INFINITY

FEDERAL CREDIT UNION

# Consolidated Financial Report

## December 31, 2015

## CONTENTS

## Independent Auditors' Report

To the Board of Directors and Supervisory Committee
Infinity Federal Credit Union and Subsidiaries
Portland, Maine

We have audited the accompanying consolidated financial statements of Infinity Federal Credit Union and Subsidiaries as of December 31, 2015 and 2014, which comprise the related consolidated statements of financial condition, income, comprehensive income, changes in members' equity and cash flows for the years ended December 31, 2015 and 2014, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from 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 auditors' 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Macpage LLC**
30 Long Creek Drive, South Portland, ME 04106-2437 | 207-774-5701 | 207-774-7835 fax | cpa@macpage.com
One Market Square, Augusta, ME 04330-4637 | 207-622-4766 | 207-622-6545 fax
**macpage.com**

To the Board of Directors and Supervisory Committee
Infinity Federal Credit Union and Subsidiaries

**Opinion**

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

Macpage LLC

South Portland, Maine
March 31, 2016

# Consolidated Statements of Financial Condition

**December 31,**

| ASSETS | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | $ 6,792,782 | $ 4,304,220 |
| Investments | 83,366,630 | 81,946,634 |
| Loans to members, net of allowance for loan losses | 192,577,664 | 163,124,528 |
| Accrued interest receivable | 934,152 | 789,707 |
| Property and equipment, net of accumulated depreciation | 5,145,086 | 4,205,088 |
| National Credit Union Share Insurance Fund deposit | 1,756,146 | 1,721,143 |
| Prepaid expenses | 288,304 | 213,396 |
| Property held for sale | 712,500 | 712,500 |
| Other assets | 17,201,508 | 13,508,436 |
| **Total Assets** | $ 308,774,772 | $ 270,525,652 |

**LIABILITIES AND MEMBERS' EQUITY**

| | 2015 | 2014 |
|---|---|---|
| **Liabilities** | | |
| Members' shares and savings accounts | $ 199,308,876 | $ 174,334,638 |
| Borrowed funds | 79,000,000 | 64,870,000 |
| Accrued expenses and other liabilities | 1,171,497 | 1,155,389 |
| **Total Liabilities** | 279,480,373 | 240,360,027 |
| **Members' Equity, Substantially Restricted** | | |
| Regular reserves | 2,360,951 | 2,360,951 |
| Undivided earnings | 27,315,585 | 25,710,583 |
| Accumulated other comprehensive income (loss) | (382,137) | 2,094,091 |
| **Total Members' Equity** | 29,294,399 | 30,165,625 |
| **Total Liabilities and Members' Equity** | $ 308,774,772 | $ 270,525,652 |

# Consolidated Statements of Income

**Years Ended December 31,**

| | 2015 | 2014 |
|---|---|---|
| **Interest Income** | | |
| Loans | $ 7,545,885 | $ 7,092,254 |
| Investments | 2,438,778 | 2,486,033 |
| | 9,984,663 | 9,578,287 |
| **Dividend Expense** | | |
| Members' share and savings accounts | 1,276,773 | 1,362,020 |
| Interest on borrowed funds | 813,000 | 927,000 |
| **Total Dividend and Interest Expense** | 2,089,773 | 2,289,020 |
| **Net Interest Income** | 7,894,890 | 7,289,267 |
| **Provision for Loan Losses** | 180,000 | (452,000) |
| **Net Interest Income After Provision for Loan Losses** | 7,714,890 | 7,741,267 |
| **Non-Interest Income** | | |
| Debit card interchange | 609,700 | 566,662 |
| Fees and charges | 862,019 | 869,526 |
| Gain on sale of investments | 1,097,571 | 490,460 |
| Points on loans | 1,602 | 2,228 |
| Credit card interchange | 100,338 | 51,905 |
| Rental income | 65,376 | 88,622 |
| Other income | 13,783 | 8,964 |
| **Total Non-Interest Income** | 2,750,389 | 2,078,367 |
| **Non-Interest Expense** | | |
| Advertising | 244,421 | 384,321 |
| ATM and share draft expense | 531,297 | 499,115 |
| Compensation | 3,505,222 | 3,302,998 |
| Employee benefits | 1,249,473 | 1,180,477 |
| Loan servicing fees | 243,631 | 245,940 |
| Management consulting | 395,396 | 570,634 |
| Office occupancy | 562,328 | 563,811 |
| Office operations | 1,237,562 | 985,639 |
| Promotion cost | 96,980 | 220,722 |
| Other expenses | 677,330 | 533,269 |
| Loss on sale of property and equipment | 34,919 | |
| Loss on sale of other real estate owned | 33,475 | 21,843 |
| NCUSIF premium | 48,243 | 50,868 |
| **Total Non-Interest Expense** | 8,860,277 | 8,559,637 |
| **Net Income** | $ 1,605,002 | $ 1,259,997 |

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

# Consolidated Statements of Comprehensive Income

**Years Ended December 31,**

| | 2015 | 2014 |
|---|---|---|
| **Net Income** | **$ 1,605,002** | $ 1,259,997 |
| **Other Comprehensive Income (loss)** | | |
| Change in market values of investment securities available for sale | **(1,378,657)** | 2,447,862 |
| Reclassification adjustment for gains realized in net income | **(1,097,571)** | (490,460) |
| **Total Comprehensive Income (Loss)** | **$ (871,226)** | $ 3,217,399 |

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

# Consolidated Statements of Changes in Members' Equity

**Years Ended December 31, 2015 and 2014**

| | Regular Reserves | Undivided Earnings | Accumulated Other Comprehensive Income (Loss) | Totals |
|---|---|---|---|---|
| **Balance, January 1, 2014** | $ 2,360,951 | $ 24,450,586 | $ 136,689 | $ 26,948,226 |
| **Net Income** | - | 1,259,997 | - | 1,259,997 |
| **Change in Market Values of Investment Securities Available for Sale** | - | - | 2,447,862 | 2,447,862 |
| **Reclassification Adjustment for Gains Realized in Income** | - | - | (490,460) | (490,460) |
| **Balance, December 31, 2014** | 2,360,951 | 25,710,583 | 2,094,091 | 30,165,625 |
| **Net Income** | **-** | **1,605,002** | **-** | **1,605,002** |
| **Change in Market Values of Investment Securities Available for Sale** | **-** | **-** | **(1,378,657)** | **(1,378,657)** |
| **Reclassification Adjustment for Gains Realized in Income** | **-** | **-** | **(1,097,571)** | **(1,097,571)** |
| **Balance, December 31, 2015** | **$ 2,360,951** | **$ 27,315,585** | **$ (382,137)** | **$ 29,294,399** |

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

## Consolidated Statements of Cash Flows

**Year Ended December 31,**

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | **$ 1,605,002** | $ 1,259,997 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | **180,000** | (452,000) |
| Depreciation | **521,600** | 342,133 |
| Gain on sale of investments | **(1,097,571)** | (490,460) |
| Loss on sale of property and equipment | **34,919** | |
| Loss on sale of other real estate owned | **33,475** | 21,843 |
| Net accretion of investment discounts and premiums | **(451,820)** | (1,012,706) |
| (Increase) decrease in operating assets | | |
| Accrued interest receivable | **(144,445)** | (132,026) |
| Prepaid expenses | **(74,908)** | (8,046) |
| Other assets | **(3,726,547)** | 357,147 |
| Increase (decrease) in operating liabilities | | |
| Accrued expenses and other liabilities | **16,108** | (270,238) |
| **Net cash from operating activities** | **(3,104,187)** | (384,356) |
| **Cash flows from investing activities:** | | |
| Loans to members, net of principal collections | **(20,149,704)** | (2,083,896) |
| Net (purchases) pay downs of loan participations | **(9,483,432)** | 1,054,633 |
| Net purchases of securities available for sale | **(57,493,742)** | (37,043,934) |
| Proceeds from maturities and sales of securities available for sale | **53,911,909** | 39,176,651 |
| Purchases of term certificates | | (603,000) |
| Term certificates matured | **1,235,000** | |
| Purchases of property and equipment | **(1,496,517)** | (535,281) |
| Decrease (increase) in National Credit Union Share Insurance Fund deposit | **(35,003)** | 294 |
| Premium payments for split dollar life insurance | | (1,228,000) |
| **Net cash from investing activities** | **(33,511,489)** | (1,262,533) |
| **Cash flows from financing activities:** | | |
| Net increase in member's shares | **24,974,238** | 6,197,132 |
| Proceeds from borrowed funds | **54,000,000** | 34,870,000 |
| Payments on borrowed funds | **(39,870,000)** | (40,000,000) |
| **Net cash from financing activities** | **39,104,238** | 1,067,132 |
| **Net change in cash and cash equivalents** | **2,488,562** | (579,757) |
| **Cash and cash equivalents, beginning of year** | **4,304,220** | 4,883,977 |
| **Cash and cash equivalents, end of year** | **$ 6,792,782** | $ 4,304,220 |

**Supplemental disclosures of cash flow information:**

**Cash paid during the Years Ended December 31, 2015 and 2014**

| | | |
|---|---|---|
| Members' share and savings accounts | **$ 1,276,773** | $ 1,362,020 |
| Interest on borrowed funds | **813,000** | 927,000 |
| **Non-cash activities** | | |
| Change in unrealized gain/loss on available-for-sale securities | **$ (2,476,228)** | $ 1,957,402 |

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

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

## NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of the Organization

Infinity Federal Credit Union (the Credit Union) is community chartered under the Federal Credit Union Act and is administratively responsible to the National Credit Union Administration (NCUA). The Credit Union's operations are principally related to holding deposits for and making loans to its members. The Credit Union's members reside in the counties of Cumberland and York, Maine and the city of Bangor, Maine.

The Credit Union has two wholly owned subsidiaries: Centurion Corporation, a credit union service organization that leases facilities to the Credit Union; and Bangor Dimensions, LLC, a credit union service organization that leases space to the Credit Union for the Bangor branch and other third parties. The net income derived from the wholly owned subsidiaries is immaterial to the consolidated financial statements.

Bangor Dimensions, LLC is a limited liability company and the Credit Union's liability is limited to amounts reflected in the member equity account, except as may be specifically provided in the Operating Agreement or as otherwise required by applicable law.

### Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Comprehensive Income

Comprehensive income refers to net income plus other comprehensive income (i.e. certain revenues, gains and losses that are reported as separate components of members' equity). Total comprehensive income is presented in the consolidated statements of comprehensive income.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

### Revenue Recognition

Interest on all loans is recognized on the accrual method. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant. Interest expense is recognized on the accrual method, as earned by the member.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Investment Securities**

The Credit Union's investments in securities are classified and accounted for as follows:

Held-to-Maturity: Certificates which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Available-for-Sale: Federal agency securities and mortgage-backed securities are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio.

**Loans and Loan Income**

The Credit Union grants mortgage and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans in Maine. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off when 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 or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Allowance for Loan Losses**

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

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

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 each loan segment in the loan portfolio. The loan segments identified by the Credit Union include first mortgages, second mortgages, home equity lines of credit, consumer secured, and consumer unsecured. 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.

Specific allowances for loan losses are established for large impaired loans on an individual basis. A loan is considered impaired, when, based on current information and events; it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired. The specific allowance established for these loans is based on a thorough 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.

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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

In situations where the Credit Union grants a concession to a member experiencing financial difficulties for an other than insignificant period of time that the Credit Union wouldn't otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In the cases where the Credit Union grants the member new terms the Credit Union will classify the loan as impaired and will first measure for impairment on the restructuring on an individual basis as previously noted for specific allowances for impaired loans.

**Property and Equipment**

Land is stated at cost. Building, building improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation. The building, building improvements, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

### Other Real Estate Owned

Other real estate owned is composed of foreclosed properties where the Credit Union has actually received title as well as in substance foreclosed properties.

Foreclosed assets are considered to be held for sale. Real estate formally acquired in settlement of loans is recorded at the lower of the fair value less estimated costs to sell or the cost of the property constructively or actually received. Operating expenses, once ready for sale, are charged to current period earnings. Subsequent provisions to reduce the carrying value to the fair value less estimated costs to sell the asset are charged to current period earnings. Any gains or losses on disposal of the assets are charged to non-operating income/expenses.

### Property Held for Sale

Property held for sale consists of the land and building from the former Kennebunk branch as of December 31, 2015 and 2014. Property held for sale is stated at the lower of cost or market.

### Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) of Boston, the Credit Union is required to invest in FHLB stock. The deposit would be refunded to the Credit Union if the Credit Union terminates its membership. When such stock is redeemed, the Credit Union will receive an amount equal to the par value of the stock. The stock is collateral for certain borrowings from the FHLB. The Credit Union holds 33,752 and 38,045 shares of FHLB stock at December 31, 2015 and 2014, respectively. The stock is carried at cost and has not been evaluated for impairment because the Credit Union did not identify any events or changes in circumstances that might have a significant adverse effect on fair market value.

### National Credit Union Share Insurance Fund Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% 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.

### National Credit Union Share Insurance Premiums

The Credit Union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

### Members' Share and Savings Accounts

Members' shares are subordinated to all liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of an interest period and is 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.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Members' Equity**

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

**Income Taxes**

The Credit Union is exempt by statute from federal and state income taxes. Bangor Dimensions, LLC is exempt as it is classified as a single-member LLC and is wholly owned by the Credit Union. Centurion Corporation is a C-Corporation and accounts for income taxes in accordance with U.S. GAAP, which requires an asset and liability approach to financial accounting and reporting for income taxes.

Management has evaluated the Corporation and LLC's tax positions and concluded that as of December 31, 2015 and 2014 it does not believe that they have taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. When necessary, the Corporation and LLC recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. In addition, the Corporation and LLC had no accruals for interest and penalties at December 31, 2015 and 2014. The Corporation and LLC are subject to Internal Revenue Service and state examinations by taxing authorities for the years ended December 31, 2012 through December 31, 2015.

**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.

**Cash and Cash Equivalents**

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 and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents. Cash and cash equivalents consist of cash on hand, undeposited checks and balances in various bank accounts at other financial institutions.

**Credit Union Owned Life Insurance**

Credit Union owned life insurance represents the cash surrender value (CSV) of life insurance policies on the lives of certain active and terminated employees where the Credit Union is the beneficiary. The CSV of the policies is recorded as an asset. Increases in the CSV of the policies, as well as death benefits received, net of any CSV, are recorded in other income and are not subject to income taxes.

**Fair Value Measurements**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures* provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fair Value Measurements – Continued**

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Credit Union uses various methods including market, income and cost approaches. Based on these approaches, the Credit Union often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Credit Union utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Credit Union is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Credit Union performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified Level 3.

The following is a description of the valuation methodologies used for instruments measured at fair value:

*Federal Agency Securities*

Valuation inputs utilized by the independent pricing service under Level 2 include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

*Mortgage-Backed Securities, SBA Pools*

Valuation inputs utilized by independent pricing service for those mortgage-backed securities and SBA pools under Level 2 include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 1 – NATURE OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fair Value Measurements – Continued**

*Certificates*

The fair value of certificates that are available for sale is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

*Other Real Estate Owned and Property Held for Sale*

The fair value of foreclosed real estate and property held for sale is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral.

*Impaired Loans*

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The loans are written down to their fair value through a specific allowance for loan loss.

**Reclassifications**

Certain reclassifications have been made to the December 31, 2014 consolidated financial statement presentations to correspond to the current year's format. Consolidated members' equity and net income are unchanged due to these reclassifications.

**Recently Adopted Accounting Pronouncements**

*Fair Market Value of Financial Instruments*

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides revised guidance concerning certain matters involving the recognition, measurement, and disclosure of financial assets and financial liabilities. One of the elements of the guidance amends the FASB Accounting Standards Codification to eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for nonpublic entities. The guidance is effective for all nonpublic entities' annual periods beginning after December 15, 2018. Early adoption was permitted for nonpublic entities electing to adopt the exemption to disclose fair market value of financial instruments and the Credit Union has elected to adopt the guidance as of December 31, 2015.

**Recent Accounting Pronouncements**

*Revenue Recognition*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standard (IFRS). The core principle of the guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for all nonpublic entities' annual periods beginning after December 15, 2018. Management is currently evaluating the impact of adoption on its consolidated financial statements.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Credit Union maintains its cash and cash equivalents at various financial institutions. Each of the accounts is insured by a federal agency up to $250,000. The Credit Union has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 3 – INVESTMENTS**

Investments consist of the following at December 31:

| | **2015** | 2014 |
|---|---|---|
| Federal agency securities | **$ 74,987** | $ 511,953 |
| Mortgage-backed securities | **80,155,083** | 77,010,841 |
| SBA | **189,062** | 244,264 |
| Certificate of Deposit | **115,977** | 113,496 |
| Total available-for-sale | **80,535,109** | 77,880,554 |
| Certificates of Deposit held-to-maturity | **2,831,521** | 4,066,080 |
| | **$ 83,366,630** | $ 81,946,634 |

The certificates of deposit are held at various financial institutions and are insured by a federal agency up to $250,000. The Credit Union has not experienced any losses in the certificates of deposit, and believes it is not exposed to any significant credit risk. The fair value in the certificates of deposit approximates the carrying value.

Investments have been classified in the consolidated financial statements based on management's intent. The carrying amount and fair values are as follows at December 31:

| **2015** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| **Available-for-sale** | | | | |
| Mortgage – backed securities | **$ 80,525,289** | **$ 319,144** | **$ (689,350)** | **$ 80,155,083** |
| Federal agency securities | **75,063** | **-** | **(76)** | **74,987** |
| SBA | **189,269** | **620** | **(827)** | **189,062** |
| Certificate of deposit | **127,624** | **-** | **(11,647)** | **115,977** |
| | **$ 80,917,245** | **$ 319,764** | **$ (701,900)** | **$ 80,535,109** |

| 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available-for-sale | | | | |
| Federal agency securities | $ 74,899,482 | $ 2,183,421 | $ (72,062) | $ 77,010,841 |
| SBA | 516,432 | - | (4,479) | 511,953 |
| Certificate of deposit | 244,705 | 456 | (897) | 244,264 |
| Federal agency securities | 125,844 | - | (12,348) | 113,496 |
| | $ 75,786,463 | $ 2,183,877 | $ (89,786) | $ 77,880,554 |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 3 – INVESTMENTS – CONTINUED**

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| | Less than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| **2015** | | | | | | |
| **Available-for-sale** | | | | | | |
| Mortgage-backed securities | **$ 61,090,243** | **$ (683,921)** | **$ 800,196** | **$ (5,429)** | **$ 61,890,439** | **$ (689,350)** |
| Federal agency securities | **16,777** | **(76)** | - | - | **16,777** | **(76)** |
| SBA | **13,177** | **(4)** | **119,376** | **(823)** | **132,553** | **(827)** |
| Certificate of deposit | **115,977** | **(11,647)** | - | - | **115,977** | **(11,647)** |
| | **$ 61,236,175** | **$ (695,648)** | **$ 919,572** | **$ (6,252)** | **$ 62,155,746** | **$ (701,900)** |
| 2014 | | | | | | |
| Available-for-sale | | | | | | |
| Mortgage-backed securities | $ 8,733,180 | $ (33,517) | $2,427,588 | $ (38,545) | $ 11,160,768 | $ (72,062) |
| Federal agency securities | - | - | 511,953 | (4,479) | 511,953 | (4,479) |
| SBA | 190,207 | (897) | - | - | 190,207 | (897) |
| Certificate of deposit | 113,496 | (12,348) | - | - | 113,496 | (12,348) |
| | $ 9,036,883 | $ (46,762) | $2,939,541 | $ (43,024) | $ 11,976,424 | $ (89,786) |

The unrealized losses on the Credit Union's investment in securities were caused by interest rate increases. The Credit Union purchased these investments at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Credit Union's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Credit Union has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

The scheduled maturities of securities classified as available-for-sale at December 31, 2015.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | **$ 84,461** | **$ 84,492** |
| Due after one year through five years | **1,493,415** | **1,507,787** |
| Due after five years | **79,339,369** | **78,942,830** |
| | **$ 80,917,245** | **$ 80,535,109** |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 4 – LOANS TO MEMBERS**

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

| | 2015 | 2014 |
|---|---|---|
| Consumer secured | $ 22,481,420 | $ 15,807,574 |
| First mortgage | 132,815,218 | 124,733,813 |
| Second mortgage and home equity line of credit (HELOC) | 28,316,686 | 13,408,264 |
| Consumer unsecured | 9,601,215 | 9,851,587 |
| | 193,214,539 | 163,801,238 |
| Less allowance for loan losses | 636,875 | 676,710 |
| | $ 192,577,664 | $ 163,124,528 |

The following table presents the activity in the allowance for loan losses for the year ended December 31, 2015 by portfolio segment:

| | First Mortgage | Second Mortgage & HELOC | Consumer Secured | Consumer Unsecured | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Beginning of year | $ 407,741 | $ 53,103 | $ 65,866 | $ 150,000 | $ 676,710 |
| Charge-offs | (24,642) | (11,292) | (81,386) | (178,498) | (295,818) |
| Recoveries | 200 | 3,670 | 13,279 | 58,834 | 75,983 |
| Provisions | - | 20,000 | 80,000 | 80,000 | 180,000 |
| End of year | $ 383,299 | $ 65,481 | $ 77,759 | $ 110,336 | $ 636,875 |
| Loans individually evaluated for impairment: | | | | | |
| Loan balance | $ 2,623,988 | $ 205,115 | $ 46,104 | $ 54,577 | $ 2,929,784 |
| Allowance allocated | 101,986 | 53,563 | | | 155,549 |
| Loans collectively evaluated for impairment: | | | | | |
| Loan balance | 130,191,230 | 28,111,571 | 22,435,316 | 9,546,538 | 190,284,755 |
| Allowance allocated | 281,313 | 11,918 | 77,759 | 110,336 | 481,326 |
| Total loan balance | $132,815,218 | $28,316,686 | $ 22,481,420 | $ 9,601,215 | $193,214,539 |
| Total allowance allocated | $ 383,299 | $ 65,481 | $ 77,759 | $ 110,336 | $ 636,875 |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 4 – LOANS TO MEMBERS – CONTINUED**

The following table presents the activity in the allowance for loan losses for the year ended December 31, 2014 by portfolio segment:

| | First Mortgage | Second Mortgage & HELOC | Consumer Secured | Consumer Unsecured | Total |
|---|---|---|---|---|---|
| Allowance for loan losses | | | | | |
| Beginning of year | $ 905,088 | $ 85,960 | $ 147,593 | $ 101,404 | $ 1,240,045 |
| Charge-offs | (9,591) | - | (42,151) | (147,045) | (198,787) |
| Recoveries | - | 19,574 | 22,237 | 45,641 | 87,452 |
| Provisions | (487,756) | (52,431) | (61,813) | 150,000 | (452,000) |
| End of year | $ 407,741 | $ 53,103 | $ 65,866 | $ 150,000 | $ 676,710 |
| Loans individually evaluated for impairment | | | | | |
| Loan balance | $ 2,805,682 | $ 20,584 | $ 13,447 | $ 36,960 | $ 2,876,673 |
| Allowance allocated | 128,791 | 7,640 | - | - | 136,431 |
| Loans collectively evaluated for Impairment | | | | | |
| Loan balance | 121,928,131 | 13,387,680 | 15,794,127 | 9,814,627 | 160,924,565 |
| Allowance allocated | 278,950 | 45,463 | 65,866 | 150,000 | 540,279 |
| Total loan balance | $124,733,813 | $ 13,408,264 | $15,807,574 | $9,851,587 | $163,801,238 |
| Total allowance allocated | $ 407,741 | $ 53,103 | $ 65,866 | $ 150,000 | $ 676,710 |

The Credit Union categorizes consumer loans into risk categories based on delinquency status. The Credit Union uses the following definitions for risk categories:

**Performing** – Loans classified as performing are less than 90 days delinquent. These loans are not considered to be of great risk and have not earned the status of deserving management's close attention.

**Nonperforming** – Loans classified as nonperforming are greater than ninety days delinquent. These loans have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 4 – LOANS TO MEMBERS – CONTINUED**

Based on the most recent analysis performed, the risk categories of loans by portfolio segment were as follows as of December 31:

| **2015** | **Performing** | **Nonperforming** |
|---|---|---|
| First mortgage | **$ 132,042,776** | **$ 772,442** |
| Second mortgage & HELOC | **28,218,697** | **97,989** |
| Consumer secured | **22,435,316** | **46,104** |
| Consumer unsecured | **9,546,638** | **54,577** |
| | **$ 192,243,427** | **$ 971,112** |

| 2014 | Performing | Nonperforming |
|---|---|---|
| First mortgage | $ 123,997,679 | $ 736,134 |
| Second mortgage & HELOC | 13,395,320 | 12,944 |
| Consumer secured | 15,794,127 | 13,447 |
| Consumer unsecured | 9,814,627 | 36,960 |
| | $ 163,001,753 | $ 799,485 |

Past due and nonaccrual loans presented by loan segment were as follows as of December 31:

| | **Still Accruing** | | | |
|---|---|---|---|---|
| **2015** | **Current Balance** | **30-89 Days Past Due** | **Over 90 Days Past Due** | **Total Balance** |
| First mortgage | **$ 129,598,931** | **$ 2,443,845** | **$ 772,442** | **$ 132,815,218** |
| Second mortgage & HELOC | **27,934,405** | **284,292** | **97,989** | **28,316,686** |
| Consumer secured | **22,147,883** | **287,433** | **46,104** | **22,481,420** |
| Consumer unsecured | **9,309,034** | **237,604** | **54,577** | **9,601,215** |
| | **$ 188,990,253** | **$ 3,253,174** | **$ 971,112** | **$ 193,214,539** |

| | Still Accruing | | | |
|---|---|---|---|---|
| 2014 | Current Balance | 30-89 Days Past Due | Over 90 Days Past Due | Total Balance |
| First mortgage | $121,521,216 | $ 2,476,463 | $ 736,134 | $ 124,733,813 |
| Second mortgage & HELOC | 13,381,531 | 13,789 | 12,944 | 13,408,264 |
| Consumer secured | 15,597,037 | 197,090 | 13,447 | 15,807,574 |
| Consumer unsecured | 9,656,121 | 158,506 | 36,960 | 9,851,587 |
| | $160,155,905 | $ 2,845,848 | $ 799,485 | $ 163,801,238 |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 4 – LOANS TO MEMBERS – CONTINUED**

Information relating to individually impaired loans presented by class of loans was as follows as of December 31:

| **2015:** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Recorded Investment** | **Interest Income Recognized** |
|---|---|---|---|---|---|
| **With No Related Allowance Recorded** | | | | | |
| First mortgages | **$ 772,442** | **$ 772,442** | **-** | **$ 772,442** | **-** |
| Second mortgage & HELOC | **97,989** | **97,989** | **-** | **97,989** | **-** |
| Consumer secured | **46,104** | **46,104** | **-** | **46,104** | **-** |
| Consumer unsecured | **54,577** | **54,577** | **-** | **54,577** | **-** |
| | **971,112** | **971,112** | **-** | **971,112** | **-** |
| **With an Allowance Recorded** | | | | | |
| First mortgages | **1,851,546** | **1,851,546** | **$ 101,986** | **1,851,546** | **$ 79,429** |
| Second mortgage & HELOC | **107,126** | **107,126** | **53,563** | **107,126** | **11,713** |
| | **1,958,672** | **1,958,672** | **155,549** | **1,958,672** | **91,142** |
| | **$ 2,929,784** | **$ 2,929,784** | **$ 155,549** | **$ 2,929,784** | **$ 91,142** |

| **2014:** | | | | | |
|---|---|---|---|---|---|
| **With No Related Allowance Recorded** | | | | | |
| First mortgages | $ 736,134 | $ 736,134 | - | $ 736,134 | - |
| Second mortgage & HELOC | 12,944 | 12,944 | - | 12,944 | - |
| Consumer secured | 13,447 | 13,447 | - | 13,447 | - |
| Consumer unsecured | 36,960 | 36,960 | - | 36,960 | - |
| | 799,485 | 799,485 | - | 799,485 | - |
| **With an Allowance Recorded** | | | | | |
| First mortgages | $ 2,069,548 | $ 2,069,548 | $ 128,791 | $ 2,069,548 | $ 88,782 |
| Second mortgage & HELOC | 7,640 | 7,640 | 7,640 | 7,640 | 653 |
| | 2,077,188 | 2,077,188 | 136,431 | 2,077,188 | 89,435 |
| | $ 2,876,673 | $ 2,876,673 | $ 136,431 | $ 2,876,673 | $ 89,435 |

During the years ended December 31, 2015 and 2014, no additional loans were classified as troubled debt restructurings (TDRs).

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

## NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

| | 2015 | 2014 |
|---|---|---|
| Land | $ 986,194 | $ 986,194 |
| Building | 3,876,610 | 3,877,982 |
| Building Improvements | 1,315,487 | 736,347 |
| Furniture and equipment | 2,887,714 | 2,144,416 |
| | 9,066,005 | 7,744,939 |
| Less accumulated depreciation | 3,920,919 | 3,539,850 |
| | $ 5,145,086 | $ 4,205,088 |

Depreciation expense amounted to $521,600 and $342,133 for the years ended December 31, 2015 and 2014, respectively.

## NOTE 6 – OTHER ASSETS

Other assets consisted of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Bank owned life insurance | $ 2,031,601 | $ 2,086,752 |
| Split dollar life insurance receivable | 9,514,161 | 3,499,050 |
| Other real estate owned | 318,387 | 135,001 |
| Other assets | 1,962,159 | 3,983,133 |
| Federal Home Loan Bank stock | 3,375,200 | 3,804,500 |
| | $ 17,201,508 | $ 13,508,436 |

## NOTE 7 – MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows as of December 31:

| | 2015 | 2014 |
|---|---|---|
| Share drafts | $ 20,571,955 | $ 18,659,820 |
| Regular shares | 53,268,018 | 48,250,392 |
| Money market accounts | 14,858,086 | 13,900,908 |
| Regular club accounts | 6,953,033 | 5,612,141 |
| IRA shares | 4,064,867 | 3,681,790 |
| Share and IRA certificate accounts | 99,592,917 | 84,229,587 |
| | $199,308,876 | $174,334,638 |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 7 – MEMBERS' SHARE AND SAVINGS ACCOUNTS – CONTINUED**

At December 31, 2015, the scheduled maturities of certificates of deposit are as follows:

| | |
|---|---|
| 2016 | **$ 55,907,213** |
| 2017 | **16,856,232** |
| 2018 | **1,729,325** |
| 2019 | **19,255,419** |
| 2020 | **2,355,332** |
| Thereafter | **3,489,396** |
| | **$ 99,592,917** |

The total amount of uninsured shares and member deposits in excess of $250,000 was $6,092,721 and $5,498,658 at December 31, 2015 and 2014, respectively.

**NOTE 8 – LINES OF CREDIT**

The Credit Union had available at December 31, 2015 and 2014 a $10,637,814 line of credit with FHLB at a fluctuating rate as determined by FHLB (0.35% and 0.44% at December 31, 2015 and 2014, respectively). The amount outstanding on the line was $708,215 and $870,000 at December 31, 2015 and 2014, respectively.

**NOTE 9 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Securities sold under agreements to repurchase, which are classified as secured borrowings, mature within five years. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Credit Union had $25,000,000 and $5,000,000 outstanding at December 31, 2015 and 2014, respectively, under agreements to repurchase which is included in the borrowed funds detail below.

**NOTE 10 – BORROWED FUNDS**

Borrowed funds are as follows as of December 31:

| | **2015** | 2014 |
|---|---|---|
| Notes payable to Federal Home Loan Bank (FHLB), interest ranging from 0.16 % to 4.44%, interest payable monthly through maturity. Principal due at maturity. Maturity dates vary through July 2018. | **$ 53,291,785** | $ 59,000,000 |
| Notes payable to Raymond James, interest rate on repurchase at 0.62% and 0.45% at December 31, 2015 and 2014, respectively. Notes matured in January 2016. Principal due at maturity. | **25,000,000** | 5,000,000 |
| Line of credit with FHLB at a fluctuating rate as determined by FHLB (0.35% and 0.44% at December 31, 2015 and 2014, respectively). | **708,215** | 870,000 |
| | **$ 79,000,000** | $ 64,870,000 |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

## NOTE 10 – BORROWED FUNDS – CONTINUED

FHLB notes are secured by a blanket collateral agreement, including the Credit Union's one to four family residential mortgages, with a carrying value of $96,971,276, certain mortgage-backed securities and the capital stock and deposits in FHLB, with a carrying value of $54,000,000, as required under the loan agreement.

The Credit Union's available borrowing capacity with FHLB, under the provisions of the loan agreement, was approximately $10,638,000 and $6,386,000 as of December 31, 2015 and 2014, respectively.

Scheduled maturities of borrowed funds at December 31, 2015 are as follows:

| | |
|---|---|
| 2016 | **$ 67,000,000** |
| 2017 | **9,000,000** |
| 2018 | **3,000,000** |
| | **$ 79,000,000** |

## NOTE 11 – RELATED PARTY TRANSACTIONS

Related party transactions consist of loan accounts granted by the Credit Union to officials with interest rates, terms and collateral requirements consistent with those required of other members. The balance of loans outstanding to Credit Union officials was approximately $1,100,000 and $901,000 at December 31, 2015 and 2014, respectively.

## NOTE 12 – LEASE COMMITMENTS

The Credit Union is obligated for several operating leases for various equipment. The Credit Union also leases branches from related parties. These leases were eliminated in the consolidated financial statements.

Future minimum lease payments (with initial or remaining terms in excess of one year) under non-cancelable operating leases at December 31 are as follows:

| | |
|---|---|
| 2016 | **$ 33,783** |
| 2017 | **11,865** |
| 2018 | **924** |
| | **$ 46,572** |

## NOTE 13 – EMPLOYEE BENEFITS

The Credit Union sponsors a defined contribution target benefit plan. The Credit Union contributes the amount necessary to fund the stated targeted benefit with respect to qualifying plan participants each year. The required contribution is based upon qualifying participants' age and years of eligible service. Retirement plan expense approximated $360,000 and $370,000 for the years ended December 31, 2015 and 2014, respectively.

The Credit Union has old split-dollar life insurance agreements outstanding with the key members of management. The Credit Union is no longer paying premiums on these policies and the balance approximates the premiums paid in prior years. The balance at December 31, 2015 and 2014 was $1,795,050 and is included in other assets.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 13 – EMPLOYEE BENEFITS – CONTINUED**

In 2011, the Credit Union implemented a supplemental executive retirement plan covering three key members of management. The plan is funded using split-dollar life insurance arrangements and requires the Credit Union to pay annual life insurance premiums of approximately $476,000 for a seven to ten-year period which are repaid by the employees and collateralized by a note receivable and assignment of the life insurance contracts. The Credit Union would receive the lesser of the cash surrender value or the premiums paid plus interest per year that ranges from 1.7% to 3%, the accrued interest is included in other assets. In 2015 two of the notes receivable were refinanced as a result of prepayment of premiums and change in rates from 3% to 2.47%. The principal balances of these notes receivables at December 31, 2015 and 2014 were $3,545,581 and $1,704,000, respectively, and are included in other assets.

Also in 2015, the Credit Union implemented a supplemental executive retirement plan covering the CEO. The plan is funded using a split-dollar life insurance arrangement and requires the Credit Union to pay annual life insurance premiums of approximately $430,000 for ten years. The Credit Union prepaid the premiums on behalf of the insured resulting in a notes receivable principal balance of $4,173,530 at December 31, 2015, included in other assets. The note receivable has a stated interest rate of 2.47% and the accrued interest is included in other assets.

**NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 2015, the Credit Union had outstanding commitments for unused lines of credit as follows:

| | |
|---|---|
| Home equity lines of credit | **$ 12,043,226** |
| Overdraft protection program commitments | **10,212,844** |
| Share draft lines of credit | **415,315** |
| | **$ 22,671,385** |

**NOTE 15 – FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis at December 31, 2015 and 2014 are as follows:

| | | **Fair Value Measurements at Reporting Date Using** | | |
|---|---|---|---|---|
| **2015:** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Mortgage-backed securities | **$ 80,155,083** | **-** | **$ 80,155,083** | **-** |
| Federal agency securities | **74,987** | **-** | **74,987** | **-** |
| SBA | **189,062** | **-** | **189,062** | **-** |
| Certificate of deposit | **115,977** | **-** | **115,977** | **-** |
| | **$ 80,535,109** | **$ -** | **$ 80,535,109** | **$ -** |
| 2014: | | | | |
| Mortgage-backed securities | $ 77,010,841 | - | $ 77,010,841 | - |
| Federal agency securities | 511,953 | - | 511,953 | - |
| SBA | 244,264 | - | 244,264 | - |
| Certificate of deposit | 113,496 | - | 113,496 | - |
| | $ 77,880,554 | $ - | $ 77,880,554 | $ - |

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 15 – FAIR VALUE MEASUREMENTS – CONTINUED**

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

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| **2015:** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Property held for sale | **$ 712,500** | **-** | **$ 712,500** | **-** |
| Impaired loans | **2,774,235** | **-** | **2,774,235** | **-** |
| Other real estate owned | **318,387** | **-** | **318,387** | **-** |
| | **$ 3,805,122** | **$ -** | **$ 3,805,122** | **$ -** |
| 2014: | | | | |
| Property held for sale | $ 712,500 | - | $ 712,500 | - |
| Impaired loans | 2,740,242 | - | 2,740,242 | - |
| Other real estate owned | 135,001 | - | 135,001 | - |
| | $ 3,587,743 | $ - | $ 3,587,743 | $ - |

**NOTE 16 – REGULATORY CAPITAL**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in the regulations) to total assets (as defined). Credit Unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2015 and 2014 was 7.91% and 7.75%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6% and as a result, the Credit Union was considered a complex credit union for both reporting periods. Management believes, as of December 31, 2015 and 2014, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent call reporting period, 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 minimum net worth ratio of 7% of assets and meet any applicable RBNW Requirement. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

# Notes to Consolidated Financial Statements

**December 31, 2015 and 2014**

**NOTE 16 – REGULATORY CAPITAL – CONTINUED**

The Credit Union's actual capital amounts and ratios at December 31, 2015 and 2014 are also presented in the table below:

| | Actual | | To be Adequately Capitalized under the Prompt Corrective Action Provisions | | To be Well Capitalized under the Prompt Correction Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **December 31, 2015** | **$ 29,676,536** | **9.61%** | **$ 18,526,486** | **6%** | **$ 21,614,234** | **7%** |
| December 31, 2014 | $ 28,071,534 | 10.38% | $ 16,231,539 | 6% | $ 18,936,796 | 7% |

**NOTE 17 – SETTLEMENT WITH A FORMER EMPLOYEE**

A former employee has settled with the Credit Union to receive $375,000 as outlined in the Settlement Agreement dated as of December 18, 2014. $125,000 will be paid by the insurance company CUNA. The other $250,000 will be loaned to the former employee and repaid to the Credit Union through the life insurance benefits. As of December 31, 2015 and 2014, the loan balance was $200,000 and $100,000, respectively, included in other assets. The remaining $50,000 will be loaned to the former employee in 2016.

**NOTE 18 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the March 31, 2016 of these consolidated financial statements, which represents the date on which the consolidated financial statements were available to be issued, and determined that any subsequent events that would require recognition or disclosure have been considered in the preparation of the consolidated financial statements.