

Bonadio & Co., LLP
Certified Public Accountants

March 27, 2007

To the Supervisory Committee and Board of Directors of The Summit Federal Credit Union:

We have audited the accompanying statements of financial condition of The Summit 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. Those standards require that we plan and perform the audits 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 statements referred to above present fairly, in all material respects, the financial position of The Summit Federal Credit Union as of December 31, 2006 and 2005, 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.

Bonadio + Co. LLP

10. POST-RETIREMENT BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

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

2007	\$ 15,000
2008	15,000
2009	15,000
2010	19,000
2011	35,000
2012 - 2016	826,000

The Summit does not expect to make a contribution to the Plan in 2007.

Defined Contribution Plan

In addition, The Summit sponsors a defined contribution plan that covers substantially all employees who meet certain age requirements. The Summit matches 50 percent of participant contributions up to four percent of participants' base compensation. The Summit's matching contributions, which are invested in participant-directed pooled separate accounts, were \$88,218 and \$84,700 for the years ended December 31, 2006 and 2005, respectively.

11. LINE-OF-CREDIT

The Summit has a \$20,000,000 secured line-of-credit agreement with Members United Corporate Federal Credit Union bearing a variable interest rate. Amounts borrowed are collateralized by certain assets of The Summit. At December 31, 2006, \$1,351,924 was outstanding under this agreement, bearing interest at 5.61%. This balance was repaid in January 2007. There was no balance outstanding under this agreement at December 31, 2005.

The Summit is a member of the Federal Home Loan Bank of New York (FHLB), which was formed to assist member financial institutions in meeting liquidity needs for mortgage lending purposes. Membership is obtained through investment in shares of FHLB stock as determined by a statutory formula. As of December 31, 2006 and 2005, the Credit Union had not borrowed from the FHLB.

12. COMMITMENTS

The Summit leases office space for branch locations under various long-term lease agreements. These agreements have terms which include escalating rents and renewal options.

Rental expense included in operating expense was \$288,076 and \$317,093 for 2006 and 2005, respectively. Future minimum lease payments under the terms of these operating leases are as follows:

2007	\$ 322,416
2008	326,352
2009	266,792
2010	267,236
2011	292,726
Thereafter	<u>1,041,516</u>
	<u>\$ 2,517,038</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

10. POST-RETIREMENT BENEFIT PLANS

Defined Benefit Pension Plan

The Summit has a non-contributory defined benefit pension plan covering substantially all employees. The following sets forth information regarding the Plan at the Plan's valuation date of October 1:

	<u>2006</u>	<u>2005</u>
Benefit obligation	\$ (5,333,688)	\$ (6,323,250)
Fair value of plan assets	<u>4,740,309</u>	<u>4,359,635</u>
Funded status	<u>\$ (593,379)</u>	<u>\$ (1,963,615)</u>
Accrued pension cost	<u>\$ (25,830)</u>	<u>\$ (162,839)</u>
Accumulated benefit obligation	<u>\$ (3,045,254)</u>	<u>\$ (3,362,057)</u>
Assumptions used to determine benefit obligation:		
Discount rate	5.50%	5.25%
Rate of compensation increase	5.00%	5.50%
Net pension cost	<u>\$ 362,991</u>	<u>\$ 344,463</u>
Employer contribution	<u>\$ 500,000</u>	<u>\$ -</u>
Benefits paid	<u>\$ (482,674)</u>	<u>\$ (71,903)</u>
Assumptions used to determine net pension cost:		
Discount rate	5.25%	5.50%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase	5.50%	5.50%

The net periodic benefit cost is based on assumptions and values from the prior fiscal year-end. The expected long-term rate-of-return-on-assets assumption was developed by analyzing historical returns of multiple asset classes to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on the overall rates and the target asset allocation of the Plan.

Plan assets consist of insurance company separate accounts. The weighted-average asset allocation for The Summit pension plan by asset category is as follows:

	<u>2006</u>	<u>2005</u>
Equity securities	59%	59%
Debt securities	33%	33%
Real estate	<u>8%</u>	<u>8%</u>
	<u>100%</u>	<u>100%</u>

The investment strategy of the Plan involves a long-term, risk controlled approach using a diversified allocation of equity, debt, and real estate exposures that are customized to the Plan's cash flow benefit needs.

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 5,373,672	\$ 7,182,943
Overnight deposits at corporate credit unions	12,578,846	456,943
Investment in certificates of deposit	6,894,000	11,780,000
Investment securities available for sale	10,621,511	19,832,718
Investment securities held to maturity	11,645,045	23,015,193
Capital shares of corporate credit unions	2,122,977	2,122,977
Loans to members, less allowance for loan losses of \$1,573,287 and \$1,330,559, respectively	298,042,369	267,549,051
Accrued interest receivable	1,828,702	1,730,993
Premises and equipment, net	9,152,014	8,514,586
NCUSIF deposit	2,953,120	2,793,227
Other assets	<u>1,787,960</u>	<u>1,728,830</u>
Total assets	<u>\$ 363,000,216</u>	<u>\$ 346,707,461</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accrued expenses and other liabilities	\$ 4,043,478	\$ 3,285,213
Line-of-credit	<u>1,351,924</u>	<u>-</u>
Total liabilities excluding members' accounts	<u>5,395,402</u>	<u>3,285,213</u>
MEMBERS' AND NON-MEMBERS' ACCOUNTS:		
Members' shares and savings accounts	181,061,987	188,349,712
Members' share certificates	126,318,804	112,945,174
Non-members' shares and certificates	<u>8,846,656</u>	<u>3,003,196</u>
Total members' and non-members' accounts	<u>316,227,447</u>	<u>304,298,082</u>
Total liabilities	<u>321,622,849</u>	<u>307,583,295</u>
MEMBERS' EQUITY:		
Regular reserve	8,741,914	8,741,914
Undivided earnings	32,791,889	30,783,477
Accumulated other comprehensive loss	<u>(156,436)</u>	<u>(401,225)</u>
Total members' equity	<u>41,377,367</u>	<u>39,124,166</u>
Total liabilities and members' equity	<u>\$363,000,216</u>	<u>\$346,707,461</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NET INTEREST INCOME:		
Loans to members	\$ 18,122,701	\$ 14,953,636
Investments	<u>1,882,051</u>	<u>2,136,183</u>
	20,004,752	17,089,819
DIVIDENDS ON MEMBERS' AND NON-MEMBERS' SHARES	<u>8,379,421</u>	<u>5,749,332</u>
Net interest income before provision for loan losses	11,625,331	11,340,487
PROVISION FOR LOAN LOSSES	<u>961,495</u>	<u>1,184,404</u>
Net interest income after provision for loan losses	<u>10,663,836</u>	<u>10,156,083</u>
NON-INTEREST INCOME	<u>5,379,028</u>	<u>5,309,378</u>
NON-INTEREST EXPENSE:		
Compensation and benefits	7,204,799	7,012,324
Operations	3,386,443	3,233,654
Occupancy	902,114	838,451
Professional and outside services	1,257,407	1,260,012
Marketing	751,513	552,773
Other	<u>532,176</u>	<u>521,491</u>
Total non-interest expense	<u>14,034,452</u>	<u>13,418,705</u>
NET INCOME	<u>\$ 2,008,412</u>	<u>\$ 2,046,756</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

8. OTHER ASSETS

The components of other assets were as follows at December 31:

	<u>2006</u>	<u>2005</u>
Investment in Credit Union Auto Finance, LLP	\$ 250,346	\$ -
Mortgage servicing rights	240,271	237,923
FHLB stock	233,800	219,802
Advances for VISA clearing	144,600	152,000
Deposits on fixed assets	102,039	367,397
Due from Federal National Mortgage Association	-	114,869
Miscellaneous	<u>816,904</u>	<u>636,839</u>
	<u>\$ 1,787,960</u>	<u>\$ 1,728,830</u>

9. SHARE ACCOUNTS AND CERTIFICATES

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

2007	\$ 97,450,588
2008	14,343,664
2009	6,075,954
2010	6,042,158
2011	701,256
Thereafter	<u>1,705,184</u>
	<u>\$ 126,318,804</u>

Dividend expense on share accounts and certificates is summarized as follows at December 31:

	<u>2006</u>	<u>2005</u>
Regular shares	\$ 472,601	\$ 422,938
Share drafts	51,065	41,910
Money market shares	2,317,464	1,635,541
Share certificates	4,181,907	2,498,107
IRA shares	168,273	119,097
IRA share certificates	<u>1,188,111</u>	<u>1,031,739</u>
	<u>\$ 8,379,421</u>	<u>\$ 5,749,332</u>

The aggregate amount of member share account balances in excess of \$100,000 was \$26,318,302 and \$26,944,396 at December 31, 2006 and 2005, respectively.

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

5. PREMISES AND EQUIPMENT

Premises and equipment, net of accumulated depreciation and amortization, consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>	
Land	\$ 1,923,425	\$ 1,923,425	25
Buildings	7,625,847	7,088,391	91
Furniture, fixtures and equipment	4,871,752	4,335,507	07
Leasehold improvements	<u>255,776</u>	<u>139,013</u>	<u>13</u>
	14,676,800	13,486,336	36
Less: Accumulated depreciation and amortization	<u>(5,524,786)</u>	<u>(4,971,750)</u>	<u>50</u>
	<u>\$ 9,152,014</u>	<u>\$ 8,514,586</u>	<u>86</u>

Depreciation and amortization expense on premises and equipment was \$699,354 and \$596,394 for the years ended December 31, 2006 and 2005, respectively.

6. MORTGAGE SERVICING RIGHTS

In order to ensure the availability of a broad range of mortgage products for its members at the lowest possible cost, The Summit periodically sells originated mortgages, primarily to the FNMA, while retaining the rights to service these mortgages for its members. During 2006 and 2005, net gains/(losses) resulting from the sale of originated mortgages were \$(10,125) and \$3,191, respectively. Mortgage loans serviced for the FNMA are not included in the accompanying statement of financial condition. The unpaid principal balance of these loans was \$44,019,045 and \$40,286,838 at December 31, 2006 and 2005, respectively.

For 2006 and 2005, the fair value of the mortgage servicing rights (MSR) was \$403,700 and \$372,915, respectively, which exceeded recorded amounts. The fair value was determined by calculating the net present value of the estimated income stream associated with the MSR over the term of the loan. The estimated net income stream is discounted using a 9.25 percent rate of return and a prepayment speed based upon the consensus PSA from the dealer survey conducted by the Bond Market Association.

For 2006 and 2005, The Summit capitalized \$71,639 and \$24,830 of MSR, respectively. Amortization of MSR was \$69,291 and \$80,036 for 2006 and 2005, respectively. The Summit amortizes MSR based upon the payments received for the serviced loans, adjusted for prepayments and charge-offs.

7. INVESTMENT IN CREDIT UNION AUTO FINANCE, LLC

On October 1, 2006, The Summit acquired a 50% equity interest in Credit Union Auto Finance, LLC, a credit union service organization that processes indirect auto loan applications for The Summit and other credit unions. The Summit paid \$250,000 for this equity interest. The Summit accounts for this investment on the equity method. This investment had a value of \$250,346 at December 31, 2006.

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2004	<u>\$ 8,741,914</u>	<u>\$ 28,736,721</u>	<u>\$ (300,348)</u>	<u>\$ 37,178,287</u>
Comprehensive income -				
Net income	-	2,046,756	-	2,046,756
Change in unrealized gain (loss) on deferred compensation plan investments	-	-	134	134
Change in unrealized gain (loss) on investment securities available for sale	-	-	(101,011)	(101,011)
Comprehensive income	-	2,046,756	(100,877)	1,945,879
BALANCE, DECEMBER 31, 2005	<u>8,741,914</u>	<u>30,783,477</u>	<u>(401,225)</u>	<u>39,124,166</u>
Comprehensive income -				
Net income	-	2,008,412	-	2,008,412
Change in unrealized gain (loss) on deferred compensation plan investments	-	-	(94)	(94)
Change in unrealized gain (loss) on investment securities available for sale	-	-	244,883	244,883
Comprehensive income	-	2,008,412	244,789	2,253,201
BALANCE, DECEMBER 31, 2006	<u>\$ 8,741,914</u>	<u>\$ 32,791,889</u>	<u>\$ (156,436)</u>	<u>\$ 41,377,367</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 2,008,412	\$ 2,046,756
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	699,354	596,394
Amortization of mortgage servicing rights	69,291	80,036
Capitalization of mortgage servicing rights	(71,639)	(24,830)
Provision for loan losses	961,495	1,184,404
Net amortization of premiums and accretion of discounts in investment securities	271,590	(16,544)
Loss (gain) on disposition of premises and equipment	3,286	(123,199)
Changes in:		
Accrued interest receivable	(97,709)	(123,088)
Other assets	207,562	(194,351)
Accrued expenses and other liabilities	757,919	287,041
Net cash flow from operating activities	<u>4,809,561</u>	<u>3,712,619</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Net decrease in investment securities available for sale	9,354,554	11,216,228
Net decrease in investment securities held to maturity	11,200,000	3,954,296
Investment in Credit Union Auto Finance, LLC	(250,000)	-
Net decrease in investments in certificates of deposit	4,886,000	3,980,594
Net decrease (increase) in capital shares of corporate credit unions	-	(149,519)
Net increase in loans to members	(31,454,813)	(40,958,269)
Purchases of premises and equipment	(1,340,068)	(3,635,973)
Proceeds from dispositions of premises and equipment	-	426,434
Increase in NCUSIF deposit	(159,893)	(67,081)
Net decrease (increase) Federal Home Loan Bank stock	(13,998)	582,517
Net cash flow from investing activities	<u>(7,778,218)</u>	<u>(24,650,773)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Net increase in line-of-credit	1,351,924	-
Net decrease in members' shares and savings accounts	(7,287,725)	(14,049,519)
Net increase in members' share certificates	13,373,630	21,485,788
Net increase in non-members' shares and certificates	5,843,460	438,775
Net cash flow from financing activities	<u>13,281,289</u>	<u>7,875,044</u>
NET CHANGE IN CASH AND EQUIVALENTS	10,312,632	(13,063,110)
CASH AND EQUIVALENTS - beginning of year	<u>7,639,886</u>	<u>20,702,996</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 17,952,518</u>	<u>\$ 7,639,886</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for dividends on members' and nonmembers' shares	<u>\$ 8,379,421</u>	<u>\$ 5,683,881</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

4. LOANS TO MEMBERS

The composition of loans to members is as follows at December 31:

	2006	2005
Automobile	\$151,673,353	\$122,430,330
Real estate	109,938,187	109,657,569
Lines-of-credit	19,963,393	18,528,283
Unsecured	5,110,950	6,164,648
Home improvement	2,151,483	2,462,179
Recreational vehicles	4,880,060	5,038,266
Share secured loans	825,214	685,998
Net deferred loan origination costs	<u>5,073,016</u>	<u>3,912,337</u>
	299,615,656	268,879,610
Less: Allowance for loan losses	<u>(1,573,287)</u>	<u>(1,330,559)</u>
	<u>\$298,042,369</u>	<u>\$267,549,051</u>

Loans on which the accrual of interest has been discontinued or reduced amounted to \$351,054 and \$417,806 at December 31, 2006 and 2005, respectively. If interest on these loans had been accrued, such income would have approximated \$28,000 and \$35,000 for 2006 and 2005, respectively.

Included in the loans to members at December 31, 2006 and 2005, are loans of \$1,703,549 and \$1,573,219, respectively, to directors and officers of The Summit.

A summary of the activity in the allowance for loan losses was as follows for the year ended December 31:

	2006	2005
Balance at beginning of year	\$ 1,330,559	\$ 1,508,116
Provision for loan losses	961,495	1,184,404
Loan recoveries	380,346	309,438
Loans charged-off	<u>(1,099,113)</u>	<u>(1,671,399)</u>
Balance at end of year	<u>\$ 1,573,287</u>	<u>\$ 1,330,559</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

3. INVESTMENT SECURITIES (Continued)

The scheduled maturities of held to maturity and available for sale securities were as follows at December 31, 2006:

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 5,369,296	\$ 5,346,700	\$ 5,135,610	\$ 5,105,120
Due from one to five years	6,275,749	6,207,120	3,684,151	3,586,342
Due from five to ten years	-	-	164,881	161,900
Due after ten years	-	-	1,793,345	1,768,149
	<u>\$11,645,045</u>	<u>\$11,553,820</u>	<u>\$10,777,987</u>	<u>\$10,621,511</u>

The following table shows the gross unrealized losses and fair value of investments, aggregated by investment category and length of time that securities have been in continuous unrealized loss positions, at December 31, 2006:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale						
U.S. government agency	\$ 89,862	\$ (340)	\$10,101,815	\$ (159,705)	\$10,191,677	\$ (160,045)
Securities held to maturity						
U.S. government and federal agency	\$ -	\$ -	\$11,553,820	\$ (91,225)	\$11,553,820	\$ (91,225)

Management evaluates securities for other-than-temporary impairment on at least 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 Summit to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management does not believe that a write-down is required in connection with the investment securities noted above.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. THE ORGANIZATION

The Summit Federal Credit Union (The Summit) was established to offer low-cost, high quality financial products and services to its members. The Summit is headquartered in Rochester, New York and has branch locations in Buffalo, Hilton, Irondequoit, Seneca Falls, Henrietta, Greece, Penfield, Clarence and Brighton, New York. The Summit's wholly-owned subsidiary, Canal Ponds Credit Union Services, Inc. (Canal Ponds, Inc.) ceased operations in October 2005. Canal Ponds, Inc., a credit union service organization, provided investment services to credit union members.

On July 1, 2006, Brighton School Employees Federal Credit Union merged with The Summit. As a direct result of the merger, The Summit increased its total assets by \$3,532,490, its liabilities by \$100,000, its member share accounts by \$2,666,723, its regular reserve by \$136,265 and its undivided earnings by \$629,502.

On October 1, 2005, the Hilton Federal Credit Union merged with The Summit. As a direct result of the merger, The Summit increased its total assets by \$4,952,185, its member share accounts by \$4,038,137, its regular reserve by \$231,240 and its undivided earnings by \$681,787.

The mergers were accounted for in a manner similar to a pooling of interests and in accordance with NCUA guidelines.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of Presentation The accounting principles of The Summit conform to accounting principles generally accepted in the United States and the National Credit Union Administration (NCUA) regulations.

The financial statements for the year ended December 31, 2005 include the accounts of The Summit and its wholly-owned subsidiary, Canal Ponds Credit Union Services, Inc. All significant inter-company accounts and transactions have been eliminated.

Cash and Equivalents Cash and equivalents include all highly liquid investments with an original maturity of three months or less as well as overnight deposits at corporate credit unions which, at times, may exceed federally insured limits. The Summit has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash and equivalents.

Investments The Summit's significant accounting policies related to investments are as follows:

Investments at Corporate Credit Unions Investments at corporate credit unions are recorded at cost which approximates fair value. These investments, except for investments in corporate credit union capital shares, consist of cash and cash equivalents varying in duration from overnight to three months.

Investments in Certificates of Deposit Investments in certificates of deposit are recorded at cost and have maturities of up to seven years.

Investments in Debt Securities Investments in debt securities which are classified as held to maturity are stated at amortized cost when management has the positive intent and ability to hold such securities to maturity. Investments in debt securities which are classified as available for sale and have readily determinable fair values are stated at estimated fair value. Unrealized gains or losses related to investment securities available for sale are excluded from income and included as a change in other comprehensive income.

Interest income includes interest earned on investment securities and the respective amortization of premium or accretion of discount. Amortization or accretion for held to maturity and available for sale investments is computed using the effective interest rate method. Gains and losses from sales of securities are determined using the specific identification method.

Investment Risk The Summit invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the accompanying financial statements.

Loans to Members and Allowance for Loan Losses Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. For substantially all loans, interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The allowance for loan losses is increased through a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance when management believes collection is doubtful. Management's periodic evaluation of the adequacy of the allowance is based on The Summit's past loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' abilities to repay, estimated value of any underlying collateral, and current economic conditions.

The accrual of interest is discontinued on a loan when the loan becomes 90 days or more past due and management believes, based on collection efforts, that the borrower's financial condition is such that the 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 the loan is no longer 90 days or more past due, at which time the loan is returned to accrual status.

Loan fees and certain direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual term of the loan.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Premises and Equipment Land is carried at cost. Buildings, office equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and office equipment are depreciated over useful lives ranging from three to forty years using the straight-line method. Leasehold improvements are amortized using the straight-line method over the period of the lease or the estimated life of the property, whichever is shorter.

National Credit Union Share Insurance Fund ("NCUSIF")
Deposit NCUA regulations 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 Summit if its insurance coverage was terminated, it converted to insurance coverage from another source, or the operations of the fund were transferred from the NCUA Board.

NCUSIF Insurance Premiums A 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. In 2006 and 2005, the NCUA's Board waived the insurance premiums.

Mortgage Servicing Rights Mortgage servicing rights assets, included with other assets, are established each time The Summit undertakes an obligation to service mortgage loans for the Federal National Mortgage Association (FNMA). For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on 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, ancillary income, prepayment speeds and default rates and losses. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. For purposes of measuring impairment, the assets are stratified based on the original term and interest rate of the underlying loans. The amount of impairment recognized is the amount by which the capitalized mortgage servicing assets for a stratum exceed their fair value.

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.

Other Real Estate Owned Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value at the date of foreclosure and are included within other assets. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management and an allowance for losses is established by means of a charge to operations if the carrying value of the property exceeds fair value less estimated costs to sell.

Members' and Non-members' Share Accounts and Certificates Members' and non-members' shares are subordinated to all other liabilities of The Summit upon liquidation. Dividends on share

accounts are based on available earnings at the end of a dividend period and are not guaranteed by The Summit. Dividend rates on share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions. Dividend rates on members' and non-members' share certificates, money market and checking accounts are set by management based on current market conditions. Dividends on members' and non-members' share accounts and share certificates are charged as an expense.

Pension Plan The Summit has a qualified, non-contributory defined benefit pension plan covering substantially all of its employees. The Summit's policy is to fund at least the minimum amount required under the Employee Retirement Income Security Act of 1974 (ERISA).

Members' Equity The Summit is required by NCUA Regulations to maintain a net worth ratio based on the risk deemed inherent in its balance sheet. Credit unions which do not meet the risk based net worth requirements will be subject to prompt corrective supervisory action by the NCUA. The NCUA's net worth requirements to be considered adequately capitalized at December 31, 2006 and 2005 was 7.0 percent. As of December 31, 2006 and 2005, the Summit maintained a net worth ratio of 11.44 percent and 11.40 percent, respectively, and was considered well capitalized. The Summit is also subject to a Risk Based Net Worth Requirement (RBNWR), which establishes whether The Summit will be considered "complex" under the NCUA's regulatory framework. The Summit's RBNWR ratio was below 6% for the years ended December 31, 2006 and 2005, respectively. Based on this, The Summit is not considered "complex" under the NCUA's regulatory framework.

The Summit is required by regulation to maintain a reserve. This regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Taxes The Summit is exempt, by statute, from federal and state income taxes. Canal Ponds, Inc. was subject to taxation; however, tax amounts were insignificant at December 31, 2005.

Comprehensive Income Accounting principles generally require that recognized income, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a change in the accumulated other comprehensive income (loss) section of the statements of members' equity.

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications Certain amounts have been reclassified in the 2005 financial statements due to the mergers described in Note 1 to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale are as follows at December 31:

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	\$4,999,322	\$ -	\$ (30,262)	\$4,969,060
Mortgage-backed securities	5,778,665	3,569	(129,783)	5,652,451
	<u>\$10,777,987</u>	<u>\$ 3,569</u>	<u>\$ (160,045)</u>	<u>\$10,621,511</u>

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	\$12,555,375	\$ -	\$ (202,385)	\$12,352,990
Mortgage-backed securities	7,678,702	5,914	(204,888)	7,479,728
	<u>\$20,234,077</u>	<u>\$ 5,914</u>	<u>\$ (407,273)</u>	<u>\$19,832,718</u>

The amortized cost and estimated fair value of investment securities held to maturity are as follows at December 31:

	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and Federal agency securities	\$11,645,045	\$ -	\$ (91,225)	\$11,553,820

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and Federal agency securities	\$23,015,193	\$ -	\$ (408,270)	\$22,606,923

The fair values of securities are estimated using independent pricing services and are based on available market data.