Report of Independent Auditors and
Consolidated Financial Statements for

Arizona Federal Credit Union and Subsidiaries

December 31, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Supervisory Committee
Arizona Federal Credit Union and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Arizona Federal Credit Union (the "Credit Union") and Subsidiaries, which comprise the consolidated statement of financial condition as of December 31, 2016 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year 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 the consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 entity'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 entity'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 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, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Arizona Federal Credit Union and Subsidiaries as of and for the year ended December 31, 2015, were audited by other auditors, whose report, dated April 29, 2016, expressed an unmodified opinion on those consolidated financial statements.

Moss Adams LLP

Scottsdale, Arizona
April 5, 2017

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ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 102,920,984	$ 188,116,236
Investments:		
Securities available-for-sale	616,199,140	512,969,901
Other	22,197,412	22,191,903
Loans held-for-sale	119,900	57,127
Loans receivable, net	608,988,321	569,873,633
Accrued interest receivable	4,828,245	4,477,799
Property held-for-sale	8,836,574	7,000,000
Property and equipment	44,904,945	47,284,822
National Credit Union Share Insurance Fund (NCUSIF) deposit	11,768,282	11,258,637
Goodwill and other intangibles	4,758,127	5,187,125
Other assets	47,924,941	28,197,667
Total assets	$ 1,473,446,871	$ 1,396,614,850

LIABILITIES AND MEMBERS' EQUITY

	2016	2015
Liabilities:		
Members' share accounts	$ 1,226,546,826	$ 1,174,071,268
Accrued expenses and other liabilities	30,697,386	23,971,950
Total liabilities	1,257,244,212	1,198,043,218
Members' equity:		
Regular reserve	30,424,552	30,424,552
Undivided earnings	187,845,207	166,947,847
Accumulated other comprehensive (loss) income	(2,067,100)	1,199,233
Total members' equity	216,202,659	198,571,632
Total liabilities and members' equity	$ 1,473,446,871	$ 1,396,614,850

See accompanying notes.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2016	2015
INTEREST INCOME		
Loans receivable	$ 34,956,422	$ 33,579,189
Investments and cash and cash equivalents	12,641,944	9,854,953
Total interest income	47,598,366	43,434,142
INTEREST EXPENSE		
Members' share accounts	6,102,413	6,122,668
Borrowed funds	15,685	-
Total interest expense	6,118,098	6,122,668
NET INTEREST INCOME	41,480,268	37,311,474
PROVISION (CREDIT) FOR LOAN LOSSES	906,252	(1,882,005)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	40,574,016	39,193,479
NONINTEREST INCOME		
Fees and charges	21,651,460	21,879,162
Other income	28,054,902	27,551,501
Gain on sale of investments	1,069,725	743,700
Loss on impairment of property held-for-sale	(452,546)	(4,790,513)
Loss on disposal of property and equipment	(37,977)	-
Loss on disposal of other real estate owned	-	(13,688)
Total noninterest income	50,285,564	45,370,162
NONINTEREST EXPENSE		
Compensation and benefits	36,966,949	35,839,818
Operations	28,890,255	25,759,823
Occupancy	4,105,016	4,494,879
Total noninterest expense	69,962,220	66,094,520
NET INCOME	$ 20,897,360	$ 18,469,121

See accompanying notes.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2016	2015
NET INCOME	$ 20,897,360	$ 18,469,121
OTHER COMPREHENSIVE LOSS		
Securities available-for-sale:		
Unrealized holding losses arising during the year, net	(2,196,608)	(3,917,470)
Reclassification adjustment for realized gains included in net income	(1,069,725)	(743,700)
Total other comprehensive loss	(3,266,333)	(4,661,170)
COMPRESENSIVE INCOME	$ 17,631,027	$ 13,807,951

See accompanying notes.

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$ 30,424,552	$ 148,478,726	$ 5,860,403	$ 184,763,681
Net income	-	18,469,121	-	18,469,121
Other comprehensive loss	-	-	(4,661,170)	(4,661,170)
Balance, December 31, 2015	30,424,552	166,947,847	1,199,233	198,571,632
Net income	-	20,897,360	-	20,897,360
Other comprehensive loss	-	-	(3,266,333)	(3,266,333)
Balance, December 31, 2016	$ 30,424,552	$ 187,845,207	$ (2,067,100)	$ 216,202,659

See accompanying notes.

ARIZONA FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 20,897,360	$ 18,469,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,744,382	4,183,844
Loss on impairment of property held-for-sale	452,546	4,790,513
Amortization of investments, net	7,399,750	8,229,696
Provision (credit) for loan losses	906,252	(1,882,005)
Amortization of intangible assets	428,998	428,998
Appreciation of credit union owned life insurance	(517,441)	(395,644)
Gain on sale of securities available-for-sale	(1,069,725)	(743,700)
Loss on disposal of property and equipment	37,977	-
Loss on sale of other real estate owned	-	13,688
Net change in operating assets and liabilities:		
Loans held-for-sale	(62,773)	(57,127)
Accrued interest receivable	(350,446)	606,156
NCUSIF deposit	(509,645)	(476,105)
Other assets	(4,209,833)	1,772,089
Accrued expenses and other liabilities	6,725,436	4,164,154
Net cash provided by operating activities	34,872,838	39,103,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(337,572,179)	(93,412,056)
Proceeds from sales, maturities and principal payments received on securities available-for-sale	224,746,582	124,505,309
Net increase in other investments	(5,509)	(12,097,636)
Net increase in loans receivable	(40,020,940)	(18,557,489)
Purchase of credit union owned life insurance	(15,000,000)	-
Proceeds from sale of foreclosed assets	-	111,312
Purchases of property and equipment	(4,691,602)	(3,516,741)
Net cash used in investing activities	(172,543,648)	(2,967,301)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	52,475,558	87,332,745
Net cash provided by financing activities	52,475,558	87,332,745
CHANGE IN CASH AND CASH EQUIVALENTS	(85,195,252)	123,469,122
CASH AND CASH EQUIVALENTS, beginning of year	188,116,236	64,647,114
CASH AND CASH EQUIVALENTS, end of year	$ 102,920,984	$ 188,116,236

See accompanying notes.

	Years Ended December 31, 2016	2015
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of property to property held-for-sale	$ 1,836,574	$ 7,000,000
Transfer of loans to other real estate owned	$ -	$ 125,000
Change in unrealized gain on investments available-for-sale	$ (3,266,333)	$ (4,661,170)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Dividends paid on members' share accounts	$ 6,102,413	$ 6,122,668
Interest paid on borrowed funds	$ 15,685	$ -

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;

Note 1 – Summary of Significant Accounting Policies (continued)

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 14.

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. Amounts due from financial institutions may, at times, exceed federally insured limits.

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. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. In determining whether 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Loans held-for-sale – Mortgage loans originated with the intent to sell on the secondary market 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.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 second mortgages. 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 collectability 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, which range from 1 to 50 years. 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, 2016 and 2015.

Goodwill and intangible assets – Goodwill and intangible assets 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 $484,876 and $482,911 as of December 31, 2016 and 2015, respectively.

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, 2016 and 2015, 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 cancellations are recorded at the time of occurrence, and accordingly, no liability is accrued for policy cancellations.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics, and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. Subsequently, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date*, ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, and ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* as additional amendments under *Revenue From Contracts with Customers (Topic 606)*. These amendments are effective for non-public business entities for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance of ASU 2014-09. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative-effect recognized at the date of initial application. The Credit Union is currently evaluating the impact of these new accounting standards on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables). These amendments are effective for non-public business entities for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Non-public business entities may early adopt the standard using the public business entity effective dates. The new guidance permits early adoption of the own credit provision. In addition, the new guidance permits early adoption of the provision that exempts private companies from having to disclose fair value information about financial instruments measured at amortized cost. The adoption of ASU 2016-01 did not have a material effect on the Credit Union's operating results or financial condition.

Note 1 – Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) 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 Topic 606, Revenue from Contracts with Customers. These amendments are effective for non-public business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all non-public business entities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 replaces the current incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applied to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. These amendments are effective for non-public business entities for fiscal years beginning after December 15, 2020, and interim periods within the fiscal years beginning after December 15, 2021. For calendar year-end entities that are not public business entities, it is effective for December 31, 2021 Annual Financial Statements. All entities may early adopt for fiscal years beginning after December 15, 2018, including interim periods in those fiscal years. For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Credit Union is currently evaluating the impact of ASU 2016-13 on the consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Credit Union's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Credit Union has evaluated subsequent events through April 5, 2017, which is the date the consolidated financial statements became available to issue.

Reclassifications – Certain reclassifications have been made to the prior years' consolidated financial statements to conform with current year presentation. These reclassifications had no impact on previously reported net income or members' equity.

Note 2 – Investments

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

	Amortized	Gross Unrealized		Fair
2016	Cost	Gains	Losses	Value
Federal agency securities	$ 65,132,585	$ 493,496	$ (342,152)	$ 65,283,929
Collateralized mortgage obligations	54,305,251	449,847	(178,922)	54,576,176
Mortgage-backed and asset-backed securities	498,828,404	1,508,258	(3,997,627)	496,339,035
	$ 618,266,240	$ 2,451,601	$ (4,518,701)	$ 616,199,140
2015				
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

Note 2 – Investments (continued)

Gross unrealized losses and fair value by length of time the individual securities have been in a continuous unrealized loss position at December 31 are as follows:

		Continuous Unrealized Losses Existing for		
2016	Fair Value	Less than 12 months	12 months or Longer	Total Unrealized Losses
Federal agency securities	$ 18,523,156	$ (171,428)	$ (170,724)	$ (342,152)
Collateralized mortgage obligations	17,467,017	(178,922)	-	(178,922)
Mortgage-backed and asset-backed securities	372,768,514	(3,806,156)	(191,471)	(3,997,627)
	$ 408,758,687	$ (4,156,506)	$ (362,195)	$ (4,518,701)
2015				
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)

As of December 31, 2016, sixty-two investments had been in a continuous unrealized loss position for less than 12 months and six had been in a continuous unrealized loss position for 12 months or longer. 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.

Other investments at December 31 consist of the following:

	2016	2015
Note receivable, natural person credit union	$ 12,000,000	$ 12,000,000
FHLB stock	6,734,200	6,734,200
Central Liquidity Facility (CLF) stock	3,242,977	3,040,645
Certificates of deposit	200,235	200,019
Other	20,000	217,039
	$ 22,197,412	$ 22,191,903

Note 2 – Investments (continued)

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, 2016 and 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 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.

Note 2 – Investments (continued)

	Available for Sale		
2016	Amortized Cost	Fair Value	Other
No contractual maturity	$ -	$ -	$ 9,997,177
One to five years	4,450,998	4,466,335	9,800,235
Five to ten years	11,475,017	11,481,547	2,400,000
More than ten years	49,206,570	49,336,047	-
	65,132,585	65,283,929	22,197,412
Mortgage-backed and asset-backed securities and collateralized mortgage obligations	553,133,655	550,915,211	-
	$ 618,266,240	$ 616,199,140	$ 22,197,412
2015			
No contractual maturity	$ -	$ -	$ 9,991,884
One to five years	5,475,411	5,495,763	7,400,019
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

Note 3 – Loans Receivable, Net

Total loans outstanding by portfolio segment and class of loan at December 31 are as follows:

	2016	2015
Commercial:		
Commercial real estate	$ 24,621,401	$ 26,858,799
Residential real estate:		
First mortgage	64,841,961	55,637,180
HELOC and other mortgage	121,913,931	119,446,688
	186,755,892	175,083,868
Consumer:		
Automobile	227,974,907	204,944,100
Credit card	128,886,152	127,315,586
Other consumer	47,973,239	43,905,420
	404,834,298	376,165,106
Total loans	616,211,591	578,107,773
Net deferred loan origination costs	536,466	329,139
Unamortized premiums on loans purchased	385,652	443,372
Allowance for loan losses	(8,145,388)	(9,006,651)
Total loans receivable, net	$ 608,988,321	$ 569,873,633

Note 3 – Loans Receivable, Net (continued)

The allowance for loan losses and loans outstanding, by portfolio segment, at December 31 are as follows:

2016	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 209,484	$ 3,342,712	$ 5,454,455	$ 9,006,651
Charge-offs	-	(331,542)	(6,911,931)	(7,243,473)
Provision (credit) for loan losses	(30,071)	(2,249,315)	3,185,638	906,252
Recoveries	4,955	1,591,771	3,879,232	5,475,958
Ending balance	$ 184,368	$ 2,353,626	$ 5,607,394	$ 8,145,388
Ending balance: individually evaluated for impairment	$ -	$ 1,783,726	$ 434,118	$ 2,217,844
Ending balance: collectively evaluated for impairment	184,368	569,900	5,173,276	5,927,544
Ending balance	$ 184,368	$ 2,353,626	$ 5,607,394	$ 8,145,388
Recorded investment in loans:				
Ending balance: individually evaluated for impairment	$ -	$ 7,626,891	$ 2,170,851	$ 9,797,742
Ending balance: collectively evaluated for impairment	24,621,401	179,129,001	402,663,447	606,413,849
Ending balance	$ 24,621,401	$ 186,755,892	$ 404,834,298	$ 616,211,591

Note 3 – Loans Receivable, Net (continued)

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

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.

Note 3 – Loans Receivable, Net (continued)

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 at December 31 is as follows:

2016	Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$ 24,621,401	$ -	$ -	$ -	$ 24,621,401
2015					
Commercial real estate	$ 21,996,919	$ 4,861,880	$ -	$ -	$ 26,858,799

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.

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, 2016. 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.

Note 3 – Loans Receivable, Net (continued)

The FICO score distribution at December 31 is as follows:

2016	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
740 and above	$ 42,299,859	$ 61,488,959	$ 84,011,888	$ 50,637,579	$ 14,446,162	$ 252,884,447
680 to 739	14,831,519	32,467,895	73,306,450	45,221,415	15,167,252	180,994,531
660 to 679	2,374,336	8,351,319	21,573,023	10,256,612	5,017,198	47,572,488
640 to 659	3,305,348	5,463,834	16,736,799	7,812,318	3,812,066	37,130,365
620 to 639	963,063	4,428,950	10,804,024	5,090,530	2,823,145	24,109,712
600 to 619	514,277	3,575,736	7,868,563	3,524,126	1,802,729	17,285,431
599 and below	553,559	6,059,728	13,051,148	5,768,763	3,278,888	28,712,086
Unknown	-	77,510	623,012	574,809	1,625,799	2,901,130
	$ 64,841,961	$ 121,913,931	$ 227,974,907	$ 128,886,152	$ 47,973,239	$ 591,590,190
2015						
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

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, 2016.

Note 3 – Loans Receivable, Net (continued)

The LTV distribution of first mortgage and HELOC and other mortgage at December 31 is as follows:

2016	Less Than 80%	80%-89%	90%-100%	Greater Than 100%	Unknown	Total
First mortgage	$ 59,444,569	$ 2,861,444	$ 532,746	$ 832,053	$ 1,171,149	$ 64,841,961
HELOC and other mortgage	111,293,184	8,325,612	210,589	1,581,312	503,234	121,913,931
	$ 170,737,753	$ 11,187,056	$ 743,335	$ 2,413,365	$ 1,674,383	$ 186,755,892
2015						
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

Nonaccrual and past due loans – Information relating to the age and nonaccrual status of the loans by class at December 31 is as follows:

2016	Current	30-59 Days Past Due	60 Days or more Past Due	Total	Loans on Nonaccrual Status
Commercial real estate	$ 24,621,401	$ -	$ -	$ 24,621,401	$ -
First mortgage	62,594,570	2,244,057	3,334	64,841,961	-
HELOC and other mortgage	120,359,226	542,454	1,012,251	121,913,931	726,293
Automobile	226,338,714	1,110,068	526,125	227,974,907	164,937
Credit card	128,296,858	274,855	314,439	128,886,152	56,496
Other consumer	46,850,977	557,844	564,418	47,973,239	360,724
	$ 609,061,746	$ 4,729,278	$ 2,420,567	$ 616,211,591	$ 1,308,450
2015					
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

There were no loans 91 days or more past due and still accruing interest as of December 31, 2016 and 2015.

Note 3 – Loans Receivable, Net (continued)

Impaired loans – Impaired loans individually evaluated for impairment at December 31 are as follows:

	2016		2015	
	Loans Outstanding	Related Allowance	Loans Outstanding	Related Allowance
With an allowance recorded:				
HELOC and other mortgage	$ 7,626,891	$ 1,783,726	$ 9,067,483	$ 2,179,971
Automobile	866,091	101,293	2,004,090	256,392
Other consumer	1,304,760	332,825	1,959,858	506,122
	$ 9,797,742	$ 2,217,844	$ 13,031,431	$ 2,942,485

There were no impaired loans without a specific allowance recorded as of December 31, 2016 and 2015.

Loans modified as TDRs during the years ended December 31, 2016 and 2015, presented by class are as follows:

	TDRs		
2016	Number of Loans	Principal Balance	Allowance Impact
Other consumer	2	$ 22,241	$ 5,917
2015			
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

During the year ended December 31, 2016, both of the loans modified were granted reduced payment concessions with one of the loans modified also granted an interest rate concession. All of the loans modified during the year ended December 31, 2015 were granted interest rate concessions.

There were no loans restructured during the years ended December 31, 2016 and 2015 for which there was a payment default subsequent to, but within 12 months of, the restructuring.

Note 4 – Property and Equipment

The composition of property and equipment at December 31 is summarized as follows:

	2016	2015
Land	$ 12,305,037	$ 13,763,141
Buildings	39,818,113	43,482,757
Furniture and equipment	33,249,971	31,941,615
Leasehold improvements	861,458	501,190
	86,234,579	89,688,703
Accumulated depreciation and amortization	(41,329,634)	(42,846,986)
	$ 44,904,945	$ 46,841,717

Property held-for-sale represents three parcels of land and four buildings, 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 $452,546 and $4,790,513 as of December 31, 2016 and 2015, respectively. Property held-for-sale is reported at fair value of $8,836,574 and $7,000,000 as of December 31, 2016 and 2015, respectively.

Note 5 – Members' Share Accounts

Members' share accounts at December 31 are summarized as follows:

	2016	2015
Regular share	$ 283,084,926	$ 260,314,876
Share draft	358,581,503	341,554,049
Money market	456,307,916	436,073,720
Share and IRA certificate	128,572,481	136,128,623
	$ 1,226,546,826	$ 1,174,071,268

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

Years Ending December 31,	
2017	$ 61,907,101
2018	28,034,367
2019	12,233,829
2020	16,493,310
2021	9,903,874
	$ 128,572,481

Note 5 – Members' Share Accounts (continued)

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 $5,333,000 and $6,125,000 at December 31, 2016 and 2015, respectively.

Note 6 – Lease Commitments

The Credit Union leases certain office facilities under non-cancelable operating lease agreements expiring through 2019. One of these leases is for the AFIS office facility, which is leased from 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 are as follows:

Years Ending December 31,	
2017	$ 233,760
2018	122,400
2019	126,120
	$ 482,280

Rent expense totaled approximately $201,000 and $547,000 for the years ended December 31, 2016 and 2015, respectively.

Note 7 – Intangible Assets and Goodwill

Intangible assets and goodwill at December 31 are summarized as follows:

	2016	2015
Intangible assets	$ 6,435,000	$ 6,435,000
Accumulated amortization	(4,664,755)	(4,235,757)
	1,770,245	2,199,243
Goodwill	2,987,882	2,987,882
	$ 4,758,127	$ 5,187,125

Note 7 – Intangible Assets and Goodwill (continued)

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. As of December 31, 2016, the expiration lists have a weighted-average remaining life of 4.0 years. Amortization expense for the years ended December 31, 2016 and 2015 totaled $428,998.

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. A valuation was performed by an independent third party at September 30, 2016 and 2015 indicating that the fair value of goodwill exceeded its carrying value; accordingly, no impairment loss was recorded during the years ended December 31, 2016 and 2015.

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 $526,142,000 and $434,633,000 at December 31, 2016 and 2015, respectively. Maximum available borrowings are limited to 35% of total assets as of December 31, 2016 and 25% of total assets as of December 31, 2015 and were approximately $497,748,000 and $335,349,000 at December 31, 2016 and 2015, respectively. There were no outstanding borrowings under this arrangement at December 31, 2016 and 2015.

FRB discount window – The Credit Union maintains a secured borrowing arrangement through the FRB discount window. At December 31, 2016 and 2015, the FRB held investment securities with outstanding fair values of approximately $90,044,000 and $50,413,000, respectively, as collateral with maximum available borrowings determined as a percentage of collateral. There were no outstanding borrowings as of December 31, 2016 and 2015 under this borrowing arrangement.

Note 8 – Borrowed Funds (continued)

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, 2016 and 2015. The agreement expires on April 30, 2017. There were no outstanding borrowings as of December 31, 2016 and 2015 under this borrowing arrangement.

Central Liquidity Facility – In 2012, the Credit Union became a member of the Central Liquidity Facility (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, 2016 and 2015, there were no outstanding borrowings under this arrangement.

Note 9 – Other Assets

Other assets at December 31 consist of the following:

	2016	2015
Credit union owned life insurance	$ 30,977,353	$ 15,459,912
Collateralized receivables	3,548,771	5,656,152
Prepaid expenses	3,292,519	2,562,187
Other receivables	10,106,298	4,519,416
	$ 47,924,941	$ 28,197,667

Credit Union Owned Life Insurance (CUOLI) Policies – During the year ended December 31, 2016, the Credit Union purchased an additional $15,000,000 in CUOLI policies aggregating a total of $30,000,000 purchased on the lives of key participating employees. There were no purchases of CUOLI policies during the year ended December 31, 2015. The cash surrender value of the CUOLI policies amounts to approximately $30,977,000 and $15,460,000 as of December 31, 2016 and 2015, 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 12.

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

Note 9 – Other Assets (continued)

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 12.

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 at December 31 whose contract amounts represent credit risk:

	2016	2015
HELOC	$ 33,491,000	$ 32,502,000
Credit card	283,921,000	256,382,000
Overdraft line	70,317,000	68,933,000
Other lines of credit	17,594,000	18,085,000
	$ 405,323,000	$ 375,902,000

As of December 31, 2016 and 2015, there were no mortgage loans approved but not funded.

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 – 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, 2016 and 2015 totaled approximately $913,000 and $1,023,000, 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 $594,000 and $494,000 as of December 31, 2016 and 2015, respectively. The Credit Union has accrued liabilities of approximately $594,000 and $494,000 at December 31, 2016 and 2015, respectively.

Note 12 – Employee Benefits (continued)

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, 2016, the Credit Union purchased an additional $15,000,000 in CUOLI policies aggregating a total of $30,000,000 purchased on the lives of key participating employees. There were no purchases of CUOLI policies during the year ended December 31, 2015. 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 $30,977,000 and $15,460,000 with a weighted-average yield of 2.74% and 2.61% as of December 31, 2016 and 2015, respectively, and is included in other assets. During the years ended December 31, 2016 and 2015, the Credit Union recognized approximately $517,000 and $396,000, 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 $1,852,000 and $1,078,000 as of December 31, 2016 and 2015, respectively. The costs associated with the plan totaled approximately $801,000 and $741,000 for the years ended December 31, 2016 and 2015, 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 13 – 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, 2016 and 2015 totaled approximately $429,000 and $709,000, respectively. Loans to related parties are made under the same terms available to other members. Shares from related parties at December 31, 2016 totaled approximately $1,525,000.

Note 14 – Fair Value Measurements

The following is a description of valuation methodologies used for assets and liabilities recorded at 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.

Note 14 – Fair Value Measurements (continued)

Impaired loans receivable – The Credit Union evaluates the residential real estate and consumer segments for impairment on a pooled basis. 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.

Property held-for-sale – Fair values of property held-for-sale are based on the fair value of the underlying asset less costs to sell. The Credit Union obtains third party valuations including appraisals and broker's price opinions to value the asset at fair value upon transfer to property held-for-sale.

Fair values of assets measured on a recurring basis at December 31 are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2016	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	$ 616,199,140	$ -	$ 616,199,140	$ -
2015				
Securities available-for-sale	$ 512,969,901	$ -	$ 512,969,901	$ -

There were no transfers of assets between Level 1 and Level 2 valuation measurements during the years ended December 31, 2016 and 2015.

Note 14 – Fair Value Measurements (continued)

Fair values of assets measured on a nonrecurring basis at December 31 are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2016	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans receivable, net	$ 7,579,898	$ -	$ -	$ 7,579,898
Property held-for-sale	8,836,574			8,836,574
	$ 16,416,472	$ -	$ -	$ 16,416,472
2015				
Impaired loans receivable, net	$ 10,088,946	$ -	$ -	$ 10,088,946
Property held-for-sale	7,000,000			7,000,000
	$ 17,088,946	$ -	$ -	$ 17,088,946

Additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value at December 31 is summarized as follows:

2016	Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans receivable, net	$ 7,579,898	Discounted cash flows	Discount rate	8.34% - 11.03%
Property held-for-sale	8,836,574	Market approach	Adjustment for cost of sales	5%
2015				
Impaired loans receivable, net	$ 10,088,946	Discounted cash flows	Discount rate	8.34% - 11.01%
Property held-for-sale	7,000,000	Market approach	Adjustment for cost of sales	0%

Note 15 – 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, 2016 and 2015, the Credit Union's RBNW ratio was 6.26% and 5.73%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%.

As of December 31, 2016, 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 at December 31 are as follows:

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
2016	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net worth	$ 218,269,759	14.81%	$ 88,406,812	6.00%	$ 103,141,281	7.00%
2015						
Net worth	$ 197,372,399	14.13%	$ 83,796,891	6.00%	$ 97,763,039	7.00%

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