Report of Independent Auditors
and Financial Statements for

# America's Christian Credit Union

March 31, 2017 and 2016

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

Members of the Supervisory Committee and
Board of Directors
America's Christian Credit Union

## Report on Financial Statements

We have audited the accompanying financial statements of America's Christian Credit Union (Credit Union), which comprise the statements of financial condition as of March 31, 2017 and 2016, and the related statements of income and comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

## REPORT OF INDEPENDENT AUDITORS
## (continued)

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 financial statements referred to above present fairly, in all material respects, the financial position of America's Christian Credit Union as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
June 28, 2017

## ASSETS

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 74,508,719 | $ 75,300,376 |
| Other investments | 510,330 | 521,721 |
| Federal Home Loan Bank stock, at cost | 1,004,900 | 1,004,900 |
| Loans receivable, net of allowance for loan losses of $3,723,741 and $3,727,292 in 2017 and 2016, respectively | 230,527,012 | 212,035,484 |
| Loan servicing assets | 413,574 | 611,759 |
| Accrued interest receivable | 1,046,493 | 1,024,247 |
| Premises and equipment, net | 14,724,549 | 15,411,524 |
| Share insurance deposits | 2,449,145 | 2,286,579 |
| Credit Union-owned life insurance | 15,768,708 | 15,299,266 |
| Other real estate owned | - | 959,980 |
| Other assets | 1,831,270 | 1,704,742 |
| | $ 342,784,700 | $ 326,160,578 |

## LIABILITIES AND MEMBERS' EQUITY

| | 2017 | 2016 |
|---|---|---|
| LIABILITIES | | |
| Members' share and savings accounts | $ 297,866,627 | $ 289,705,714 |
| Borrowed funds | 6,700,000 | - |
| Accrued expenses and other liabilities | 2,346,652 | 1,710,326 |
| Deferred compensation payable | 1,442,748 | 4,149,674 |
| | 308,356,027 | 295,565,714 |
| COMMITMENTS AND CONTINGENCIES (Notes 6 and 11) | | |
| MEMBERS' EQUITY | | |
| Regular reserve | 7,558,165 | 7,558,165 |
| Undivided earnings | 26,870,508 | 23,036,699 |
| | 34,428,673 | 30,594,864 |
| | $ 342,784,700 | $ 326,160,578 |



See accompanying notes.

## STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Years Ended March 31, 2017 | 2016 |
|---|---|---|
| Interest income | | |
| Interest on loans to members | $ 11,675,012 | $ 12,154,194 |
| Interest on investment securities and cash equivalents | 670,445 | 487,832 |
| Total interest income | 12,345,457 | 12,642,026 |
| Interest expense | | |
| Dividends on members' share and savings accounts | 1,675,078 | 1,837,443 |
| Interest on borrowed funds | 28,823 | 19,894 |
| Total interest expense | 1,703,901 | 1,857,337 |
| Net interest income | 10,641,556 | 10,784,689 |
| Provision for loan losses | 546,999 | 896,507 |
| Net interest income after provision for loan losses | 10,094,557 | 9,888,182 |
| Noninterest income | | |
| Fees and charges | 5,335,913 | 4,033,974 |
| Gains on loan participations sold | 52,399 | 90,580 |
| Other noninterest income | 2,823,139 | 2,644,252 |
| Total noninterest income | 8,211,451 | 6,768,806 |
| Total income | 18,306,008 | 16,656,988 |
| Noninterest expense | | |
| Compensation and benefits | 7,868,480 | 7,597,726 |
| Operations | 2,298,050 | 2,408,512 |
| Professional and outside services | 2,214,004 | 2,005,816 |
| Occupancy | 1,135,049 | 979,219 |
| Educational and promotional | 667,333 | 543,966 |
| Valuation adjustments for other real estate owned | - | 189,299 |
| Other expense | 289,283 | 247,479 |
| Total noninterest expense | 14,472,199 | 13,972,017 |
| Net income | 3,833,809 | 2,684,971 |
| Comprehensive income | $ 3,833,809 | $ 2,684,971 |

See accompanying notes.

## AMERICA'S CHRISTIAN CREDIT UNION
### STATEMENTS OF MEMBERS' EQUITY

| | Total | Regular Reserve | Undivided Earnings |
|---|---|---|---|
| Balance, March 31, 2015 | $ 27,909,893 | $ 7,558,165 | $ 20,351,728 |
| Net income | 2,684,971 | - | 2,684,971 |
| Balance, March 31, 2016 | 30,594,864 | 7,558,165 | 23,036,699 |
| Net income | 3,833,809 | - | 3,833,809 |
| Balance, March 31, 2017 | $ 34,428,673 | $ 7,558,165 | $ 26,870,508 |



See accompanying notes.

| | Years Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 3,833,809 | $ 2,684,971 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation | 871,436 | 708,451 |
| Provision for loan losses | 546,999 | 896,507 |
| Valuation adjustments for other real estate owned | - | 189,299 |
| Amortization of loan origination fees and costs, net | 29,721 | 27,202 |
| Amortization of servicing asset | 119,528 | 158,636 |
| Capitalization of loan servicing asset | (52,399) | (59,680) |
| Reduction due to loan payoffs | 131,056 | - |
| Loss on sale of premises and equipment | 12,784 | - |
| Gain on sale of other real estate owned | (52,962) | (27,472) |
| Changes in assets and liabilities | | |
| Accrued interest receivable | (22,246) | 33,890 |
| Other assets | (126,528) | (12,393) |
| Accrued expenses and other liabilities | 636,326 | (123,442) |
| Deferred compensation payable | (2,706,926) | 564,417 |
| Net cash from operating activities | 3,220,598 | 5,040,386 |
| CASH FLOWS PROM INVESTING ACTIVITIES | | |
| Decrease in other investments | 11,391 | 30,142 |
| Increase in loans to members, net of principal collections | (30,006,610) | (20,020,809) |
| Increase in NCUSIF deposit | (162,566) | (126,377) |
| Increase in Credit Union-owned life insurance | (469,442) | (480,523) |
| Proceeds from sale of loan participations | 11,723,304 | 12,177,647 |
| Proceeds from the sale of premises and equipment | 9,000 | - |
| Proceeds from sale of other real estate owned | 228,000 | 170,516 |
| Purchases of premises and equipment | (206,245) | (255,232) |
| Net cash from investing activities | (18,873,168) | (8,504,636) |

(Continued on next page)

# AMERICA'S CHRISTIAN CREDIT UNION
## STATEMENTS OF CASH FLOWS

| | Years Ended March 31, 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in members' share and savings accounts | $ 8,160,913 | $ 26,406,807 |
| Advances (repayment) of borrowed funds | 6,700,000 | (6,000,000) |
| Net cash from financing activities | 14,860,913 | 20,406,807 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (791,657) | 16,942,557 |
| CASH AND CASH EQUIVALENTS, beginning of year | 75,300,376 | 58,357,819 |
| CASH AND CASH EQUIVALENTS, end of year | $ 74,508,719 | $ 75,300,376 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | | |
| Dividends on members' share and savings accounts | $ 1,675,078 | $ 1,837,443 |
| Interest on borrowed funds | 28,823 | 19,894 |
| | $ 1,703,901 | $ 1,857,337 |
| NONCASH TRANSACTIONS | | |
| Loans transferred to other real estate owned | $ 17,583 | $ 2,778,571 |
| Credit Union financed sales of other real estate owned | $ 802,525 | $ 2,505,975 |

 See accompanying notes.

**Note 1 – Summary of Significant Accounting Policies**

**Nature of operations –** America's Christian Credit Union (Credit Union), formerly Nazarene Credit Union, is a state chartered credit union organized under the State of California Credit Union Act and administratively responsible to the State of California Department of Business Oversight. In April 2003, the Credit Union expanded its field of membership to include churches and church members, schools, organizations, and affiliates of all Wesleyan based Christian denominations. The Credit Union's primary source of revenue is interest income from providing loans to its members.

A substantial portion of the Credit Union's loan portfolio is represented by real estate loans secured by real property collateral utilized by Christian organizations. It is management's belief that credit risk within the portfolio is mitigated by low loan-to-value ratios, adequate debt coverage ratios, experienced business lending management and staff, and conservative lending policies.

**Use of estimates in preparing financial statements –** The preparation of financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and loan servicing assets.

**Cash and cash equivalents –** Cash consists of funds due from banks, corporate credit unions, and cash in vaults and on hand. For purposes of the 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.

**Other investments –** Other investments are comprised of uninsured capital investments in other institutions.

**Federal Home Loan Bank (FHLB) stock –** The Credit Union's investment in FHLB stock is carried at par value ($100 per share), which reasonably approximates its fair value. As a member of the FHLB system, the Credit Union is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding member business real estate loans or 5% of advances from the FHLB. The Credit Union may request redemption at par value of any stock in excess of the amount the Credit Union is required to hold. Stock redemptions are at the discretion of the FHLB. The Credit Union had $1,004,900 in class B stock at March 31, 2017 and 2016.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Loans to members –** The Credit Union grants mortgage, member business, and consumer loans to members, including faith-based organizations. A substantial portion of the loan portfolio is represented by real estate loans and unsecured loans to members. A members' ability to honor their loan agreements is dependent primarily upon the economic stability of the various groups comprising the Credit Union's field of membership.

Loans 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 is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Loans may be charged off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if 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 that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the straight-line method, which approximates the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

**Allowance for loan losses –** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Allowance for loan losses (continued) –** The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment.

Specific allowances for loan losses are established for large or restructured impaired loans on an individual basis as required by the accounting by creditors for impairment of a loan. The specific allowances established for these loans are based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral.

**Troubled debt restructurings (TDRs) –** Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in an attempt to protect the investment. Examples of such concessions include extending the maturity date(s), providing a lower-than-market interest rate that would normally not be available for a transaction of similar risk, or allowing for interest only payments for a specified period of time. This generally occurs when the financial condition of the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a TDR is an impaired loan and is accounted for as such.

**Transfers of financial assets –** Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Credit Union; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that 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 their maturity or the ability to unilaterally cause the holder to return financial assets.

**Off-balance sheet credit related financial instruments –** In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Loan servicing assets –** Servicing assets are recognized as separate assets when servicing rights are acquired through purchase or through sale of functional assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, loan servicing rights are amortized into noninterest income in proportion to, and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on the fair value annually.

Fair value is based on market prices for comparable loan servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change periodically as market conditions and projected interest rates change, and may have an adverse impact on the value of the loan servicing asset and may result in a reduction in noninterest income.

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

**Premises and equipment –** Land is carried at cost. Buildings and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

**Valuation of long-lived assets –** The Credit Union, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated the carrying amount of its assets might not be recoverable. In accordance with current accounting standards, impaired assets are reported at the lower of cost or fair value. At March 31, 2017 and 2016, no assets had been written down for impairment.

**National Credit Union Share Insurance Fund (NCUSIF) deposit –** The deposit in the NCUSIF is in accordance with National Credit Union Association (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The balance of the deposit was $2,229,145 and $2,066,579 at March 31, 2017 and 2016, respectively.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**American Share Insurance Fund (ASI) deposit –** The deposit maintained in ASI is to provide members' shares additional insurance per account, $100,000 for member business accounts and $200,000 for individual accounts. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the ASI Board. The balance of the deposit was $220,000 at March 31, 2017 and 2016.

**NCUSIF insurance premiums –** A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUSIF assessments were $-0- for the years ended March 31, 2017 and 2016.

**Credit Union-owned life insurance –** The carrying amount of Credit Union-owned life insurance approximates its fair value. Fair value of Credit Union owned life insurance is estimated using the cash surrender value, net of surrender charges.

**Members' share and savings accounts –** Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings 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 and savings 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 interest.

**Income taxes –** The Credit Union is exempt by statute from federal income taxes under the provisions of Section 501 of the Internal Revenue Code (IRC) of 1954; however, the Credit Union's unrelated business income and subsidiaries are subject to federal income taxes. There were no significant income taxes for the years ended March 31, 2017 or 2016.

Accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Credit Union had no unrecognized tax positions at March 31, 2017 or 2016. It is the Credit Union's policy to record any penalties or interest arising from federal or state taxes as a component of noninterest expense.

**Advertising costs –** Advertising costs are charged to operations when incurred. Advertising expense totaled $548,105 and $422,744 for the years ended March 31, 2017 and 2016, respectively.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Comprehensive income (loss) –** Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in postretirement benefit plan obligations are reported as a separate component of the equity section of the statements of financial condition.

**Recent accounting pronouncements –** In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU amends the guidance on the impairment of financial instruments. The ASU adds an impairment model known as the current expected credit loss (CECL) model that is based on expected losses rather than incurred losses. Under the new guidance, the Credit Union recognizes as an allowance its estimate of expected credit losses, which FASB believes will result in more timely recognition of losses when compared to the current model. For nonpublic business entities, the guidance in this ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. The Credit Union is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Credit Union's financial condition or results of operations.

**Note 2 – Restrictions on Cash**

The Credit Union is required to maintain balances with corporate credit unions as membership shares that are uninsured and require a notice before withdrawal. The membership share balance was $502,703 at March 31, 2017 and 2016.

**Note 3 – Investments**

In order to meet the liquidity needs for providing financial services to its members, the Credit Union maintains funds on deposit in various demand and investment accounts in excess of the insured deposit limits. As of March 31, 2017 and 2016, the amount of uninsured deposits and investments totaled approximately $30,067,524 and $28,182,159, respectively.

Other investment securities at March 31 are summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| Membership capital in Alloya Corporate Credit Union | $ 465,000 | $ 465,000 |
| Financial Services promissory notes | 7,627 | 19,018 |
| Membership capital in Catalyst Corporate Credit Union | 37,703 | 37,703 |
| | $ 510,330 | $ 521,721 |

**Note 4 – Loans to Members**

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

| | 2017 | 2016 |
|---|---|---|
| Automobile | $ 20,907,545 | $ 15,518,733 |
| Consumer real estate | 18,426,521 | 15,225,954 |
| Consumer unsecured | 12,061,835 | 11,714,416 |
| Student loans | 3,923,283 | 3,466,010 |
| Member business - real estate | 174,233,388 | 164,497,882 |
| Member business - unsecured | 178,385 | 312,827 |
| Credit card | 4,005,960 | 4,157,719 |
| Share secured | 445,755 | 893,137 |
| Other secured | 432,656 | 155,745 |
| | 234,615,328 | 215,942,423 |
| Deferred fees | (364,575) | (179,647) |
| Allowance for loan losses | (3,723,741) | (3,727,292) |
| | $ 230,527,012 | $ 212,035,484 |

The Credit Union has purchased loan participations originated by various other credit unions that are secured by commercial real estate to members of other credit unions. All of these loan participations were purchased without recourse and are secured by real property. Loan servicing functions on these loans were retained by the other credit unions.

The interest rates on loans fall into the following fixed and variable components at March 31:

| | 2017 | 2016 |
|---|---|---|
| Fixed | $ 50,853,740 | $ 50,593,374 |
| Variable | 183,761,588 | 165,349,049 |
| | $ 234,615,328 | $ 215,942,423 |

### Note 4 – Loans to Members (continued)

The following tables summarize activity related to the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the years ended March 31:

| 2017 | Automobile | Consumer Real Estate | Consumer Unsecured and Student Loans | Member Business - Real Estate | Member Business - Unsecured | Credit Card | Other Secured | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses** | | | | | | | | |
| Beginning balance | $ 59,433 | $ 118,152 | $ 197,164 | $ 3,260,222 | $ 17,933 | $ 59,219 | $ 15,169 | $ 3,727,292 |
| Charge-offs | (106,272) | - | (161,347) | (229,156) | - | (69,163) | (2,573) | (568,511) |
| Recoveries | - | 4,868 | 12,060 | - | - | 1,033 | - | 17,961 |
| Provision (recapture) | 168,017 | (75,693) | 182,980 | 199,239 | 1,151 | 82,871 | (11,566) | 546,999 |
| Ending balance | $ 121,178 | $ 47,327 | $ 230,857 | $ 3,230,305 | $ 19,084 | $ 73,960 | $ 1,030 | $ 3,723,741 |
| Ending balance individually evaluated for impairment | $ 1,331 | $ 23,093 | $ 35,107 | $ 2,233,505 | $ 14,044 | $ 17,376 | $ - | $ 2,324,456 |
| Ending balance collectively evaluated for impairment | $ 119,847 | $ 24,234 | $ 195,750 | $ 996,800 | $ 5,040 | $ 56,584 | $ 1,030 | $ 1,399,285 |
| **Loan receivables** | | | | | | | | |
| Ending balance | $ 20,907,545 | $ 18,426,521 | $ 15,985,118 | $ 174,233,388 | $ 178,385 | $ 4,005,960 | $ 878,411 | $ 234,615,328 |
| Ending balance individually evaluated for impairment | $ 10,403 | $ 300,788 | $ 37,070 | $ 8,221,588 | $ 56,177 | $ 17,376 | $ - | $ 8,643,402 |
| Ending balance collectively evaluated for impairment | $ 20,897,142 | $ 18,125,733 | $ 15,948,048 | $ 166,011,800 | $ 122,208 | $ 3,988,584 | $ 878,411 | $ 225,971,926 |

| 2016 | Automobile | Consumer Real Estate | Consumer Unsecured and Student Loans | Member Business - Real Estate | Member Business - Unsecured | Credit Card | Other Secured | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses** | | | | | | | | |
| Beginning balance | $ 20,359 | $ 193,502 | $ 233,040 | $ 3,680,070 | $ 17,134 | $ 82,232 | $ 5,487 | 4,231,824 |
| Charge-offs | (61,735) | - | (189,747) | (1,215,670) | - | (46,317) | - | (1,513,469) |
| Recoveries | 3,832 | 65,627 | 35,904 | 11,330 | - | 5,737 | - | 122,430 |
| Provision (recapture) | 96,977 | (140,977) | 117,967 | 784,492 | 799 | 17,567 | 9,682 | 886,507 |
| Ending balance | $ 59,433 | $ 118,152 | $ 197,164 | $ 3,260,222 | $ 17,933 | $ 59,219 | $ 15,169 | $ 3,727,292 |
| Ending balance individually evaluated for impairment | $ 8,245 | $ 13,061 | $ 45,426 | $ 1,694,430 | $ 15,466 | $ 11,622 | $ - | $ 1,788,250 |
| Ending balance collectively evaluated for impairment | $ 51,188 | $ 105,091 | $ 151,738 | $ 1,565,792 | $ 2,467 | $ 47,597 | $ 15,169 | $ 1,939,042 |
| **Loan receivables** | | | | | | | | |
| Ending balance | $ 15,518,733 | $ 15,225,954 | $ 15,180,426 | $ 164,497,882 | $ 312,827 | $ 4,157,719 | $ 1,048,882 | $ 215,942,423 |
| Ending balance individually evaluated for impairment | $ 11,471 | $ 442,326 | $ 48,246 | $ 8,048,305 | $ 61,863 | $ 11,622 | $ - | $ 8,623,833 |
| Ending balance collectively evaluated for impairment | $ 15,507,262 | $ 14,783,628 | $ 15,132,180 | $ 156,449,577 | $ 250,964 | $ 4,146,097 | $ 1,048,882 | $ 207,318,590 |

**Note 4 – Loans to Members (continued)**

The following tables summarize impaired loans by loan class as of March 31:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded | | | | | |
| Automobile | $ - | $ - | $ - | $ - | $ - |
| Consumer real estate | - | - | - | - | - |
| Consumer unsecured and student loans | - | - | - | - | - |
| Member business - real estate | - | - | - | - | - |
| Member business - unsecured | - | - | - | - | - |
| Credit card | - | - | - | - | - |
| | - | - | - | - | - |
| With an allowance recorded | | | | | |
| Automobile | 10,403 | 10,403 | 1,331 | 10,937 | 315 |
| Consumer real estate | 300,788 | 300,788 | 23,093 | 371,557 | 17,166 |
| Consumer unsecured and student loans | 37,070 | 37,070 | 35,107 | 42,658 | 3,848 |
| Member business - real estate | 8,221,588 | 8,221,588 | 2,233,505 | 8,134,947 | 418,950 |
| Member business - unsecured | 56,177 | 56,177 | 14,044 | 59,020 | 4,545 |
| Credit card | 17,376 | 17,376 | 17,376 | 14,499 | 1,166 |
| | 8,643,402 | 8,643,402 | 2,324,456 | 8,633,618 | 445,990 |
| Total | | | | | |
| Automobile | 10,403 | 10,403 | 1,331 | 10,937 | 315 |
| Consumer real estate | 300,788 | 300,788 | 23,093 | 371,557 | 17,166 |
| Consumer unsecured and student loans | 37,070 | 37,070 | 35,107 | 42,658 | 3,848 |
| Member business - real estate | 8,221,588 | 8,221,588 | 2,233,505 | 8,134,947 | 418,950 |
| Member business - unsecured | 56,177 | 56,177 | 14,044 | 59,020 | 4,545 |
| Credit card | 17,376 | 17,376 | 17,376 | 14,499 | 1,166 |
| | $ 8,643,402 | $ 8,643,402 | $ 2,324,456 | $ 8,633,618 | $ 445,990 |

### Note 4 – Loans to Members (continued)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded | | | | | |
| Automobile | $ - | $ - | $ - | $ - | $ - |
| Consumer real estate | - | - | - | - | - |
| Consumer unsecured and student loans | - | - | - | - | - |
| Member business - real estate | - | - | - | - | - |
| Member business - unsecured | - | - | - | - | - |
| Credit card | - | - | - | - | - |
| | - | - | - | - | - |
| With an allowance recorded | | | | | |
| Automobile | 11,471 | 11,471 | 8,245 | 10,180 | 310 |
| Consumer real estate | 442,326 | 442,326 | 13,061 | 474,468 | 21,826 |
| Consumer unsecured and student loans | 48,246 | 48,246 | 45,426 | 44,723 | 4,159 |
| Member business - real estate | 8,048,305 | 8,048,305 | 1,694,430 | 10,740,029 | 559,288 |
| Member business - unsecured | 61,863 | 61,863 | 15,466 | 64,551 | 4,093 |
| Credit card | 11,622 | 11,622 | 11,622 | 19,213 | 1,489 |
| | 8,623,833 | 8,623,833 | 1,788,250 | 11,353,164 | 591,165 |
| Total | | | | | |
| Automobile | 11,471 | 11,471 | 8,245 | 10,180 | 310 |
| Consumer real estate | 442,326 | 442,326 | 13,061 | 474,468 | 21,826 |
| Consumer unsecured and student loans | 48,246 | 48,246 | 45,426 | 44,723 | 4,159 |
| Member business - real estate | 8,048,305 | 8,048,305 | 1,694,430 | 10,740,029 | 559,288 |
| Member business - unsecured | 61,863 | 61,863 | 15,466 | 64,551 | 4,093 |
| Credit card | 11,622 | 11,622 | 11,622 | 19,213 | 1,489 |
| | $ 8,623,833 | $ 8,623,833 | $ 1,788,250 | $ 11,353,164 | $ 591,165 |

The following table summarizes loans on nonaccrual status by loan class as of March 31:

| | 2017 | 2016 |
|---|---|---|
| Consumer real estate | $ 163,085 | $ 105,196 |
| Consumer unsecured and student loans | 36,810 | 26,517 |
| Member business - real estate | 3,150,525 | 4,728,493 |
| Automobile | 121,911 | 10,191 |
| | $ 3,472,331 | $ 4,870,397 |

**Note 4 – Loans to Members (continued)**

**Troubled debt restructurings (TDRs) –** Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in attempt to protect the investment. TDRs are treated as impaired loans and as such are evaluated for specific loss reserves. As of March 31, 2016, the Credit Union is not committed to lend additional funds to debtors whose loans have been modified. For the years ended March 31, 2017 and 2016, TDR's that had incurred a payment default within the first 12 months of restructure totaled $131,534 and $-0-, respectively.

The Credit Union may offer a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

**Rate modification –** A modification in which the interest rate is changed.

**Term modification –** A modification in which the maturity date, timing of payments, or frequency of payments is changed.

**Interest-only modification –** A modification in which the loan is converted to interest-only payments for a period of time.

**Combination modification –** Any other type of modification, including the use of multiple categories above.

The following provides additional information by loan class about TDRs for the years ended March 31:

| **2017** | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Consumer real estate | 3 | $ 223,640 | $ 223,640 |
| Consumer unsecured and student loans | 4 | 57,476 | 57,476 |
| Member business - real estate | 4 | 1,556,793 | 1,556,793 |
| Total | 11 | $ 1,837,909 | $ 1,837,909 |

| **2016** | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Member business - real estate | 3 | $ 758,826 | $ 758,826 |
| Total | 3 | $ 758,826 | $ 758,826 |

**Note 4 – Loans to Members (continued)**

**Credit quality indicators –** The Credit Union utilizes internal risk ratings for its credit quality indicators. The Credit Union categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio, (2) promptly identify deterioration of loan quality and the need for remedial action, and (3) emphasize areas requiring upgrading of policies, procedures, or documentation.

The internal risk ratings are as follows:

**Pass (1-5) –** Loans in this category are nonclassified loans in which no impairment is noted. Within this category, Pass 1 loans are the Credit Union's best loans, which exhibit the least risk of default, and Pass 5 are acceptable loans but exhibit higher risk factors than the other pass categories. Pass grade loans generally have adequate cash flows, collateral support, and liquidity.

**Special Mention (6) –** A Special Mention asset has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

**Substandard 1 (7) –** A Substandard 1 asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility the Credit Union will sustain some loss if the deficiencies are not corrected; however, because of circumstances (e.g., guarantor support) are not considered impaired because collection of principal and interest per the then in place contractual terms remains a possibility.

**Substandard 2 (8) –** A Substandard 2 asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility the Credit Union will sustain some loss if the deficiencies are not corrected. Loans in this category are identified as impaired and specific valuation allowance established or charge-off taken if based on the fair value of the underlying collateral or the present value of the expected future cash flows discounted at the contractual note rate are less than the principal amount of the loan.

**Note 4 – Loans to Members (continued)**

**Credit quality indicators (continued) –**

**Doubtful (9) –** An asset classified Doubtful has all the weaknesses inherent in one classified substandard with the added characteristic the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in this category are identified as impaired and specific valuation allowance established or charge-off taken if based on the fair value of the underlying collateral or the present value of the expected future cash flows discounted at the contractual note rate are less than the principal amount of the loan.

**Loss (10) –** Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Assets in this category are of so little value that to continue to carry the assets on the books at the book value distorts the net worth of the Credit Union.

The following table summarizes our internal risk rating by loan class as of March 31:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Pass (Risk Rated 1-5) | Special Mention | Substandard 1 | Substandard 2 | Doubtful | Total |
| Automobile | $ 20,897,142 | $ - | $ - | $ 10,403 | $ - | $ 20,907,545 |
| Consumer real estate | 18,125,733 | 300,788 | - | - | - | 18,426,521 |
| Consumer unsecured | 12,024,765 | 7,853 | - | 29,217 | - | 12,061,835 |
| Student loans | 3,923,283 | - | - | - | - | 3,923,283 |
| Member business - real estate | 149,869,594 | 13,938,486 | 5,146,610 | 4,582,456 | 696,242 | 174,233,388 |
| Member business - unsecured | 178,385 | - | - | - | - | 178,385 |
| Credit card | 3,988,584 | - | - | 17,376 | - | 4,005,960 |
| Share secured | 445,755 | - | - | - | - | 445,755 |
| Other secured | 432,656 | - | - | - | - | 432,656 |
| | $ 209,885,897 | $ 14,247,127 | $ 5,146,610 | $ 4,639,452 | $ 696,242 | $ 234,615,328 |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Pass (Risk Rated 1-5) | Special Mention | Substandard 1 | Substandard 2 | Doubtful | Total |
| Automobile | $ 15,507,262 | $ - | $ - | $ 11,471 | $ - | $ 15,518,733 |
| Consumer real estate | 14,783,628 | 442,326 | - | - | - | 15,225,954 |
| Consumer unsecured | 11,666,169 | 11,281 | - | 36,966 | - | 11,714,416 |
| Student loans | 3,466,010 | - | - | - | - | 3,466,010 |
| Member business - real estate | 140,927,166 | 15,460,548 | 3,816,512 | 3,597,414 | 696,242 | 164,497,882 |
| Member business - unsecured | 301,205 | 11,622 | - | - | - | 312,827 |
| Credit card | 4,157,719 | - | - | - | - | 4,157,719 |
| Share secured | 893,137 | - | - | - | - | 893,137 |
| Other secured | 155,745 | - | - | - | - | 155,745 |
| | $ 191,858,041 | $ 15,925,777 | $ 3,816,512 | $ 3,645,851 | $ 696,242 | $ 215,942,423 |

### Note 4 – Loans to Members (continued)

**Credit quality indicators (continued) –**

Not all consumer loans are individually risk rated. Consumer loans that are not individually evaluated for impairment are reflected above as "Pass 1-5," while TDR consumer loans are classified as Special Mention, and impaired consumer loans with a specific reserve are classified as Substandard 2.

The following table presents the recorded investment in nonperforming loans and an aging of loans by class as of March 31:

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current | Total Loans Receivable | Recorded Investment> 90 Days and Accruing |
| Automobile | $ 15,779 | $ - | $ 14,553 | $ 30,332 | $ 20,877,213 | $ 20,907,545 | $ - |
| Consumer real estate | - | - | - | - | 18,426,521 | 18,426,521 | - |
| Consumer unsecured | 32,812 | 14,329 | 14,888 | 62,029 | 11,999,806 | 12,061,835 | - |
| Student loans | - | 32,892 | - | 32,892 | 3,890,391 | 3,923,283 | |
| Member business - real estate | 1,322,946 | - | 292,645 | 1,615,591 | 172,617,797 | 174,233,388 | - |
| Member business - unsecured | - | - | - | - | 178,385 | 178,385 | - |
| Credit card | 23,292 | - | 4,488 | 27,780 | 3,978,180 | 4,005,960 | - |
| Share secured | - | - | - | - | 445,755 | 445,755 | - |
| Other secured | - | - | - | - | 432,656 | 432,656 | - |
| | $ 1,394,829 | $ 47,221 | $ 326,574 | $ 1,768,624 | $ 232,846,704 | $ 234,615,328 | $ - |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current | Total Loans Receivable | Recorded Investment> 90 Days and Accruing |
| Automobile | $ 14,232 | $ 4,552 | $ 6,919 | $ 25,703 | $ 15,493,030 | $ 15,518,733 | $ - |
| Consumer real estate | 104,234 | - | - | 104,234 | 15,121,720 | 15,225,954 | - |
| Consumer unsecured | 60,603 | 3,170 | 33,796 | 97,569 | 11,616,847 | 11,714,416 | - |
| Student loans | - | - | - | - | 3,466,010 | 3,466,010 | |
| Member business - real estate | 782,557 | - | 286,050 | 1,068,607 | 163,429,275 | 164,497,882 | - |
| Member business - unsecured | - | - | - | - | 312,827 | 312,827 | - |
| Credit card | 12,721 | 11,623 | - | 24,344 | 4,133,375 | 4,157,719 | - |
| Share secured | - | - | - | - | 893,137 | 893,137 | - |
| Other secured | - | - | - | - | 155,745 | 155,745 | - |
| | $ 974,347 | $ 19,345 | $ 326,765 | $ 1,320,457 | $ 214,621,966 | $ 215,942,423 | $ - |

As part of the Credit Union's asset and liability management and risk management programs, pools of real estate loans have been sold to other credit unions. The Credit Union sells, without recourse, up to 95% of designated pools of member business real estate loans at an interest rate lower than the weighted pool.

**Note 4 – Loans to Members (continued)**

The Credit Union is a national lender with loans in 48 states; the largest concentration of loans is in California. The majority of the Credit Union's loans are collateralized by church properties. Accordingly, the ultimate collectability of loans is susceptible to changes in market conditions in the area.

The Credit Union sells participating interest in loans to other financial institutions. Participation interest serviced for others is not included in the accompanying statements of financial condition. The unpaid principal balances of loans serviced for others were $110,198,336 and $156,125,004 at March 31, 2017 and 2016, respectively. The Credit Union receives a servicing fee for servicing the participating interest in the loan.

A summary of changes in the balance of servicing assets for the years ended March 31, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 611,759 | $ 710,715 |
| Servicing assets recognized during the year | 52,399 | 59,670 |
| Amortization of servicing assets | (119,528) | (158,626) |
| Reduction due to loan payoffs | (131,056) | - |
| Balance, end of year | $ 413,574 | $ 611,759 |

The key economic assumptions used in determining the fair value of servicing assets on participation loans sold and serviced by the Credit Union at March 31 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Constant prepayment rate | 13.84% | 13.60% |
| Yield to maturity discount rate | 14-16% | 24-26% |

**Note 5 – Premises and Equipment**

Premises and equipment at March 31 is summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 3,890,000 | $ 3,890,000 |
| Buildings and improvements | 14,769,225 | 14,757,572 |
| Furniture and equipment | 3,551,208 | 3,647,319 |
| | 22,210,433 | 22,294,891 |
| Accumulated depreciation | (7,485,884) | (6,883,367) |
| | $ 14,724,549 | $ 15,411,524 |

Depreciation expense amounted to $871,436 and $708,451 for the years ended March 31, 2017 and 2016, respectively.

**Note 6 – Lease Commitments**

The Credit Union leases certain office facilities under noncancellable operating leases expiring in various years through fiscal year 2021. Future minimum lease payments under these leases are as follows:

| | |
|---|---|
| Years ending March 31, | |
| 2018 | $ 47,016 |
| 2019 | 48,456 |
| 2020 | 49,881 |
| 2021 | 12,559 |
| | $ 157,912 |

Rent expense was approximately $65,558 and $95,985 for the years ended March 31, 2017 and 2016, respectively.

**Note 7 – Members' Share and Savings Accounts**

Members' share and savings accounts at March 31 are summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| Regular share accounts | $ 41,148,652 | $ 41,174,053 |
| Share draft accounts | 100,796,045 | 99,532,072 |
| Money market accounts | 40,601,186 | 35,326,494 |
| IRA share accounts | 834,510 | 755,599 |
| | 183,380,393 | 176,788,218 |
| Share and IRA certificates | | |
| 0.00% to 0.99% | 39,763,741 | 41,421,138 |
| 1.00% to 1.99% | 42,979,662 | 41,867,138 |
| 2.00% to 2.99% | 27,769,499 | 25,525,528 |
| 3.00% to 3.99% | 3,433,498 | 3,284,737 |
| 4.00% to 4.99% | 539,834 | 524,288 |
| 5.00% to 5.99% | - | 294,667 |
| | 114,486,234 | 112,917,496 |
| | $ 297,866,627 | $ 289,705,714 |

Scheduled maturities of term share and IRA certificates at March 31, 2017, are as follows:

| | |
|---|---|
| Years ending March 31, | |
| 2018 | $ 68,414,256 |
| 2019 | 23,358,879 |
| 2020 | 9,435,475 |
| 2021 | 7,707,015 |
| 2022 | 5,570,609 |
| | $ 114,486,234 |

The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. Legislation now provides for NCUSIF coverage of $250,000 on member share accounts on a permanent basis. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. IRA and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned.

The aggregate amounts of members' time deposit accounts in denominations of $250,000 or more were approximately $46,103,249 and $44,046,341 at March 31, 2017 and 2016, respectively.

**Note 8 – Lines of Credit**

The Credit Union maintains a line of credit with Alloya Corporate Federal Credit Union. The amount available under the line of credit was $4,500,000 at March 31, 2017. No amounts were outstanding at March 31, 2017 or 2016. The line is collateralized by the Credit Union's specifically pledged church real estate loans.

The Credit Union also maintains a line of credit with the Federal Reserve Bank with an amount available of $7,775,271 as of March 31, 2017. The line is collateralized by unsecured consumer loans. No amounts were outstanding as of March 31, 2017 or 2016.

**Note 9 – Borrowed Funds**

FHLB advances are secured by specifically identified and designated member business real estate loans with principal balances of $48,385,328 and $14,529,111 as of March 31, 2017 and 2016, respectively. The weighted-average rate on these advances on March 31, 2017, was 1.62%. The maturity dates on these advances range from December 26, 2017, to December 23, 2021.

Borrowed funds at March 31 are as follows:

| | 2017 | 2016 |
|---|---|---|
| FHLB borrowings | $ 6,700,000 | $ - |

**Note 10 – Off-Balance Sheet Risk**

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit, and interest rate risk in excess of amounts recognized in the financial statements.

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

**Note 10 – Off-Balance Sheet Risk (continued)**

At March 31, the following loan commitments were outstanding:

| | 2017 | 2016 |
|---|---|---|
| Commitments to grant loans | | |
| Home equity lines of credit, personal | $ 7,311,411 | $ 4,771,353 |
| Commercial real estate lines of credit, business | 682,089 | 606,274 |
| Construction lines of credit, business | - | 64,843 |
| Participation loans - Construction LOC | 3,955,037 | - |
| Overdraft/signature lines of credit, personal | 4,015,412 | 3,850,397 |
| Overdraft/signature lines of credit, business | 476,401 | 616,409 |
| VISA credit cards, personal | 6,442,284 | 5,935,989 |
| VISA credit cards, business | 4,124,635 | 4,023,023 |
| Student loans - personal | 3,842,205 | 4,213,787 |
| | $ 30,849,474 | $ 24,082,075 |

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances. Unfunded commitments under commercial lines of credit, revolving lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

**Note 11 – Commitments and Contingencies**

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

**Note 12 – Capital Requirements**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under 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 and alternate risk based net worth (RBNW) ratios (as defined). As of March 31, 2017 and 2016, the Credit Union's alternate RBNW requirement is 6.80% and 6.35%, respectively. The minimum ratio to be considered adequately capitalized under the regulatory framework is 6.00%. Management believes that, as of March 31, 2017, the Credit Union meets all capital adequacy requirements to which it is subject.

As of March 31, 2017, the most recent call reporting period, the NCUA has 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%.

The Credit Union's actual capital amounts and ratios as of March 31 are as follows:

| | Actual | | To Be Adequately | | | To Be Well Capitalized | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | | Ratio | Amount | | Ratio |
| March 31, 2017 | | | | | | | | |
| Net worth | $34,428,673 | 10.04% | $20,567,082 | ≥ | 6.00% | $23,994,929 | ≥ | 7.00% |
| March 31, 2016 | | | | | | | | |
| Net worth | 30,594,864 | 9.38% | 19,569,635 | ≥ | 6.00% | 22,831,240 | ≥ | 7.00% |

Because the alternate RBNW ratio of 6.80% is greater than 6.00%, the Credit Union was considered complex as of March 31, 2017. Further, in performing its calculation of total assets, as of March 31, 2017 and 2016, the Credit Union used the monthly average over the quarter option, as permitted by regulation.

**Note 13 – Defined Contribution Plan**

The Credit Union has a qualified 401(k) Profit Sharing Plan and Trust (Plan) covering substantially all of its employees. The Credit Union makes matching contributions at 100% up to 4% of the employee's base salary and an employee is fully vested in those contributions after six years of qualifying service. Plan administrative expenses and employer matching contributions for the years ended March 31, 2017 and 2016, were $158,678 and $147,394, respectively.

**Note 14 – Deferred Compensation Plans**

During the 2004 fiscal year, the Credit Union adopted an Executive Retirement Plan (Plan), pursuant to the IRC sections 457(b) and 457(f), which provides retirement benefits to designated executives. The Board of Directors designates those executives who are eligible to participate in the Plan. Benefits under the Plan become payable upon a specified retirement age for each participant. Participants will be entitled to a specified percentage of his or her final average compensation reduced by the Credit Union's contributions to the 457(b) Plan. The benefit is to be paid upon the participants' attainment of his or her specified retirement age. The benefit will be paid in a lump sum payment equal to the present value of the 15-year payment calculation of the benefit. The lump sum payment will be increased by 40% to cover anticipated taxes.

The Credit Union has purchased life insurance contracts on the participants to finance the cost of these benefits. Assets invested to fund this Plan totaled $15,768,708 and $15,299,266 as of March 31, 2017 and 2016, respectively, and are stated as Credit Union-owned life insurance on the statements of financial condition.

The Credit Union also maintains an unfunded, nonqualified Supplemental Executive Retirement Plan (SERP) pursuant to IRC 457(f), which provides retirement benefits to designated executives. Under the unfunded SERP, the participants have no rights beyond those of a general creditor of the Credit Union, and there are no specific assets set aside by the Credit Union in connection with the SERP. The benefit obligation of the SERP is determined by an actuary. The SERP Plan liability as of March 31, 2017 and 2016, was $765,116 and $3,559,979, respectively. Deferred compensation expenses were approximately $269,994 and $591,670 for all Plans for the years ended March 31, 2017 and 2016, respectively.

**Note 15 – Related Party Transactions**

In the normal course of business, the Credit Union extends loans to members of the Board of Directors, Supervisory Committee members, and employees. The aggregate loans to related parties at March 31, 2017 and 2016, were approximately $1,886,221 and $1,738,938, respectively. Loans to related parties are made under the same terms available to other members.

Deposits from related parties at March 31, 2017 and 2016, amounted to approximately $904,817 and $2,643,868, respectively.

**Note 16 – Fair Value Measurement**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

**Level 1 –** Quoted prices for identical instruments in active markets.

**Level 2 –** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

**Level 3 –** Instruments whose significant value drivers are unobservable.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the overall fair value measurement.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, whereas unobservable inputs reflect the Credit Union's assumptions about market value.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

**Note 16 – Fair Value Measurement (continued)**

**Impaired loans –** Carrying values of certain impaired loans are periodically evaluated to determine if valuation adjustments should be recorded. When a collateral dependent loan is identified as impaired, the impairment is measured using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external valuations. If the determined value of the impaired loan is less than the recorded investment in the loan, impairment is recognized by adjusting the carrying value of the loan to fair value through a charge-off to the allowance for loan losses.

**Other real estate owned –** This represents real estate the Credit Union has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the recorded investment of the loan or estimated fair value of real estate less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, management periodically performs valuations to ensure the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell.

Fair values of assets and liabilities at March 31 are as follows:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| March 31, 2017 | | | | |
| Nonrecurring basis | | | | |
| Impaired loans | $ 2,716,694 | $ - | $ - | $ 2,716,694 |
| March 31, 2016 | | | | |
| Nonrecurring basis | | | | |
| Impaired loans | $ 4,942,727 | $ - | $ - | $ 4,942,727 |
| Other real estate owned | 959,980 | - | - | 959,980 |

### Note 16 – Fair Value Measurement (continued)

The following table presents quantitative information about Level 3 fair value instruments measured at fair value on a nonrecurring basis:

| | March 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Valuation Techniques | Unobservable Inputs | Range of Inputs |
| Impaired loans | $ 2,716,694 | Market approach | Adjusted for differences between comparable sales | 5-10% |

| | March 31, 2016 | | | |
|---|---|---|---|---|
| | Fair Value | Valuation Techniques | Unobservable Inputs | Range of Inputs |
| Other real estate owned | $ 959,980 | Market approach | Adjusted for differences between comparable sales | 8% |
| Impaired loans | 4,942,727 | Market approach | Adjusted for differences between comparable sales | 5-10% |

### Note 17 – Subsequent Events

Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The Credit Union recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial condition, including the estimates inherent in the process of preparing the financial statements. The Credit Union's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial condition but arose after the date of the statements of financial condition and before the financial statements are issued.

The Credit Union has evaluated subsequent events through June 28, 2017, which is the date the financial statements are available to be issued.