$ 29,446</u>	<u>\$ 1</u>	<u>\$ (626)</u>	<u>\$ 28,821</u>

Gross gains of \$1,300 and \$2,925 were realized on sales of available for sale investments in 2007 and 2006, respectively.

The federal agency securities consist of mortgage backed securities. The securities are not due at a single maturity date; rather, they mature based on the weighted average contractual maturities of the underlying collateral. 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. The amortized cost and estimated fair value of the federal agency securities at December 31, 2007, by contractual maturity, are shown below:

	Amortized cost	Fair value
Due in one year or less	\$ 2,000	\$1,994
Due from one to five years	3,676	3,673
Due from five to ten years	221	218
Due over ten years	426	407
	<u>\$ 6,323</u>	<u>\$ 6,292</u>



NOTE D – LOANS TO MEMBERS

The composition of loans to members is as follows (in 000's):

	December 31,	
	2007	2006
Vehicles	\$ 215,593	\$ 235,740
Mortgages	58,549	51,536
Credit cards and other lines of credit	23,673	22,447
Unsecured signature/personal	11,371	10,737
Home equity/improvement loans	191,528	166,598
Business Loans	681	964
	<u>501,395</u>	<u>488,022</u>
Less allowance for loan losses	4,932	6,042
	<u>\$ 496,463</u>	<u>\$ 481,980</u>

A summary of the changes in the allowance for loan losses is as follows (in 000's):

	Year ended December 31,	
	2007	2006
Balance at beginning of year	\$ 6,042	\$ 6,426
Provision charged to operations	1,310	3,690
Loans charged off	(3,480)	(4,976)
Recoveries	1,060	902
	<u>\$ 4,932</u>	<u>\$ 6,042</u>

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately \$680,000 and \$1,050,000 at December 31, 2007 and 2006, respectively. If interest on those loans had been accrued, such income would have approximated \$15,000 and \$39,000 for the years ended December 31, 2007 and 2006, respectively.

NOTE E – LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of loans serviced for others and the mortgage custodial escrow accounts are summarized as follows (in 000's):

	December 31,	
	2007	2006
Loan participation portfolio serviced	<u>\$ 29,763</u>	<u>\$ 58,586</u>
Mortgage loan portfolio serviced	<u>\$ 269,158</u>	<u>\$ 271,378</u>
Custodial escrow accounts	<u>\$ 2,811</u>	<u>\$ 2,716</u>

The balance of capitalized servicing rights related to the mortgage loan portfolio amounted to \$943,000 and \$856,000 at December 31, 2007 and 2006, respectively.

NOTE F – OTHER ASSETS

Other assets consist of (in 000's):

	December 31,	
	2007	2006
National Credit Union Share Insurance Fund deposit	\$ 4,752	\$ 4,575
Dealer reserves	2,903	4,467
Accounts receivable and miscellaneous clearing accounts	3,236	3,429
Loan collateral in process of liquidation	196	212
Mortgage servicing rights	943	856
Variable life insurance annuity	2,836	2,709
Other real estate owned	226	239
Sponsor payrolls receivable	415	404
Prepaid and deferred expenses	575	564
Investments in unconsolidated credit union service organizations	684	597
Federal Home Loan Bank stock	1,552	0
	<u>\$ 18,318</u>	<u>\$ 18,052</u>

Federal Home Loan Bank Stock: The Credit Union's investment in the Federal Home Loan Bank (FHLB) stock was purchased to allow the Credit Union access to the services provided by the FHLB. The stock is considered restricted, as it may only be resold back to the FHLB at cost. To maintain a line of credit with the FHLB, the Credit Union may be required to invest in additional amounts of FHLB stock.

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following (in 000's):

	December 31,	
	2007	2006
Land	\$ 1,728	\$ 1,728
Buildings	14,862	14,493
Furniture, fixtures and equipment	6,892	6,359
Automatic teller machines	2,682	1,944
Leasehold improvements	1,467	1,025
	27,631	25,549
Accumulated depreciation and amortization	(7,634)	(5,969)
	<u>\$ 19,997</u>	<u>\$ 19,580</u>

Depreciation and amortization expense amounted to \$1,678,834 and \$1,559,968 in 2007 and 2006, respectively.

NOTE H – MEMBERS' SHARE ACCOUNTS

The aggregate amount of members' share accounts over \$100,000 was approximately \$67,000,000 and \$58,000,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007, scheduled maturities of share certificates, including IRA certificate accounts, are as follows (in 000's):

Years ending December 31,	
2008	\$ 226,708
2009	17,467
2010	9,793
2011	3,442
2012 and after	<u>2,615</u>
	<u>\$ 260,025</u>

NOTE I – BORROWED FUNDS

Line of Credit: The Credit Union has a \$45 million dollar line of credit agreement with Members United Corporate Federal Credit Union secured by the assets of the Credit Union. There were no outstanding borrowings under this facility as of December 31, 2007. There were outstanding borrowings under this facility of \$8,000,000 at December 31, 2006. The interest rate is determined by Members United at the time of borrowing and is established based on current market rates..

Advance Agreement:: During 2007, the Credit Union entered into an advance, collateral and security agreement with the Federal Home Loan Bank (FHLB). This agreement provides the Credit Union with a credit line having \$3,361,683 of remaining availability at December 31, 2007. The Credit Union is required to pledge eligible mortgage loans as collateral, with \$35,211,305 of mortgages currently eligible to be pledged as collateral. The interest rate is determined by the FHLB at the time of borrowing and is established based on the term of the loan selected by the Credit Union and current market rates. There were outstanding borrowings of \$25,000,000 as of December 31, 2007, due in one installment on January 24, 2008. Interest is payable throughout the term of the loan at a fixed rate of 4.48%.

Collateralized Borrowing:: The Credit Union entered into a collateralized borrowing arrangement with another financial institution during 2004. The collateral consists of a pool of auto loans, with a book value of approximately \$107,000. The borrowing bears interest at 4.25% and matures in August 2009. Any outstanding principal will be paid in full on the maturity date. The remaining balance of the borrowing at December 31, 2007 is \$89,000 and is expected to be paid in full in 2008.

Total borrowed funds consist of the following (in 000's):

	December 31,	
	<u>2007</u>	<u>2006</u>
Line of credit	\$ 0	\$ 8,000
Advance agreement	25,000	0
Collateralized borrowing	<u>89</u>	<u>203</u>
	<u>\$ 25,089</u>	<u>\$ 8,203</u>

NOTE J – 401(k) PENSION PLAN

The Credit Union maintains a 401(k) pension plan covering substantially all employees. The Plan allows employees, immediately upon date of hire, to defer a portion of their salary through contributions to the Plan. The Credit Union makes matching contributions to the plan, after one year of service, based on 50% of the elected salary deferrals up to 6% of compensation. Expense for the years ended December 31, 2007 and 2006 amounted to approximately \$219,000 and \$197,000, respectively.

NOTE K – COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk: The Credit Union enters into commitments to extend credit in the normal course of meeting the financial needs of its members. Commitments to extend credit, which generally have fixed expiration dates or other termination clauses, are legally binding agreements to lend to a member (as long as there is no violation of any condition established in the contract). These commitments involve, to varying degrees, elements of credit, interest rate or liquidity risk in excess of the amount recognized in the statements of financial condition.

Credit risk is the possibility that loss may occur from the counterpart's failure to perform according to the terms of the contract. Interest rate risk is due to fluctuations in interest rates that may decrease the market value of a financial instrument. Liquidity risk is the risk that the Credit Union will not be able to meet its contractual obligations as they come due.

The Credit Union uses the same credit policies in making commitments as it does for on-balance sheet instruments. The Credit Union controls the credit risk of commitments to extend credit through credit approvals, credit limits, monitoring procedures, and management's evaluation of each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the member.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amounts of the commitments. A summary of the contract amounts of the Credit Union's commitments to extend credit at December 31, 2007 is as follows (in 000's):

Unused lines of credit, excluding credit cards	\$ 20,498
Unused credit card lines	41,978
Loans approved not yet disbursed	<u>9,824</u>
	<u>\$ 72,300</u>

Since portions of the above commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements.

Financial Instruments with Concentrations of Credit Risk: The Credit Union has identified certain credit risk concentrations in relation to its on and off balance sheet financial instruments. A credit risk concentration is defined as a significant credit exposure to an individual or a group engaged in similar activities or affected similarly by economic conditions.

The Credit Union uses financial institutions and mutual funds for depository, investment and transactional services. Balances maintained at these institutions are uninsured or traditionally exceed federally insured limits.

Financial instruments with concentrations of credit risk by institution or fund are as follows (in 000's):

	December 31,	
	<u>2007</u>	<u>2006</u>
Federal Reserve Bank of New York	\$ 7,878	\$10,799
Members United Corporate Credit Union	4,437	6,073
Wescorp Federal Credit Union	756	730
National Investment Fund for Credit Unions	22,321	0
AMF Ultra Short Mortgage Fund	19,479	19,560

The Credit Union originates residential real estate loans throughout Central and Northern New York. These loans are underwritten to comply with secondary market standards and are secured by the underlying collateral. The Credit Union also grants various secured and unsecured consumer type loans to members in these regions.

NOTE L – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

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

Deposits at Corporate Credit Unions: The carrying amounts of deposits at corporate credit unions approximate their fair value.

Investment – Available for Sale: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Fair value of the interest spread retained on loans sold approximates its carrying value.

Accrued Interest Receivable: The carrying amount of accrued interest approximates the fair value.

Loans to Members: The fair values of loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Members' Share Accounts: The fair value of share draft, regular share and money market deposit accounts is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds: The fair values of the Credit Union's long-term debt are estimated using discounted cash flow analysis based on the Credit Union's incremental borrowing rates for similar types of borrowing arrangements. The carrying amount approximates fair value.

Loans Held for Sale: The fair value of loans held for sale approximates market value.

Off-Balance-Sheet Credit-Related Instruments: Fair values for off-balance sheet lending commitments are based on interest rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrowers' credit standings.



NOTE L – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (*Continued*):

The carrying amount and fair value of financial instruments of the Credit Union as of December 31, 2007 and 2006 is as follows (in 000's):

	December 31, 2007		December 31, 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash	\$ 40,507	\$ 40,507	\$ 20,407	\$ 20,407
Deposits at corporate credit unions	5,193	5,193	6,803	6,803
Investments – available for sale	26,066	26,066	28,821	28,821
Loans to members, net	496,463	504,333	481,980	477,253
Loans held for sale	1,099	1,099	1,402	1,402
Accrued interest receivable	1,940	1,940	1,972	1,972
Financial Liabilities:				
Members' share accounts	\$ 528,912	\$ 508,526	\$ 518,294	\$ 480,259
Borrowed funds	25,089	25,089	8,203	8,203
Off -balance sheet items:				
Commitments to extend credit		\$ 72,300		\$ 70,320

NOTE M – RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members, executive officers and employees. The aggregate loans at December 31, 2007 and 2006 are approximately \$5,600,000 and \$6,000,000, respectively. Deposits from these related parties at December 31, 2007 and 2006 amounted approximately to \$4,700,000 and \$5,200,000, respectively.



NOTE N – REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements. 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 practices 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 to total assets. 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, 2007 and 2006 was 5.45% and 5.22%, respectively. A ratio of 6% or greater would cause the Credit Union to be considered complex. Management believes, as of December 31, 2007 and 2006, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent call reporting period, the Credit Union was 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% of assets and meet any applicable RBNW requirement. Management believes there are no conditions or events that have occurred since that notification that would have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios at December 31, 2007 and 2006 are presented in the following table (in 000's):

	Actual		To be Well Capitalized Under Prompt Corrective Action Provisions		To be Adequately Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2007						
Net Worth	\$ 49,860	8.2%	\$ 42,342	7.0%	\$ 36,293	6.0%
Risk-Based Net Worth Requirement	32,966	5.5%	N/A	N/A	N/A	N/A
December 31, 2006						
Net Worth	\$ 44,626	7.7%	\$ 40,450	7.0%	\$ 34,671	6.0%
Risk-Based Net Worth Requirement	30,164	5.2%	N/A	N/A	N/A	N/A

Actual net worth amounts in the preceding table do not include accumulated other comprehensive loss.

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the daily average over the quarter option, as permitted by regulation.

Experience Financial Freedom

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Joseph J. Turczyn, *Director*

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Sonya E. Ezell, *Executive Assistant*

Joseph C. Anderson, *Chief Operating Officer*

Donna R. Wagner, *Executive Assistant*

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Marianne M. Herne, *Vice President, Branch Services*

Laszlo Kolozsvary, *Vice President, Information Technology and Facilities*

Lorraine J. McCormick, *Vice President, Human Resources*

W. Fred West, *Vice President, Lending*

James T. Lombardo, **CPCU, AAI, AIM**, *Chief Operating Manager
AmeriCU Services, LLC*

AmeriCU Capital Management, LLC

Management Team

Angelo Brindisi, *Manager, Loan Work Out and Recovery*

Michelle Brundage, *Manager, Application Systems and Services*

Jeff Canarelli, *Facilities Manager*

Kathryn M. Cashel, *Manager, Consumer Loans*

James Cecilia, *Financial Analyst*

Jacqueline M. Emma, *Branch Manager, Griffiss Office*

Linda C. Fabbio, *Manager, Process Improvement and Training*

Stephanie M. Fisher, *Manager, Automated Delivery Systems
and Services*

Danielle R. Hatashita, *Branch Manager, Cicero Office*

Michael Francisco, *Manager, Secondary Market*

Linda A. Hoff, *Compliance/Risk Management Officer*

Carolyn R. Lampman, *Branch Manager, Syracuse Office*

Mary Ellen Lingenfelter, *Branch Manager, Fort Drum Office*

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Community Development*

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School Road Offices*

Vaune A. Morat, *Manager, Member Service Center*

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William R. Myrick Jr., *Regional Manager, Eastern Division*

Gail J. Nicolaisen, *Branch Manager, Oneida Office*

Dyana Herrig O'Neill, *Regional Manager, Central Division*

John Otero, *Manager of Information Technology, Infrastructure
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Rindy L. Pallas, *Manager, Accounting and Electronic Services*

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Nancy E. Smith, *Manager, Asset Quality*

Sharron Puglio, *Assistant Manager, Loan Work Out and Recovery*

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Tim S. Witter, *Manager, Financial Planning*

Christopher A. Wood, *Relationship Manager, Indirect Lending*



14 CONVENIENT AMERICU CREDIT UNION BRANCH LOCATIONS TO SERVE YOU

Griffiss Park Branch

231 Hill Road
Rome, NY 13441

Rome Branch

1916 Black River Boulevard
Rome, NY 13440

School Road Branch

6000 School Road
Rome, NY 13440

Commercial Drive Branch

4957 Commercial Drive
Yorkville, NY 13495

Herkimer Branch – NEW

EFK Plaza 326 E. State Street
Herkimer, NY 13350

Oneida Branch

280 Genesee Street
Oneida, NY 13421

Fort Drum Branch

P10750 Riva Ridge Loop
Fort Drum, NY 13602

Watertown Mortgage Center

215 Washington Street, Suite 108
Watertown, NY 13601

Syracuse Branch

6303 Thompson Road
Syracuse, NY 13206

Lowville Branch – NEW

7394 Utica Boulevard
Lowville, NY 13367

Liverpool Branch

7474 Oswego Road
Liverpool, NY 13090

Auburn Branch

217 Grant Avenue
Auburn, NY 13021

Watertown Commons Branch

20991 NYS Route 3
Watertown, NY 13601

Cicero Branch – NEW

6414 State Route 31
Cicero, NY 13039

