ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Supervisory Committee
Arizona Federal Credit Union

We have audited the accompanying consolidated financial statements of Arizona Federal Credit Union (the credit union) and subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, the consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the credit union's wholly owned subsidiary, Arizona Federal Insurance Solutions, LLC, as of and for the year ended December 31, 2014, whose financial statements reflect total assets of $11,022,848 as of December 31, 2014 and total net income of $625,940 for the year ended December 31, 2014. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Arizona Federal Insurance Solutions, LLC as of and for the year ended December 31, 2014, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arizona Federal Credit Union and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

In our report dated April 29, 2015, we expressed an opinion that the 2014 consolidated financial statements did not fairly present the financial position, results of operations, and cash flows of Arizona Federal Credit Union and its subsidiaries in accordance with accounting principles generally accepted in the United States of America because the credit union had reported an unallocated reserve in the allowance for loan losses account that should have been adjusted to a supportable amount. As described in Note 17, the credit union has recorded a prior period adjustment to reduce the allowance for loan losses account and the provision for loan losses expense and has restated the 2014 consolidated financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated 2014 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

Turner, Warren, Hwang + Conrad

Burbank, California
April 29, 2016

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 188,116,236	$ 64,647,114
Investments:		
Securities available for sale	512,969,901	556,210,320
Other	22,191,903	10,094,267
Loans held for sale	57,127	-
Loans receivable, net	569,873,633	549,559,139
Accrued interest receivable	4,477,799	5,083,955
Property held for sale	7,000,000	-
Property and equipment	47,284,822	59,742,438
National Credit Union Share Insurance Fund (NCUSIF) deposit	11,258,637	10,782,532
Goodwill and other intangibles	5,187,125	5,616,123
Other assets	28,197,667	29,574,112
Total assets	$ 1,396,614,850	$ 1,291,310,000
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 1,174,071,268	$ 1,086,738,523
Accrued expenses and other liabilities	23,971,950	19,807,796
Total liabilities	1,198,043,218	1,106,546,319
Members' equity:		
Regular reserve	30,424,552	30,424,552
Undivided earnings	166,947,847	148,478,726
Accumulated other comprehensive income	1,199,233	5,860,403
Total members' equity	198,571,632	184,763,681
Total liabilities and members' equity	$ 1,396,614,850	$ 1,291,310,000

The accompanying notes are an integral part of these consolidated financial statements.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
INTEREST INCOME		
Loans receivable	$ 33,579,189	$ 30,020,902
Investments and cash and cash equivalents	9,854,953	11,738,766
Total interest income	43,434,142	41,759,668
INTEREST EXPENSE		
Members' share accounts	6,122,668	5,532,348
Borrowed funds	-	68
Total interest expense	6,122,668	5,532,416
NET INTEREST INCOME	37,311,474	36,227,252
CREDIT FOR LOAN LOSSES	(1,882,005)	(5,183,907)
NET INTEREST INCOME AFTER CREDIT FOR LOAN LOSSES	39,193,479	41,411,159
NON-INTEREST INCOME		
Fees and charges	21,879,162	22,966,579
Other income	27,551,501	26,329,992
Gain on sale of investments	743,700	-
Loss on impairment of property held for sale	(4,790,513)	-
Loss on disposal of other real estate owned	(13,688)	(29,019)
Total non-interest income	45,370,162	49,267,552
NON-INTEREST EXPENSE		
Compensation and benefits	35,839,818	31,510,544
Operations	25,759,823	22,587,595
Occupancy	4,494,879	4,205,129
Total non-interest expense	66,094,520	58,303,268
NET INCOME	$ 18,469,121	$ 32,375,443

The accompanying notes are an integral part of these consolidated financial statements.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
NET INCOME	$ 18,469,121	$ 32,375,443
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on securities available for sale:		
Unrealized holding gains (losses) arising during the year	(3,917,470)	4,904,545
Reclassification adjustment for realized gains included in net income	(743,700)	-
Total other comprehensive income (loss)	(4,661,170)	4,904,545
COMPREHENSIVE INCOME	$ 13,807,951	$ 37,279,988

The accompanying notes are an integral part of these consolidated financial statements.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	$ 30,424,552	$ 116,103,283	$ 955,858	$ 147,483,693
Comprehensive income:				
Net income	-	32,375,443	-	32,375,443
Other comprehensive income	-	-	4,904,545	4,904,545
Total comprehensive income				37,279,988
Balance, December 31, 2014	30,424,552	148,478,726	5,860,403	184,763,681
Comprehensive income:				
Net income	-	18,469,121	-	18,469,121
Other comprehensive loss	-	-	(4,661,170)	(4,661,170)
Total comprehensive income				13,807,951
Balance, December 31, 2015	$ 30,424,552	$ 166,947,847	$ 1,199,233	$ 198,571,632

The accompanying notes are an integral part of these consolidated financial statements.

Arizona Federal Credit Union and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 18,469,121	$ 32,375,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,183,844	4,001,425
Loss on impairment of property held for sale	4,790,513	
Amortization of investments, net	8,229,696	8,990,617
Credit for loan losses	(1,882,005)	(5,183,907)
Amortization of intangible assets	428,998	428,999
Gain on sale of securities available for sale	(743,700)	-
Loss on sale of other real estate owned	13,688	29,019
Net change in operating assets and liabilities:		
Loans held for sale	(57,127)	-
Accrued interest receivable	606,156	(215,772)
NCUSIF deposit	(476,105)	211,943
Other assets	1,376,445	(15,548,646)
Accrued expenses and other liabilities	4,164,154	355,560
Net cash provided by operating activities	39,103,678	25,444,681
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(93,412,056)	(106,687,376)
Proceeds from maturities and principal payments received on securities available for sale	124,505,309	115,472,850
Net (increase) decrease in other investments	(12,097,636)	3,855,806
Net increase in loans receivable	(18,557,489)	(39,438,216)
Proceeds from sale of foreclosed assets	111,312	415,736
Purchases of property and equipment	(3,516,741)	(4,462,789)
Net cash used in investing activities	(2,967,301)	(30,843,989)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	87,332,745	10,327,772
Net cash provided by financing activities	87,332,745	10,327,772
NET INCREASE IN CASH AND CASH EQUIVALENTS	123,469,122	4,928,464
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,647,114	59,718,650
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 188,116,236	$ 64,647,114
SUPPLEMENTAL DISCLOSURES		
Dividends paid on members' share accounts	$ 6,122,668	$ 5,532,348
Interest paid on borrowed funds	-	68
Transfer of property to property held for sale	7,000,000	-
Transfer of loans to other real estate owned	125,000	269,941

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Arizona Federal Credit Union (the credit union) and its wholly owned subsidiaries, Western States Financial Group, LLC (WSFG) and Arizona Federal Insurance Solutions, LLC (AFIS). WSFG is engaged in providing auto buying services to members through third-party relationships. AFIS was formed and organized under the laws of the State of Arizona on November 21, 2005. AFIS is licensed to own and operate general property/casualty and life insurance agencies. AFIS operates principally in the Southwest Region of the United States. Effective January 1, 2006, AFIS acquired substantially all the assets of The Arizona Group, Inc., an Arizona corporation, and Nevada Insurance Group, Inc., a Nevada Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Business: The credit union is a federally chartered credit union organized under the Federal Credit Union Act and administratively responsible to the National Credit Union Administration (the NCUA). The primary purpose of the credit union is to promote thrift among and create a source of credit for its members. Participation in the credit union is limited to those individuals who qualify for membership. The field of membership is defined in the credit union's charter and bylaws. The credit union's primary source of revenue is providing loans to its members.

Field of Membership and Sponsor: The credit union obtained a community charter from the NCUA; accordingly, the field of membership includes all persons who live, work, worship or attend school in, and businesses and other legal entities located in, Maricopa and Pinal counties, Arizona, and the city of Tucson, Arizona.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The credit union's financial instruments and other accounts subject to fair value measurement and/or disclosure are summarized in Note 15.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents: Cash consists of certificates of deposit, funds due from banks, credit unions and corporate credit unions, and cash in vaults and on hand. For purposes of the consolidated statements of cash flows, the credit union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investments: Securities that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and carried at fair value. Unrealized gains and losses on securities available for sale are recognized as a direct increase or decrease 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 individual securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment (OTTI) exists, management considers many factors, including (1) the length of time and 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 investments 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 determined using the specific-identification method.

Other investments are classified separately and stated at cost.

Federal Home Loan Bank (FHLB) Stock: The credit union, as a member of the FHLB system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its Membership Asset Value, subject to a cap of $15 million or 2.7% of advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial condition at cost.

Loans Held for Sale: Loans originated on behalf of CU Members Mortgage are classified as loans held for sale and are carried at the lower of cost or estimated market value in aggregate. All sales are made without recourse.

Loans Receivable, Net: Loans 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 and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 91 days delinquent. Loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan and the actual number of days since the last payment date. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for using the cash-basis method until the loans qualify 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.

Certain loan fees and 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 life of the loans, adjusted for estimated prepayments based on the credit union's historical prepayment experience.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings (TDRs): In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession to a member for other than an insignificant period of time that the credit union would not otherwise consider, the related loan is classified as a TDR. The credit union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and avoid foreclosure or repossession of the collateral. In cases where the credit union grants a member new terms that provide for a reduction of interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into three segments: commercial, residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The commercial portfolio segment is comprised of commercial real estate loans. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the residential real estate and consumer segments for impairment on a pooled basis, unless they represent TDRs, as part of the general loan loss allowance and evaluates the commercial segment individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided for loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and duration of the current business cycle.

In estimating the allowance for loan losses, the significant risk characteristics considered for the residential real estate segment were historical and expected future charge-offs, borrower's credit and property collateral. The significant characteristics considered for the commercial segment were type of property, geographical concentrations and risks, and individual borrower financial condition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the initial cost basis or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to have been surrendered when (1) the assets have been isolated from the credit union, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the credit union does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Property and Equipment: Land is carried at cost. Buildings, furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and furniture 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.

Valuation of Long-Lived Assets: The credit union evaluates long-lived assets and certain identifiable intangible assets 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 NCUSIF is in accordance with 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 insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums and Temporary Corporate Credit Union Stabilization Fund (TCCUSF) Assessment: The credit union is required to pay an annual insurance premium based on a percentage of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA did not approve an assessment during the years ended December 31, 2015 and 2014.

Goodwill and Intangible Assets: Goodwill and intangible assets of AFIS that have indefinite useful lives are not amortized, but rather are tested at least annually for impairment. If impairment has occurred, the asset will be reduced to the fair value, which is determined using the net present value of anticipated cash flows. Intangibles with a finite useful life are amortized over their useful lives.

Accounts Receivable from Insurance: Accounts receivable of AFIS represent billed insurance premiums and commissions for insurance coverage provided by various insurance carriers represented by AFIS. Trade credit is generally extended on a short-term basis; thus, trade receivables do not bear interest. The total amount of accounts receivable of AFIS included in other assets on the consolidated statements of financial condition is $482,911 and $507,679 as of December 31, 2015 and 2014, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AFIS follows the direct write-off method of recognizing uncollectible accounts receivable, which management believes approximates the allowance method. The direct write-off method recognizes a bad debt expense only when a specific account is determined to be uncollectible. Under certain circumstances, uncollectible accounts receivable are charged directly against a producer's commissions. In the opinion of the management of AFIS, no existing accounts receivable are deemed uncollectible. For the years ended December 31, 2015 and 2014, AFIS had no bad debt expense.

Members' Share Accounts: Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of a dividend period and are 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 regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Recognition from Insurance: Commission and fee income from AFIS, included in other non-interest income on the consolidated statements of income, is recognized when the insured is invoiced, which approximates the effective date of the policy. Contingency commission income is recognized when received. Policy cancelations are recorded at the time of occurrence, and accordingly, no liability is accrued for policy cancelations.

Income Taxes: The credit union is exempt by statute from federal and state income taxes. Income from WSFG and AFIS flows through to the credit union and therefore is not subject to federal and state income taxes.

Advertising Costs: Advertising costs are generally charged to operations when incurred. Certain advertising costs related to prepaid marketing campaigns are capitalized and expensed as the advertising takes place.

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

Recent Accounting Pronouncements: In January 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-01—*Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This guidance will eliminate the concept of extraordinary items and the cost and complexity for preparers, auditors and regulators to evaluate whether an unusual or infrequent item has been treated properly. The guidance will align the income statement presentation more closely with IAS 1, *Presentation of Financial Statements*, which prohibits the presentation and disclosure of extraordinary items.

ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2015 for both public and private entities. The changes may be adopted prospectively or retrospectively if applied to all prior periods presented in the consolidated financial statements. Early adoption is permitted provided the guidance is applied from the beginning of the fiscal year of adoption. The credit union does not anticipate that the adoption of this ASU will have a significant impact on the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2016, the FASB issued ASU No. 2016-01—*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires an entity to measure equity investments at fair value through net income, with certain exceptions; present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; present financial assets and financial liabilities by measurement category and form of financial assets; and calculate the fair value of financial instruments for disclosure purposes based on an exit price. ASU No. 2016-01 provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. This ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements.

Entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost.

The classification and measurement guidance will be effective for non-public entities in fiscal years beginning after December 15, 2018. The credit union is currently evaluating the impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02—*Leases (Topic 842)*. This ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The guidance in ASU No. 2016-02 supersedes ASC 840, *Leases*.

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASC 606, *Revenue from Contracts with Customers*.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance-sheet financing.

The amendments in ASU No. 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities, specific not-for-profit entities and specific employee benefit plans. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The credit union is currently evaluating the impact of this ASU on the consolidated financial statements.

Subsequent Events: Management has evaluated subsequent events through April 29, 2016, the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

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

2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 87,032,461	$ 806,923	$ (596,152)	$ 87,243,232
Collateralized mortgage obligations	118,223,554	890,645	(359,687)	118,754,512
Mortgage-backed and asset-backed securities	306,514,653	1,864,163	(1,406,659)	306,972,157
	$ 511,770,668	$ 3,561,731	$ (2,362,498)	$ 512,969,901
2014				
Federal agency securities	$ 93,571,957	$ 1,029,549	$ (485,956)	$ 94,115,550
Collateralized mortgage obligations	126,391,006	1,822,110	(354,209)	127,858,907
Mortgage-backed and asset-backed securities	330,386,954	4,099,623	(250,714)	334,235,863
	$ 550,349,917	$ 6,951,282	$ (1,090,879)	$ 556,210,320

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

2015	Fair Value	Continuous Unrealized Losses Existing for Less Than 12 Months	Continuous Unrealized Losses Existing for 12 Months or Longer	Total Unrealized Losses
Federal agency securities	$ 30,021,196	$ (246,137)	$ (350,015)	$ (596,152)
Collateralized mortgage obligations	33,596,438	(159,653)	(200,034)	(359,687)
Mortgage-backed and asset-backed securities	144,530,444	(1,067,199)	(339,460)	(1,406,659)
	$ 208,148,078	$ (1,472,989)	$ (889,509)	$ (2,362,498)
2014				
Federal agency securities	$ 24,734,046	$ (18,102)	$ (467,854)	$ (485,956)
Collateralized mortgage obligations	17,928,244	(29,926)	(324,283)	(354,209)
Mortgage-backed and asset-backed securities	49,947,235	(199,167)	(51,547)	(250,714)
	$ 92,609,525	$ (247,195)	$ (843,684)	$ (1,090,879)

NOTE 2 – INVESTMENTS (CONTINUED)

As of December 31, 2015, twenty-five investments had been in a continuous unrealized loss position for less than 12 months and twelve had been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Management evaluates securities for OTTI 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 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.

Other investments consist of the following:

	2015	2014
Note receivable, natural person credit union	$ 12,000,000	$ -
FHLB stock	6,734,200	6,734,200
Central Liquidity Facility (CLF) stock	3,040,645	3,143,027
Other	417,058	217,040
	$ 22,191,903	$ 10,094,267

The credit union has a secondary capital arrangement in accordance with NCUA §701.34 with AEA Federal Credit Union (AEA). The credit union loaned AEA the sum of $12,000,000, subject to the terms and conditions approved by AEA, the credit union and the NCUA. The note receivable matures on December 29, 2022. The loan accrues interest at the rate of 3.50% per annum under the actual/365 method, payable quarterly, until the date on which the principal amount of the loan shall be fully paid. The interest rate will be locked at 3.50% through December 31, 2017. On each of January 1, 2018, 2019, 2020, 2021 and 2022, the interest rate will be adjusted to the then Fed Funds Rate as published in the *Wall Street Journal* for that date plus 3.25%. Principal payments are $2,400,000 annually beginning December 31, 2018 with the final payment receivable at maturity. The note receivable is not insured by the NCUA and is subordinate to all other claims against AEA, including member shareholders, creditors and the NCUSIF. Management reviews the performance of the note receivable periodically and establishes reserves as necessary. As of December 31, 2015, there were no reserves established.

The credit union is a member of the CLF, where it maintains capital stock of the CLF and has a credit facility as described in Note 8.

The credit union maintained an uninsured permanent capital account with First Corporate Federal Credit Union (FirstCorp). In April 2011, the credit union provided FirstCorp the required three-year notice to withdraw this balance. The funds were returned to the credit union during April 2014.

NOTE 2 – INVESTMENTS (CONTINUED)

The amortized cost and fair value of investments by contractual maturity are shown below. Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities and collateralized mortgage obligations may differ from the contractual maturities. Mortgage-backed securities and collateralized mortgage obligations are therefore classified separately with no specific maturity date.

	Available for Sale		
2015	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 10,191,903
One to five years	5,475,411	5,495,763	7,200,000
Five to ten years	14,633,168	14,669,964	4,800,000
More than ten years	66,923,882	67,077,505	-
	87,032,461	87,243,232	22,191,903
Mortgage-backed and asset-backed securities and collateralized mortgage obligations	424,738,207	425,726,669	-
	$ 511,770,668	$ 512,969,901	$ 22,191,903
2014			
No contractual maturity	$ -	$ -	$ 10,094,267
One to five years	2,804,897	2,826,225	-
Five to ten years	17,651,149	17,760,333	-
More than ten years	73,115,911	73,528,992	-
	93,571,957	94,115,550	10,094,267
Mortgage-backed and asset-backed securities and collateralized mortgage obligations	456,777,960	462,094,770	-
	$ 550,349,917	$ 556,210,320	$ 10,094,267

NOTE 3 – LOANS RECEIVABLE, NET

Total loans outstanding by portfolio segment and class of loan are as follows:

	2015	2014
Commercial:		
Commercial real estate	$ 26,858,799	$ 26,752,665
Residential real estate:		
First mortgage	55,637,180	49,394,430
HELOC and other mortgage	119,446,688	119,268,506
	175,083,868	168,662,936
Consumer:		
Automobile	204,944,100	193,884,261
Credit card	127,315,586	129,762,053
Other consumer	43,905,420	40,988,002
	376,165,106	364,634,316
Total loans	578,107,773	560,049,917
Net deferred loan origination costs	772,511	825,561
Allowance for loan losses	(9,006,651)	(11,316,339)
Total loans receivable, net	$ 569,873,633	$ 549,559,139

The allowance for loan losses and loans outstanding, by portfolio segment, are as follows:

2015	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 208,420	$ 4,155,069	$ 6,952,850	$ 11,316,339
Charge-offs	-	(1,073,314)	(6,459,885)	(7,533,199)
Provision (credit) for loan losses	1,064	(1,576,725)	(306,344)	(1,882,005)
Recoveries	-	1,837,682	5,267,834	7,105,516
Ending balance	$ 209,484	$ 3,342,712	$ 5,454,455	$ 9,006,651
Ending balance: individually evaluated for impairment	$ -	$ 2,179,971	$ 762,514	$ 2,942,485
Ending balance: collectively evaluated for impairment	209,484	1,162,741	4,691,941	6,064,166
Ending balance	$ 209,484	$ 3,342,712	$ 5,454,455	$ 9,006,651
Recorded investment in loans:				
Ending balance: individually evaluated for impairment	$ -	$ 9,067,483	$ 3,963,948	$ 13,031,431
Ending balance: collectively evaluated for impairment	26,858,799	166,016,385	372,201,158	565,076,342
Ending balance	$ 26,858,799	$ 175,083,868	$ 376,165,106	$ 578,107,773

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2014	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 79,510	$ 8,443,803	$ 8,244,230	$ 16,767,543
Charge-offs	-	(1,577,424)	(7,506,466)	(9,083,890)
Provision (credit) for loan losses	128,910	(5,991,530)	678,713	(5,183,907)
Recoveries	-	3,280,220	5,536,373	8,816,593
Ending balance	$ 208,420	$ 4,155,069	$ 6,952,850	$ 11,316,339
Ending balance: individually evaluated for impairment	$ -	$ 2,569,843	$ 1,330,532	$ 3,900,375
Ending balance: collectively evaluated for impairment	208,420	1,585,226	5,622,318	7,415,964
Ending balance	$ 208,420	$ 4,155,069	$ 6,952,850	$ 11,316,339
Recorded investment in loans:				
Ending balance: individually evaluated for impairment	$ -	$ 10,187,389	$ 6,975,578	$ 17,162,967
Ending balance: collectively evaluated for impairment	26,752,665	158,475,547	357,658,738	542,886,950
Ending balance	$ 26,752,665	$ 168,662,936	$ 364,634,316	$ 560,049,917

Changes in Accounting Methodology: After several years of consistently high recoveries resulting in a lower rate of net charge-offs, the credit union implemented changes to its allowance for loan losses methodology that were retroactively adopted effective December 31, 2014 and resulted in a prior period adjustment (see Note 17). Certain changes were also required as a result of the credit union's 2014 core system conversion. Following is a list of the changes made to the credit union's methodology that impacted the commercial, real estate and consumer loan segments:

- *General Loan Loss Allowance* – The credit union reduced the number of pools used to stratify and evaluate loan losses from more than 746 to 108. The original pools included FICO stratifications in addition to loan types. The credit union also changed the method of applying recoveries. Because of the uncertainty surrounding the sustainability of unusually high rates of recoveries, the credit union adds back a factor of 97.5% to the calculated impact of recoveries on the allowance for loan losses calculation.
- *Specific Loan Loss Allowance* – The credit union's annual charge-offs are routinely much lower than the credit union's allowance for loan losses calculation. Because of the relatively high general loan loss allowance, the credit union changed its criteria for evaluating a loan as impaired. The credit union eliminated a category called debt management loans, which are performing loans where a member uses a third-party service to assist in making payments. There are no payment concessions. The credit union also eliminated the bankruptcy category if the loans continue to perform in accordance with the original terms of the agreements.
- *Qualitative and Environmental Factors* – The credit union had an unusually high unallocated reserve prior to the retroactive adoption of the current methodology at December 31, 2014. The change in methodology eliminates a significant unallocated component in favor of a qualitative and environmental factor currently capped at 5% of the general loan loss allowance.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

	Calculated Provision Based on Prior Methodology	Calculated Provision Based on Current Methodology Retroactively Applied	Difference
Commercial real estate	$ 215,350	$ 208,420	$ (6,930)
Residential real estate	8,665,640	4,155,069	(4,510,571)
Consumer	9,057,256	6,952,850	(2,104,406)
	$ 17,938,246	$ 11,316,339	$ (6,621,907)

Credit Quality Indicators: The credit union assesses the credit quality of its commercial loans with an eight-grade risk rating system whereby a higher grade represents a higher level of credit risk. The eight-grade risk rating system can generally be classified into the following categories: pass or watch, special mention, substandard, doubtful and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass or watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention is considered a transitory grade, and generally, the credit union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

The credit quality of each class of commercial loan based on the internal risk grading system is as follows:

2015	Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$ 21,996,919	$ 4,861,880	$ -	$ -	$ 26,858,799
2014					
Commercial real estate	$ 26,752,665	$ -	$ -	$ -	$ 26,752,665

The credit union assesses the credit quality of its residential real estate and consumer loans by delinquency status, recent FICO score and loan-to-value (LTV) ratio.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

FICO Scores: The credit union obtains FICO scores at loan origination, and most scores are updated quarterly with the most recent update as of September 30, 2015. Loans that trend toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

The FICO score distribution is as follows:

2015	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
740 and above	$ 32,688,811	$ 52,253,609	$ 59,288,641	$ 46,093,090	$ 9,099,322	$ 199,423,473
680 to 739	16,083,140	33,676,949	62,463,262	42,870,599	11,480,921	166,574,871
660 to 679	2,294,903	7,997,557	24,718,861	11,415,334	4,724,981	51,151,636
640 to 659	1,239,362	7,154,671	20,124,419	8,169,510	3,503,119	40,191,081
620 to 639	572,485	4,541,704	13,193,590	5,775,182	2,496,266	26,579,227
600 to 619	465,616	3,733,412	8,472,058	3,734,225	1,721,514	18,126,825
599 and below	605,319	6,811,716	13,398,648	6,923,976	2,838,055	30,577,714
Unknown	1,687,544	3,277,070	3,284,621	2,333,670	8,041,242	18,624,147
	$ 55,637,180	$ 119,446,688	$ 204,944,100	$ 127,315,586	$ 43,905,420	$ 551,248,974
2014						
740 and above	$ 23,984,650	$ 48,836,589	$ 55,319,918	$ 47,180,803	$ 6,876,128	$ 182,198,088
680 to 739	7,034,571	31,246,509	57,680,786	40,291,443	9,808,838	146,062,147
660 to 679	657,128	10,524,440	21,021,290	11,209,718	3,972,556	47,385,132
640 to 659	873,114	6,002,843	17,960,079	8,102,688	3,601,865	36,540,589
620 to 639	526,919	4,422,058	11,864,578	5,347,847	2,071,856	24,233,258
600 to 619	362,582	3,178,263	7,714,667	3,894,073	1,604,894	16,754,479
599 and below	581,590	11,391,101	18,881,388	11,328,038	4,701,819	46,883,936
Unknown	15,373,876	3,666,703	3,441,555	2,407,443	8,350,046	33,239,623
	$ 49,394,430	$ 119,268,506	$ 193,884,261	$ 129,762,053	$ 40,988,002	$ 533,297,252

LTV Ratio: Residential real estate loans are assessed for credit quality by LTV, the ratio of the loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the credit union is in a junior lien position, only the excess collateral value over the amounts necessary to retire any senior lien positions is considered. LTVs are updated quarterly using a proprietary model developed by Quest, a third-party business analytics firm.

Although residential real estate markets experienced significant declines in property values several years ago, recent analysis, as shown in the table below, highlights improvement in all mortgage categories. Some markets in which the credit union serves have seen significant improvements in property values over the past year or two. These trends are considered in the way the credit union monitors credit risk and establishes the residential real estate allowance for loan losses. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value. In the event of default, any loss to the credit union should be approximately limited to the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral. The LTV values presented below were most recently updated as of December 31, 2015.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The LTV distribution of first mortgage and HELOC and other mortgage is as follows:

2015	Less Than 80%	80%–89%	90%–100%	Greater Than 100%	Unknown	Total
First mortgage	$ 48,790,690	$ 2,361,803	$ 2,287,384	$ 2,197,303	$ -	$ 55,637,180
HELOC and other mortgage	91,100,146	9,383,812	4,751,731	13,438,288	772,711	119,446,688
	$ 139,890,836	$ 11,745,615	$ 7,039,115	$ 15,635,591	$ 772,711	$ 175,083,868
2014						
First mortgage	$ 21,492,375	$ 4,320,653	$ 3,011,409	$ 15,601,064	$ 4,968,929	$ 49,394,430
HELOC and other mortgage	73,072,529	17,652,911	5,689,934	11,306,532	11,546,600	119,268,506
	$ 94,564,904	$ 21,973,564	$ 8,701,343	$ 26,907,596	$ 16,515,529	$ 168,662,936

Nonaccrual and Past Due Loans: Information relating to the age and nonaccrual status of the loans by class is as follows:

2015	Current	30–59 Days Past Due	60 Days or More Past Due	Total	Loans on Nonaccrual Status
Commercial real estate	$ 26,858,799	$ -	$ -	$ 26,858,799	$ -
First mortgage	54,365,877	779,196	492,107	55,637,180	-
HELOC and other mortgage	117,716,107	830,465	900,116	119,446,688	484,559
Automobile	203,107,219	1,226,249	610,632	204,944,100	217,449
Credit card	126,485,914	333,631	496,041	127,315,586	117,515
Other consumer	43,126,244	381,500	397,676	43,905,420	30,186
	$ 571,660,160	$ 3,551,041	$ 2,896,572	$ 578,107,773	$ 849,709
2014					
Commercial real estate	$ 26,752,665	$ -	$ -	$ 26,752,665	$ -
First mortgage	49,394,430	-	-	49,394,430	735,736
HELOC and other mortgage	116,990,061	864,332	1,414,113	119,268,506	647,758
Automobile	192,623,404	844,399	416,458	193,884,261	125,463
Credit card	128,848,040	466,583	447,430	129,762,053	59,676
Other consumer	40,579,827	156,919	251,256	40,988,002	394,821
	$ 555,188,427	$ 2,332,233	$ 2,529,257	$ 560,049,917	$ 1,963,454

There were no loans 91 days or more past due and still accruing interest as of December 31, 2015 and 2014.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Impaired Loans: Impaired loans individually evaluated for impairment are as follows:

	2015		2014	
	Loans Outstanding	Related Allowance	Loans Outstanding	Related Allowance
With an allowance recorded:				
HELOC and other mortgage	$ 9,067,483	$ 2,179,971	$ 10,187,389	$ 2,569,843
Automobile	2,004,090	256,392	2,925,684	537,554
Other consumer	1,959,858	506,122	4,049,894	792,978
	$ 13,031,431	$ 2,942,485	$ 17,162,967	$ 3,900,375

There were no impaired loans without a specific allowance recorded as of December 31, 2015 and 2014.

Loans modified as TDRs during the years ended December 31, 2015 and 2014, presented by class, and those restructurings for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring, are as follows:

	TDRs			TDRs That Subsequently Defaulted	
2015	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance
HELOC and other mortgage	4	$ 177,678	$ 42,717	-	$ -
Automobile	4	63,029	16,277	-	-
Other consumer	20	157,541	20,155	-	-
	28	$ 398,248	$ 79,149	-	$ -
2014					
HELOC and other mortgage	24	$ 1,154,747	$ 287,552	-	$ -
Automobile	37	277,463	69,093	-	-
Other consumer	44	505,800	125,953	1	17,748
	105	$ 1,938,010	$ 482,598	1	$ 17,748

All of the loans modified during the years ended December 31, 2015 and 2014 were granted interest rate concessions.

NOTE 4 – PROPERTY AND EQUIPMENT

The composition of property and equipment is summarized as follows:

	2015	2014
Land	$ 13,763,141	$ 23,477,409
Buildings	43,482,757	44,484,582
Leasehold improvements	501,190	800,809
Furniture and equipment	31,941,615	30,568,208
	89,688,703	99,331,008
Accumulated depreciation and amortization	(42,846,986)	(39,588,570)
	$ 46,841,717	$ 59,742,438

Property held for sale represents three parcels of land and a building, which management anticipates selling within one year of the financial statement date. Because the credit union anticipates a loss in connection with the sale, the credit union recognized an impairment loss of $4,790,513 as of December 31, 2015. Property held for sale was reported at its recently appraised value of $7,000,000 as of December 31, 2015.

NOTE 5 – MEMBERS' SHARE ACCOUNTS

Members' share accounts are summarized as follows:

	2015	2014
Regular share	$ 260,314,876	$ 244,234,051
Share draft	341,554,049	289,119,910
Money market	436,073,720	405,477,236
Share and IRA certificate	136,128,623	147,907,326
	$ 1,174,071,268	$ 1,086,738,523

The scheduled maturities of share and IRA certificates are as follows:

Years Ending December 31,	
2016	$ 59,560,033
2017	27,547,351
2018	20,889,670
2019	10,247,963
2020	17,883,606
	$ 136,128,623

Dividend rates are set by the Board of Directors, and dividends are charged to operations. The aggregate amounts of share and IRA certificate accounts in denominations that met or exceeded the NCUSIF insurance limit were approximately $6,125,000 and $6,821,000 at December 31, 2015 and 2014, respectively.

NOTE 6 – LEASE COMMITMENTS

The credit union leases certain office facilities under non-cancelable operating lease agreements expiring through 2017. One of the leases is for the AFIS office facility of an entity that is controlled by an officer of AFIS. The AFIS lease contains renewal options for two 2-year periods with annual increases of approximately 3%.

Minimum rental payments under operating leases with initial or remaining terms of one year or more are as follows:

Years Ending December 31,	
2016	$ 228,960
2017	114,960
	$ 343,920

Rent expense totaled approximately $547,000 and $403,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 7 – INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill are summarized as follows:

	2015	2014
Intangible assets	$ 6,435,000	$ 6,435,000
Accumulated amortization	(4,235,757)	(3,806,759)
	2,199,243	2,628,241
Goodwill	2,987,882	2,987,882
	$ 5,187,125	$ 5,616,123

Intangible assets subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. Goodwill is assigned to specific reporting units and reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

AFIS has the following intangible assets:

Expiration Lists – Expiration lists with a cost basis of $6,435,000 represent the valuation of acquired account records and listings related to acquired insurance accounts. The cost basis is being amortized on the straight-line method over an estimated useful life of 15 years.

Amortization expense for the years ended December 31, 2015 and 2014 totaled $428,998 and $428,999, respectively.

Goodwill – Effective January 1, 2006, AFIS acquired substantially all the assets of The Arizona Group, Inc., an Arizona insurance broker and agency, and its subsidiary, The Nevada Insurance Group, Inc., a Nevada insurance broker and agency, pursuant to the Asset Purchase Agreement dated January 4, 2006. Goodwill represents the excess of the fair value over the cost of net assets acquired at the date of acquisition.

NOTE 7 – INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

A valuation was performed by an independent third party at September 30, 2015 and 2014 indicating that the fair value of goodwill exceeded its carrying value; accordingly, no impairment loss was recorded during the years ended December 31, 2015 and 2014.

NOTE 8 – BORROWED FUNDS

Line of Credit with the FHLB: The credit union maintains an advances and security agreement with the FHLB of San Francisco. The agreement requires the pledging of investment securities held by the FHLB, which had outstanding fair values of approximately $434,633,000 and $535,253,000 at December 31, 2015 and 2014, respectively. Maximum available borrowings are limited to 25% of total assets and were approximately $335,349,000 and $316,241,000 at December 31, 2015 and 2014, respectively. There were no outstanding borrowings under this arrangement at December 31, 2015 and 2014.

FRB Discount Window: The credit union maintains a secured borrowing arrangement through the FRB discount window. At December 31, 2015 and 2014, the FRB held approximately $50,413,000 and $56,059,000, respectively, of credit union auto loans as collateral with maximum available borrowings determined as a percentage of collateral. There were no outstanding borrowings as of December 31, 2015 and 2014 under this borrowing arrangement.

U.S. Bank: The credit union maintains an unsecured Federal Funds Purchasing Agreement with U.S. Bank. The agreement allows the credit union to borrow federal funds on a revolving 15-business day basis at a rate agreed upon at the time of the transaction. There is no limit on the number of days within a calendar year that funds may be borrowed on an overnight basis. The maximum amount of funds available to the credit union at any time was $10,000,000 as of December 31, 2015 and 2014. The agreement expires on April 30, 2017.

CLF: In 2012, the credit union became a member of the CLF through the purchase of its capital stock. The capital stock purchase amount was calculated based on one-half of 1% of the credit union's paid-in and unimpaired capital and surplus. At least one-half of the payment for the subscription amount required that membership shall be transferred to the CLF. The remainder may be held by the credit union on call of the Board. As a member of the CLF, the credit union can request any amount of funding it needs up to its legal borrowing limit as long as the credit union is creditworthy and demonstrates liquidity needs. As of December 31, 2015 and 2014, there were no outstanding borrowings under this arrangement.

NOTE 9 – OTHER ASSETS

Other assets consist of the following:

	2015	2014
Credit union owned life insurance	$ 15,459,912	$ 15,064,268
Collateralized receivables	5,656,152	7,901,243
Prepaid expenses	2,562,187	2,499,132
Other receivables	4,519,416	4,109,469
	$ 28,197,667	$ 29,574,112

NOTE 9 – OTHER ASSETS (CONTINUED)

Credit Union Owned Life Insurance (CUOLI) Policies: During the year ended December 31, 2014, the credit union purchased several CUOLI policies aggregating $15,000,000 on the lives of key participating employees. The cash surrender value of the CUOLI policies amounts to approximately $15,460,000 and $15,064,000 as of December 31, 2015 and 2014, respectively. Income from the increase in cash surrender value (CSV) policies was used to offset contributions to the credit union's Supplemental Executive Retirement Plan as described in Note 13.

Collateralized Receivables: Collateralized receivables are a pool of participation loans collateralized by manufactured home loans with recourse from San Antonio Federal Credit Union.

Other Receivables: Other receivables are comprised primarily of serviced mortgage payments receivable, principal payments receivable from an investment brokerage firm, various clearing accounts, and the deferred compensation investment described in Note 13.

NOTE 10 – OFF-BALANCE-SHEET ACTIVITIES

The credit union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, 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 amounts recognized in the consolidated 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 the loans recorded in the consolidated financial statements.

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

	2015	2014
HELOC	$ 32,502,000	$ 32,025,000
Credit card	256,382,000	268,026,000
Overdraft line	18,085,000	18,556,000
Other lines of credit	68,933,000	67,700,000
	$ 375,902,000	$ 386,307,000

As of December 31, 2015 and 2014, there were no mortgage loans approved but not funded. The credit union had approximately $2,827,000 and $2,443,000 in unfunded loan commitments as of December 31, 2015 and 2014, respectively.

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 member. Collateral held generally consists of certificates of deposit, share accounts and real estate.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Legal Contingencies: The credit union is party to various legal actions normally associated with the collection of loans and other business activities of financial institutions, the aggregate effect of which, in the opinion of management and legal counsel, would not be material to the consolidated financial condition of the credit union and subsidiaries.

Loans Sold with Recourse: The credit union has implemented a mortgage program whereby some of its mortgage loans are sold on the secondary market. The credit union is subject to recourse on the loans sold under certain conditions as disclosed in the loan purchase agreements with the funding corporations. Management believes the liability for any potential loan repurchases is not significant.

NOTE 12 – CONCENTRATION OF CREDIT RISK

At December 31, 2015, the credit union had cash totaling approximately $5,416,000 at one institution, which exceeded federally insured limits.

NOTE 13 – EMPLOYEE BENEFITS

401(k) Retirement Plan: The credit union provides a 401(k) employee benefit plan that has a defined contribution retirement savings fund pension plan provision available to employees with at least 12 months of service who have attained the age of 18 years at the anniversary date of the plan. The plan provides for a portion of each participant's gross base compensation to be contributed to the plan based on the employee's number of years of service. Plan expenses for the years ended December 31, 2015 and 2014 totaled approximately $1,023,000 and $941,000, respectively.

Deferred Compensation Plan: The credit union has a 457(b) nonqualified deferred compensation plan for members of top management. Under the terms of the 457(b) plan, contributions made to the plan are the responsibility of the plan participants. The credit union is responsible for administering the plan and provides no funding. The deferred compensation investments are shown as assets on the consolidated financial statements and are available to creditors in the event of liquidation. The deferred compensation investments totaled approximately $494,000 and $430,000 as of December 31, 2015 and 2014, respectively. The credit union has accrued liabilities of approximately $494,000 and $430,000 at December 31, 2015 and 2014, respectively.

Supplemental Executive Retirement Plan (SERP): Effective November 13, 2014, the credit union has a SERP for certain key members of management. The plan provides a cash benefit in the amount specified in the participation agreement by remaining employed with the credit union until the normal retirement date for such payment. During the year ended December 31, 2014, the credit union purchased CUOLI policies aggregating $15,000,000 on the lives of the participating employees. The CSV of the policies held at Midland National Life Insurance Company, North American Company for Life and Health Insurance and Ohio National Life Assurance Company was approximately $15,460,000 and $15,064,000 with a weighted average yield of 2.88% and 2.44% as of December 31, 2015 and 2014, respectively, and is included in other assets. During the years ended December 31, 2015 and 2014, the credit union recognized approximately $396,000 and $64,000, respectively, in investment income related to the increase in cash surrender value, which was used to offset contributions to the credit union's SERP.

The credit union's liability under the SERP was approximately $1,078,000 and $368,000 as of December 31, 2015 and 2014, respectively. The costs associated with the plan totaled approximately $741,000 and $368,000 for the years ended December 31, 2015 and 2014, respectively.

The credit union also has a Survivor Income Plan in connection with the CUOLI policies that provides limited death benefits in excess of CSV on behalf of the SERP participants.

NOTE 14 – RELATED PARTY TRANSACTIONS

In the normal course of business, the credit union extends credit to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at December 31, 2015 and 2014 totaled approximately $709,000 and $608,000, respectively. Loans to related parties are made under the same terms available to other members.

NOTE 15 – FAIR VALUE

GAAP requires the disclosure of fair value information about financial instruments, whether or not recognized in the consolidated statement of financial condition. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on 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. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying value of the credit union.

The following methods and assumptions were used to estimate fair value of each class of financial instrument for which it is practicable to estimate fair value.

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

Securities Available for Sale: Fair values of 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 or on discounted cash flow models based on the expected payment characteristics of the underlying mortgage instruments.

Other Investments: The carrying amount is a reasonable estimate of fair value.

Loans Receivable, Net: Fair values are estimated on an account level. The fair value of loans without embedded options is determined by discounting estimated cash flows using interest rates approximating the current market origination rates for similar loans and adjusted to reflect the inherent credit risk. Where quoted market prices are available, primarily for certain residential mortgage loans and commercial loans, such market prices are utilized as estimates for fair values. Mortgage loans with embedded options are valued with stochastic interest rate models to capture the option value. These options may be prepayment options of the mortgagors, caps and floors of adjustable rate mortgages, and options that the borrower or lender can exercise, such as the call, put and Bermudan options.

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

NOTE 15 – FAIR VALUE (CONTINUED)

Members' Share Accounts: The fair values of share draft, regular savings and money market accounts approximate the carrying amounts. The fair value of deposits with stated maturities is calculated by discounting the contractual cash flows using current market rates for instruments with similar maturities. For deposits with no stated maturities, fair value is determined by discounting the estimated cash flows. The projected cash flows take into account the significant value of the cost advantage and stability of the credit union's long-term relationships with members. Interest-bearing time deposits are valued using discounted cash flows based on current rates for similar types of deposits.

Off-Balance-Sheet Instruments: The fair value of off-balance-sheet commitments is estimated based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the members. The estimated value of these commitments is not significant.

The estimated fair values of the credit union's financial instruments are as follows:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 188,116,000	$ 188,116,000	$ 64,647,000	$ 64,647,000
Securities available for sale	512,970,000	512,970,000	556,210,000	556,210,000
Other investments	22,192,000	22,192,000	10,094,000	10,094,000
Loans receivable, net	569,874,000	606,699,000	549,559,000	581,357,000
Accrued interest receivable	4,478,000	4,478,000	5,084,000	5,084,000
Financial liabilities:				
Members' share accounts	1,174,071,000	1,171,267,000	1,086,739,000	1,084,460,000

Fair values of assets measured on a recurring basis are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	$ 512,969,901	$ -	$ 512,969,901	$ -
2014				
Securities available for sale	$ 556,210,320	$ -	$ 556,210,320	$ -

NOTE 16 – 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 consolidated 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 GAAP. 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 following table) of net worth (as defined in the regulations) to assets. The credit union also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. As of December 31, 2015 and 2014, the credit union's RBNW ratio was 5.73% and 6.02%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%.

As of December 31, 2015, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There have been no conditions or events since the calculation date that management believes have changed the credit union's category.

The credit union's actual capital amounts and ratios are as follows:

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 197,372,399	14.13%	$ 83,796,891	6.00%	$ 97,763,039	7.00%
2014						
Net worth	$ 178,903,278	13.85%	$ 77,478,600	6.00%	$ 90,391,700	7.00%
RBNW requirement	77,736,862	6.02%	N/A	N/A	N/A	N/A

Because the RBNW requirement is less than the net worth ratio, the credit union retains its original category.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

Undivided earnings have been restated from the amount previously reported. The previous allowance for loan losses and related provision were not reported in accordance with GAAP. The allowance for loan losses was decreased by $6,621,907 as of December 31, 2014 to adjust the allowance for loan losses and related provision for loan losses in accordance with GAAP. The effect of the adjustment on undivided earnings, the allowance for loan losses, provision for loan losses, and net income is illustrated as follows:

Undivided earnings at December 31, 2014 as previously reported	$ 141,856,819
Adjustment to decrease allowance for loan losses to conform with GAAP	6,621,907
Undivided earnings at December 31, 2014	$ 148,478,726
Allowance for loan losses at December 31, 2014 as previously reported	$ 17,938,246
Adjustment to decrease allowance for loan losses to conform with GAAP	(6,621,907)
Allowance for loan losses at December 31, 2014	$ 11,316,339
Provision for loan losses for the year ended December 31, 2014 as previously reported	$ 1,438,000
Adjustment to decrease provision for loan losses to conform with GAAP	(6,621,907)
Credit for loan losses at December 31, 2014	$ (5,183,907)
Net income for the year ended December 31, 2014 as previously reported	$ 25,753,536
Adjustment to decrease provision for loan losses to conform with GAAP	6,621,907
Net income for the year ended December 31, 2014	$ 32,375,443

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