

Consolidated Financial Statements

# Directions Credit Union, Inc.

December 31, 2015 and 2014



# CONTENTS



	Page
<b>Independent Auditor's Report</b>	<b>3</b>
<b>Consolidated Statement of Financial Condition</b>	<b>5</b>
<b>Consolidated Statement of Income</b>	<b>6</b>
<b>Consolidated Statement of Comprehensive Income</b>	<b>7</b>
<b>Consolidated Statement of Changes in Members' Equity</b>	<b>8</b>
<b>Consolidated Statement of Cash Flows</b>	<b>10</b>
<b>Notes to Consolidated Financial Statements</b>	<b>12</b>



Supervisory Committee of  
Directions Credit Union, Inc.  
Sylvania, Ohio

### **Independent Auditor's Report**

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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.

Supervisory Committee of  
Directions Credit Union, Inc.  
Page 2

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

***Opinion***

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

*GBQ Partners LLC*

Columbus, Ohio  
March 31, 2016

**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Financial Condition**  
**December 31, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b>	\$ 34,700,204	\$ 27,365,010
<b>Investments</b>		
Investments - available-for-sale	84,997,617	70,537,833
Investments - held-to-maturity	2,000,000	18,048,794
Investments - other	12,089,184	11,881,438
Total investments	99,086,801	100,468,065
<b>Loans to Members and Participations, less allowance for loan losses</b>	462,337,054	431,758,430
<b>Other Real Estate Owned</b>	521,228	601,637
<b>Property and Equipment, net</b>	13,543,734	13,379,471
<b>Other Assets</b>		
Accrued interest receivable on investments	213,691	292,752
Accrued interest receivable on loans	1,553,861	1,669,902
Share insurance capitalization deposit	5,614,753	5,445,468
Prepaid expenses and other assets	10,668,085	11,652,144
Total other assets	18,050,390	19,060,266
<b>TOTAL ASSETS</b>	<b>\$ 628,239,411</b>	<b>\$ 592,632,879</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Members' Share Accounts</b>	\$ 560,876,368	\$ 525,913,812
<b>Notes Payable</b>	5,000,000	5,000,000
<b>Accrued Expenses and Other Liabilities</b>	8,039,109	8,164,602
Total liabilities	573,915,477	539,078,414
<b>Members' Equity, substantially restricted</b>	54,323,934	53,554,465
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 628,239,411</b>	<b>\$ 592,632,879</b>

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

**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Income**  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>Interest Income</b>		
Interest on loans	\$ 19,861,274	\$ 18,956,850
Interest on investments	1,016,408	1,074,223
Total interest income	<u>20,877,682</u>	<u>20,031,073</u>
<b>Interest Expense</b>		
Dividend expense on share accounts	2,022,024	2,083,153
Borrowed funds	64,545	64,392
Total interest expense	<u>2,086,569</u>	<u>2,147,545</u>
Net interest income	18,791,113	17,883,528
<b>Provision for Loan Losses</b>	1,135,000	1,135,000
Net interest income after provision for loan losses	<u>17,656,113</u>	<u>16,748,528</u>
<b>Loss on Student Loan Settlement</b>	2,900,000	-
Net interest income after student loan loss	<u>14,756,113</u>	<u>16,748,528</u>
<b>Non-Interest Income</b>		
Fees and charges	7,694,548	7,285,092
Other income	1,275,300	1,305,119
Income from joint ventures	19,783	9,624
Gain on sale of assets	1,437,579	855,029
Total non-interest income	<u>10,427,210</u>	<u>9,454,864</u>
<b>Non-Interest Expenses</b>		
Compensation and benefits	12,330,465	11,550,320
Office operations	7,186,639	6,849,104
Occupancy	2,774,958	2,652,899
Insurance and assessments	152,782	159,476
Education and promotion	955,569	963,708
Travel and conference	267,860	222,726
Professional fees	227,889	143,831
Other	432,300	540,598
Total non-interest expenses	<u>24,328,462</u>	<u>23,082,662</u>
<b>Net Income</b>	<u>\$ 854,861</u>	<u>\$ 3,120,730</u>

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

**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Comprehensive Income**  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>Net Income</b>	\$ 854,861	\$ 3,120,730
Other comprehensive income:		
Change in unrealized loss on investments - available for sale	( 156,334)	( 50,792)
<b>Comprehensive Income</b>	<b>\$ 698,527</b>	<b>\$ 3,069,938</b>

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

**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Changes in Members' Equity**  
**For the Years Ended December 31, 2015 and 2014**

	Appropriated Statutory Reserve	Unappropriated Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired in Mergers	Total Members' Equity
<b>Balance, December 31, 2013</b>	<b>\$ 11,380,528</b>	<b>\$ 39,011,967</b>	<b>\$ 92,032</b>		<b>\$ 50,484,527</b>
Net income for the year ended December 31, 2014	-	3,120,730	-		3,120,730
Change in unrealized loss on investments - available for sale	-	-	( 50,792)		( 50,792)
Total comprehensive income (loss)	-	3,120,730	( 50,792)		3,069,938
<b>Balance, December 31, 2014</b>	<b>11,380,528</b>	<b>42,132,697</b>	<b>41,240</b>		<b>53,554,465</b>
Net income for the year ended December 31, 2014	-	854,861	-		854,861
Equity acquired in merger				70,942	70,942
Change in unrealized loss on investments - available for sale	-	-	( 156,334)		( 156,334)
Total comprehensive income (loss)	-	854,861	( 156,334)	70,942	769,469
<b>Balance, December 31, 2015</b>	<b>\$ 11,380,528</b>	<b>\$ 42,987,558</b>	<b>\$ ( 115,094)</b>	<b>\$ 70,942</b>	<b>\$ 54,323,934</b>

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



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**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Cash Flows**  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Interest income received	\$ 21,991,008	\$ 21,200,442
Dividends paid on share accounts	( 2,086,569)	( 2,147,545)
Fees and other income received	8,606,609	8,499,953
Cash paid to suppliers and employees	( 25,095,326)	( 24,600,124)
Net cash and cash equivalents provided by operating activities	<u>3,415,722</u>	<u>2,952,726</u>
<b>Cash Flows from Investing Activities:</b>		
Cash acquired in merger	245,445	-
Purchases of available-for-sale investments	( 35,115,000)	( 38,024,966)
Maturities of available-for-sale investments	20,523,377	19,580,275
Purchases of held-to-maturity investments	( 2,000,000)	( 2,976,000)
Maturities of held-to-maturity investments	18,048,794	21,002,591
Purchases of other investments	( 992,000)	( 3,472,000)
Maturities of other investments	809,178	2,899,635
Loans made to members	( 231,877,740)	( 177,485,933)
Loan repayments from members	200,852,676	148,420,392
Proceeds from sale of other real estate owned	80,409	623,489
Purchase of property and equipment	( 1,073,048)	( 1,531,027)
Increase in insurance deposit	( 163,853)	( 213,103)
Net cash and cash equivalents used in investing activities	<u>( 30,661,762)</u>	<u>( 31,176,647)</u>
<b>Cash Flows from Financing Activities:</b>		
Net increase in members' shares	<u>34,581,234</u>	<u>23,453,443</u>
Net increase (decrease) in cash and cash equivalents	<u>7,335,194</u>	<u>( 4,770,478)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>27,365,010</u>	<u>32,135,488</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 34,700,204</u>	<u>\$ 27,365,010</u>

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

**DIRECTIONS CREDIT UNION, INC.**  
**Consolidated Statement of Cash Flows** (continued)  
**For the Years Ended December 31, 2015 and 2014**

	2015	2014
<b>Reconciliation of Net Income to Net Cash and Cash Equivalents Provided by Operating Activities</b>		
Net income	\$ 854,861	\$ 3,120,730
<b>Non-Cash Items:</b>		
Provision for loan loss	1,135,000	1,135,000
Loss on student loan settlement	2,900,000	-
Amortization of premiums on investments - available for sale	-	423,623
Amortization of premiums on investments - held to maturity	-	208,741
Dealer reserve amortization	918,224	161,415
Mortgage servicing rights	( 363,239)	( 90,258)
Equity in income of subsidiary - unconsolidated	( 19,783)	( 9,624)
Gain on sale of mortgage loans	( 1,413,084)	( 828,500)
Gain on sale of investments	( 24,495)	( 86,226)
Loss on sale of other real estate owned	-	59,697
Depreciation and amortization expense	908,785	975,266
Total non-cash items	<u>4,041,408</u>	<u>1,949,134</u>
<b>Changes in Certain Statement of Financial Condition Accounts:</b>		
Interest receivable	195,102	375,590
Other assets and prepaid expenses	( 1,549,745)	( 3,730,524)
Accrued expenses and other liabilities	( 125,904)	1,237,796
Total changes in certain statement of financial condition accounts	<u>( 1,480,547)</u>	<u>( 2,117,138)</u>
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<u>\$ 3,415,722</u>	<u>\$ 2,952,726</u>

**Information on Assets and Liabilities Acquired in Merger:**

Loans	\$ 193,700	\$ -
Cash	245,445	-
Other investments	5,141	-
Insurance deposit	5,432	-
Other assets	2,957	-
Accounts payable	( 411)	-
Shares	( 381,322)	-
Equity acquired	( 70,942)	-

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

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Nature and Scope of Business

Directions Credit Union, Inc. (the Credit Union) provides a variety of financial services to its members, most of whom live, work, worship, attend school or volunteer in Fulton, Wood, Lucas, Richland, Ashland, Wayne, Tuscarawas or Crawford Counties in Ohio, Monroe County in Michigan or members of other select groups. The Credit Union's primary source of revenue is from loans to its members and fees earned on member deposits. Its primary source of funds is savings deposits from its members.

#### Summary of Significant Accounting Policies

##### Principles of Consolidation

The consolidated financial statements include the accounts of Directions Credit Union, Inc. and TFS Marketing, Inc. All significant intercompany accounts and transactions have been eliminated.

##### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 periods. Specifically, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other than temporary impairment on investments. Actual results could differ from those estimates.

##### Investments

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

*Available-for-Sale (AFS):* Government and government agency bonds, collateralized mortgage obligations, notes and negotiable certificates are classified AFS when the Credit Union anticipates that they 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 are reported at fair value. Unrealized gains and losses on AFS investments are recognized as direct increases or decreases in other comprehensive income.

*Held-to-Maturity (HTM):* Government and government agency bonds, notes and negotiable 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.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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**Summary of Significant Accounting Policies** (continued)

Investments (continued)

*Other:* Non-negotiable certificates, investments in corporate credit union capital accounts, investments in the Central Liquidity Facility and Federal Home Loan Bank stock. These investments are carried at cost. Investments in credit union service organizations (CUSO) are recorded at cost or the equity method, based on the Credit Union's percentage of ownership or its ability to influence the operational decisions of those entities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investments. Declines in the fair value of held-to-maturity below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Management evaluates investments for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. 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 investments are recorded on the trade date and the costs of investments sold are determined using the specific identification method.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of investments and the possibility of temporary unrealized losses.

Loans to Members, Loan Participations and Allowance for Loan Losses

The Credit Union grants mortgage and consumer loans to members and participates in business loans. Loans and loan participations receivable are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans and loan participations is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans and loan participations is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. 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 non-accrual 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 non-accrual 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.

Indirect loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**



**Summary of Significant Accounting Policies** (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

The allowance for loan and participation losses reflects management's judgment of probable loan losses inherent in the portfolio at the date of the consolidated statement of financial condition. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (1) the auto loan portfolio; (2) the direct lease financing portfolio; (3) the real estate portfolio; (4) the credit card portfolio; (5) student loan portfolio and (6) all other loans.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and responds to changes in economic conditions, member behavior and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves.

In situations where, for economic or legal reasons related to a members' financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructure (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearances and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**



**Summary of Significant Accounting Policies** (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that the Credit Union will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a 60 day default period and all loans classified as TDR's.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The overall credit quality of the loan and loan participation portfolio is monitored by management based on current loan performance, historical losses and delinquency status.

Loan Charge-Offs

For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 90 days past due unless both well secured and in the process of collection.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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**Summary of Significant Accounting Policies** (continued)

Mortgage Servicing Rights

A mortgage servicing right (MSR) is established only when the loans are sold or when servicing is contractually separated from the underlying mortgages by sale or securitization of the loans with servicing rights retained. The initial carrying value of the asset is established based on its relative fair value at the time of the sale using assumptions that are consistent with assumptions used at the time to estimate the fair value of the total MSR portfolio. All servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization or fair value, and are included in other assets.

Servicing rights are evaluated periodically for impairment based on the fair value of those rights using a disaggregated approach. The fair value of the servicing rights is determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment, discount rates, servicing costs and other economic factors. Temporary impairment is recognized in a valuation allowance against the mortgage servicing rights. The Credit Union also analyzes its MRS periodically for other-than-temporary impairment. Other-than-temporary impairment is recognized as a direct reduction of the carrying value of the mortgage servicing right and cannot be recovered. No other-than-temporary impairment was recognized in the year ended December 31, 2015. Servicing rights are amortized over the period of, and in proportion to, the estimated future net servicing revenue. Amortization is recorded as reduction in interest income on loans in the Credit Unions' consolidated statement of income.

Property and Equipment

Land and land improvements are carried at cost. Building, building improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. The building, building improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Maintenance and repairs that neither improve nor extend the life of the respective asset are charged to expense as incurred. Assets purchased but not yet placed into service are capitalized and depreciation is not computed until the asset's placed in service date. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the year. The lives of the assets range from 3 to 40 years.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. During 2015 and 2014, management determined there was no impairment to the assets.



**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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**Summary of Significant Accounting Policies** (continued)

Share Insurance Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (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.

Share 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.

Excess Share Insurance

The deposit in the Excess Share Insurance (ESI) program provides additional insurance coverage of \$250,000 once a member's balance exceeds the coverage provided by the Credit Union's primary insurer, which requires the maintenance of a one-percent refundable at-risk deposit by each insured credit union based on the maximum policy limits of coverage. Insured credit unions are also required to pay a quarterly premium based on the actual reported coverage and the credit union's financial condition and rating.

Share Accounts

Members' shares are subordinated to all other 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.

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 interest.

Reserve Requirement

In 2001, the NCUA revised the regulatory net worth requirements for credit unions. Credit unions that are classified as "well capitalized" (net worth ratio of 7% or higher) are not required to make statutory transfers to the regular reserve. The regular reserve has been established at the discretion of the Board of Directors to protect the interests of the members. The Board may at times change the reserved amount for specific requirements.

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Summary of Significant Accounting Policies (continued)

##### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income that includes costs related to unrealized gains and losses on investments classified as available-for-sale.

##### Income Taxes

As a credit union, the Credit Union is exempt from federal, state and local taxes under the provisions of 501(c)(14) of the Internal Revenue Code.

The Credit Union accounts for uncertainty in income taxes in its consolidated financial statements as required under FASB ASC, *Accounting for Uncertainty in Income Taxes*. The standard prescribes 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 standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. Management determined there were no material uncertain positions taken by the Credit Union in its tax returns.

##### Fair Values of Financial Instruments

Generally accepted accounting principles established a fair value hierarchy that prioritizes the inputs to measure the fair value of the assets or liabilities being measured. Fair value is defined as the exchange value that would be received on the measurement date to sell an asset or to value the amount paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 1 inputs provide the most reliable measure of fair value as of the measurement date.
- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 are significant unobservable inputs for the asset or liability.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**



**Summary of Significant Accounting Policies** (continued)

Fair Values of Financial Instruments (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

*Cash and Cash Equivalents:* The carrying amounts reported in the consolidated statement of financial condition for cash and cash equivalents approximates those assets' fair values. These assets represent a Level 1 fair value hierarchy.

*Investments – available-for-sale and held-to-maturity:* Fair values of securities are usually based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. These assets represent a Level 2 fair value hierarchy.

*Investments – other:* Non-negotiable certificate investments are listed at face value. Corporate Capital accounts, Federal Home Loan Bank stock, the Central Liquidity Facility deposit and investments in CUSO's represent those assets fair values. These assets represent a Level 3 fair value hierarchy.

*Loans to Members and Loan Participations:* The fair value of fixed-rate loans is estimated by discounting the future cash flows for each loan category using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable-rate loans (primarily real estate and charge cards) is assumed to approximate their carrying amount. These assets represent a Level 3 fair value hierarchy.

*Accrued Interest:* The carrying amounts of accrued interest approximate the fair values. These assets represent a Level 3 fair value hierarchy.

*Members' Share Deposits:* The fair value of share drafts, regular savings and money market accounts is the amount payable on demand at the reporting date. The fair value of individual retirement accounts and certificates of deposit is estimated by discounting the future cash flows using the market rates offered as of December 31 for similar deposits with the same remaining maturities. These liabilities represent a Level 3 fair value hierarchy.

*Notes Payable:* The carrying amounts reported in the consolidated statement of financial condition for notes payable approximates those liabilities' fair value. These liabilities represent a Level 3 fair value hierarchy.

*Loan Commitments:* Commitments to extend credit were evaluated and fair value was determined using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates. These represent a Level 3 fair value hierarchy.

The Credit Union has no financial instruments that are held or issued for trading purposes.

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Summary of Significant Accounting Policies (continued)

##### Off-Statement of Financial Condition 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.

##### Concentration of Credit Risk

The Credit Union's business activity is primarily with members who all live or work in the same geographic area (Northwest and North Central Ohio). This creates a concentration of credit risk from members with loans from the Credit Union, since they may all be affected by the same economic conditions in this geographic area.

##### Reclassifications

Certain reclassifications have been made to the previously issued December 31, 2014 financial statements so that they were presented consistently with the current year December 31, 2015 presentation.

#### Cash and Cash Equivalents

In 2015 and 2014, insurance coverage was \$250,000 per depositor at each financial institution, and cash and cash equivalent balances may again exceed federally insured limits. The balance of cash and cash equivalents in excess of federally insured limits was approximately \$26 million and \$19 million as of December 31, 2015 and 2014, respectively.

Cash and cash equivalents include money market accounts, Federal funds and any highly liquid debt-instruments.

	2015	2014
Cash on hand and accounts held in non-interest bearing accounts at other financial institutions	\$ 8,886,775	\$ 9,927,172
Cash and cash equivalents held in interest bearing accounts at other institutions	<u>25,813,429</u>	<u>17,437,838</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 34,700,204</u></b>	<b><u>\$ 27,365,010</u></b>

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Investments**

The amortized cost and market value of investments at December 31, 2015 were:

Available-for-Sale	Weighted Average Yield at 12/31/15	2015			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.55%	\$ 824,998	\$ 2,784	\$ ( 4,308)	\$ 823,474
Mortgage-backed securities	2.81%	1,747,622	1,080	( 21,684)	1,727,018
U.S. Government and agency obligations	.86%	81,290,091	88,988	( 178,100)	81,200,979
Negotiable certificates of deposits	1.08%	<u>1,250,000</u>	<u>55</u>	<u>( 3,909)</u>	<u>1,246,146</u>
<b>Total</b>		<b><u>\$ 85,112,711</u></b>	<b><u>\$ 92,907</u></b>	<b><u>\$( 208,001)</u></b>	<b><u>\$ 84,997,617</u></b>

The amortized cost and market value of investments at December 31, 2014 were:

Available-for-Sale	Weighted Average Yield at 12/31/14	2014			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury and government agency obligations	1.24%	\$ 69,498,593	\$ 106,033	\$ ( 65,774)	\$ 69,538,852
Negotiable certificates of deposits	0.60%	<u>998,000</u>	<u>981</u>	<u>-</u>	<u>998,981</u>
<b>Total</b>		<b><u>\$ 70,496,593</u></b>	<b><u>\$ 107,014</u></b>	<b><u>\$( 65,774)</u></b>	<b><u>\$ 70,537,833</u></b>

Gross unrealized losses at December 31 were:

	2015	2014
Gross unrealized losses for less than one year	\$ 178,100	\$ 45,320
Gross unrealized losses for more than one year	<u>29,901</u>	<u>20,454</u>
<b>Total</b>	<b><u>\$ 208,001</u></b>	<b><u>\$ 65,774</u></b>

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Investments (continued)**

Held-to-Maturity	Weighted Average Yield at 12/31/15	2015			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Agency	0.44%	<u>2,000,000</u>	<u>133</u>	<u>-</u>	<u>2,000,133</u>
<b>Total</b>		<b><u>\$ 2,000,000</u></b>	<b><u>\$ 133</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,000,133</u></b>

Held-to-Maturity	Weighted Average Yield at 12/31/14	2014			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Corporate and U.S. Government bonds	1.64%	\$ 18,048,794	\$ 49,714	\$ ( 816)	\$ 18,097,692
<b>Total</b>		<b><u>\$ 18,048,794</u></b>	<b><u>\$ 49,714</u></b>	<b><u>\$ ( 816)</u></b>	<b><u>\$ 18,097,692</u></b>

Other Investments	Weighted Average Yield at 12/31/15	2015	
		Amortized Cost	Market Value
Certificates of deposits– non-negotiable	1.01%	\$ 6,748,000	\$ 6,748,000
Corporate one capital share	0.40%	1,925,141	1,925,141
FHLB capital stock	4.00%	1,797,900	1,797,900
Central Liquidity Facility	0.10%	1,401,953	1,401,953
Other investments	n/a	<u>216,190</u>	<u>216,190</u>
<b>Total</b>		<b><u>\$ 12,089,184</u></b>	<b><u>\$ 12,089,184</u></b>

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Investments (continued)**

Other Investments	Weighted Average Yield at 12/31/14	2014	
		Amortized Cost	Market Value
Certificates of deposits – non-negotiable	0.97%	\$ 6,599,000	\$ 6,599,000
Corporate One capital share	0.35%	1,920,000	1,920,000
FHLB capital stock	4.00%	1,797,900	1,797,900
Central Liquidity Facility	0.25%	1,360,742	1,360,742
Other investments	n/a	<u>203,796</u>	<u>203,796</u>
<b>Total</b>		<b><u>\$ 11,881,438</u></b>	<b><u>\$ 11,881,438</u></b>

The amortized cost and estimated market value of investment securities at December 31, 2015 by expected maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity		Other Investments	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 2016	\$ 24,418,435	\$ 24,395,448	\$ 2,000,000	\$ 2,000,133	\$ 2,532,000	\$ 2,532,000
Due in 2017	29,518,318	29,459,211			2,728,000	2,728,000
Due in 2018	28,603,338	28,592,465			1,240,000	1,240,000
Due in 2019						
Due in 2020 and beyond	2,572,620	2,550,493			248,000	248,000
Non-maturing					<u>5,341,184</u>	<u>5,341,184</u>
<b>Total</b>	<b><u>\$ 85,112,711</u></b>	<b><u>\$ 84,997,617</u></b>	<b><u>\$ 2,000,000</u></b>	<b><u>\$ 2,000,133</u></b>	<b><u>\$ 12,089,184</u></b>	<b><u>\$ 12,089,184</u></b>

The investment in corporate perpetual contributed capital and the membership share accounts have withdrawal restrictions and limited marketability.

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

### Loans to Members and Loan Participations

The loans to members at December 31 consisted of the following:

	2015	2014
Auto loans	\$ 113,990,147	\$ 105,528,759
Real estate loans	223,396,567	207,345,733
Direct financing leases	40,362,410	33,364,765
Credit card loans	25,229,104	25,594,546
Student loans	18,027,071	18,672,726
Business loans	7,777,200	8,346,840
Other secured loans	11,991,965	11,657,195
Unsecured loans	10,607,406	9,737,691
Loan participations	11,813,543	12,537,738
Deferred loan origination fees	<u>1,253,792</u>	<u>1,066,312</u>
Total	464,449,205	433,852,305
Less: allowance for loan losses	<u>( 2,112,151)</u>	<u>( 2,093,875)</u>
<b>Loans to Members and Participations, net</b>	<b><u>\$ 462,337,054</u></b>	<b><u>\$ 431,758,430</u></b>

The interest rates on the loans range from 2.24% to 18.00% for the years ended December 31, 2015 and 2014.

The activity in allowance for loan loss account for the year ended at December 31, 2015 consisted of the following (in 000's):

	Auto	Direct Lease Financing	Real Estate	Credit Cards	Student Loans	Other	Total
Beginning balance	\$ 249	\$ 5	\$ 451	\$ 399	\$ 610	\$ 380	\$ 2,094
Provision charged to operations	566	14	576	232	( 552)	299	1,135
Loans charged-off	( 343)	( 19)	( 432)	( 364)	( 13)	( 406)	( 1,577)
Recoveries	<u>132</u>	<u>-</u>	<u>166</u>	<u>75</u>	<u>13</u>	<u>74</u>	<u>460</u>
<b>Ending balance</b>	<b><u>\$ 604</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 761</u></b>	<b><u>\$ 342</u></b>	<b><u>\$ 58</u></b>	<b><u>\$ 347</u></b>	<b><u>\$ 2,112</u></b>



**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Loans to Members** (continued)

The activity in allowance for loan loss account for the year ended at December 31, 2014 consisted of the following (in 000's):

	Auto	Direct Lease Financing	Real Estate	Credit Cards	Student Loans	Other	Total
Beginning balance	\$ 119	\$ 2	\$ 296	\$ 520	\$ 1,398	\$ 167	\$ 2,502
Provision charged to operations	452	22	610	249	( 681)	483	1,135
Loans charged-off	( 396)	( 45)	( 510)	( 502)	( 112)	( 367)	(1,932)
Recoveries	<u>74</u>	<u>26</u>	<u>55</u>	<u>132</u>	<u>5</u>	<u>97</u>	<u>389</u>
Ending balance	<u>\$ 249</u>	<u>\$ 5</u>	<u>\$ 451</u>	<u>\$ 399</u>	<u>\$ 610</u>	<u>\$ 380</u>	<u>\$ 2,094</u>

Impaired Loans

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable.

Other credit related information as of December 31, 2015 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical Loss %	0.52%	0.00%	0.36%	1.36%	0.33%	0.64	0.46%
<b>Delinquency:</b>							
Over 60 days - total	\$ 180	\$ 37	\$ 995	\$ 253	\$ 681	\$ 96	\$ 2,242
60-179 days	180	37	522	253	642	20	1,654
180-359 days	-	-	370	-	2	76	448
Over 360 days	-	-	103	-	37	-	140
Impaired restructured loan balances	3	-	2,378	-	-	-	2,381
Specific reserves on restructured loans included in overall allowance	-	-	391	-	-	-	391
Loans in non-accrual status	89	18	734	126	360	81	1,408

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Loans to Members** (continued)

Other credit related information as of December 31, 2014 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	First Mortgage	2nd Mortgage & Home Equity	Credit Cards	Student Loans	Other	Total
<b>Historical Loss %</b>	<b>0.24%</b>	<b>-</b>	<b>0.22%</b>	<b>0.22%</b>	<b>1.56%</b>	<b>-</b>	<b>0.28%</b>	<b>0.41%</b>
<b>Delinquency: Over 60 days - total</b>	<b>\$ 252</b>	<b>\$ -</b>	<b>\$ 836</b>	<b>\$ 80</b>	<b>\$ 205</b>	<b>\$ 1,290</b>	<b>\$ 178</b>	<b>\$ 2,841</b>
60-179 days	232	-	431	80	199	1,196	153	2,291
180-359 days	13	-	-	-	6	29	25	73
Over 360 days	7	-	405	-	-	65	-	477
<b>Impaired restructured loan balances</b>	<b>5</b>	<b>-</b>	<b>1,804</b>	<b>278</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,087</b>
<b>Specific reserves on restructured loans included in overall allowance</b>	<b>2</b>	<b>-</b>	<b>286</b>	<b>60</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>348</b>
<b>Restructured loan in default</b>	<b>5</b>	<b>-</b>	<b>739</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>744</b>
<b>Loans in non-accrual status</b>	<b>122</b>	<b>-</b>	<b>772</b>	<b>32</b>	<b>136</b>	<b>913</b>	<b>74</b>	<b>2,049</b>

**Property and Equipment**

Property and equipment at December 31, 2015 consisted of the following:

	2015	2014
Land and improvements	\$ 3,523,487	\$ 3,523,487
Buildings and improvements	15,981,595	15,486,973
Furniture and equipment	8,977,797	8,399,371
Total property	28,482,879	27,409,831
Less: accumulated depreciation	(14,939,145)	(14,030,360)
<b>Total property and equipment, net</b>	<b>\$ 13,543,734</b>	<b>\$ 13,379,471</b>

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Student Loan Guarantee Receivable

In 2009, 2010, and 2011 the Credit Union purchased pools of participations in private student loans originated by CU Student Connect, LLC to students attending ITT Technical Institute (ITT). Credit losses on these participation pools are covered by a credit enhancement (the Risk Share Agreement or RSA) with ITT. When losses in these pools exceed 35%, all additional losses incurred by the Credit Union are reimbursed through a guarantee by ITT. The RSA calls for payments to be made by the 15<sup>th</sup> of the subsequent month in which a claim is submitted for losses incurred in excess of 35%.

As of December 31, 2015 and 2014, participation pool balances totaled \$3,989,588 and \$5,911,052 respectively, and were reported as loans on the Credit Union's consolidated statement of financial condition. The Credit Union has incurred losses in excess of 35%, which are therefore guaranteed against further losses by the RSA. Management believes the entire outstanding balance guaranteed by ITT may not be collectible and has established a reserve to reduce the receivable to the amount they believe will be collected. As of December 31, 2015 and 2014, the Credit Union had a receivable of \$7,859,456 and \$6,489,748, respectively, and a reserve of \$3,554,000 and \$654,000, respectively, from ITT related to the RSA recorded in prepaid expenses and other assets on the consolidated statements of financial condition as of December 31, 2015 and 2014.

Subsequent to December 31, 2015, as a result of regulatory actions involving ITT, a settlement was reached between ITT, the regulator, and the loans originated through CU Student Connect, LLC that will result in these loans and the receivable under the RSA to be settled in full. This settlement is estimated to result in an additional loss to the Credit Union of \$2,900,000. This loss has been recorded in the December 31, 2015 financial statements and included in the loss reserves of \$3,554,000

#### Loans Serviced

Mortgage servicing rights are recorded in prepaid expenses and other assets on the consolidated statement of financial condition. Changes in their carrying value and the associated valuation allowance for the year ended December 31 and the fair value at the end of the period were as follows:

	2015	2014
Balance, beginning of the year	\$ 1,280,583	\$ 1,190,325
New servicing rights	593,708	283,558
Amortization	<u>( 230,469)</u>	<u>( 193,300)</u>
Balance, end of year	<u>\$ 1,643,822</u>	<u>\$ 1,280,583</u>
Fair Value, end of year	<u>\$ 1,644,000</u>	<u>\$ 1,281,000</u>

The unpaid principal balance of residential loans serviced for third parties was approximately \$173,000,000 and \$117,000,000 at December 31, 2015 and 2014, respectively.

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Members' Share Accounts**

Members' share accounts at December 31 were as follows:

	Weighted Average Yield at 12/31/15	2015	Weighted Average Yield at 12/31/14	2014
Regular shares	0.05%	\$ 162,877,783	0.05%	\$ 146,111,707
Checking accounts	0.05%	108,585,889	0.05%	90,394,058
Money market accounts	0.16%	136,581,716	0.10%	130,867,334
Club accounts	0.05%	22,590,337	0.05%	21,136,568
IRA accounts	0.15%	19,195,407	0.15%	18,637,515
Share and IRA certificates	1.37%	<u>111,045,236</u>	1.40%	<u>118,766,630</u>
<b>Total members' share</b>		<b><u>\$ 560,876,368</u></b>		<b><u>\$ 525,913,812</u></b>

Scheduled maturities of shares at December 31, 2015 were as follows:

2016	\$ 489,024,568
2017	16,062,231
2018	13,675,055
2019	19,729,998
2020	<u>22,384,516</u>
<b>Total maturities</b>	<b><u>\$ 560,876,368</u></b>

Dividend expense on members' share accounts at December 31, 2015 was as follows:

	2015	2014
Regular shares	\$ 95,280	\$ 87,200
Checking accounts	37,514	32,686
Money market accounts	215,163	209,886
Club accounts	7,859	6,906
IRA accounts	26,373	25,892
Share and IRA certificates	<u>1,639,835</u>	<u>1,720,583</u>
<b>Total dividend expense</b>	<b><u>\$ 2,022,024</u></b>	<b><u>\$ 2,083,153</u></b>

The aggregate amount of members' share accounts that exceed the insured limit, at December 31, 2015 and 2014 totaled \$14,466,109 and \$13,563,985, respectively.

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Borrowings

The Credit Union maintains a \$10,000,000 note payable - line of credit borrowing arrangement with Corporate One Federal Credit Union. The line of credit is collateralized by substantially all assets of the Credit Union. At December 31, 2015 and 2014, there were no borrowings outstanding under the arrangement.

The Credit Union maintains a note payable – line of credit borrowing arrangement with the Federal Home Loan Bank of Cincinnati that has a borrowing capacity of approximately \$45,000,000. The borrowing arrangement is collateralized by substantially all 1-4 family home first mortgage loans. At December 31, 2015 and 2014, there was \$5,000,000 in outstanding borrowings under this arrangement.

In 2012, the Credit Union obtained a note payable – line of credit borrowing arrangement with the Federal Reserve Bank of Cleveland that has a borrowing capacity of approximately the value of the assigned collateral. The borrowing arrangement is collateralized by substantially all investments in government and agency obligations. At December 31, 2015 and 2014, there were no outstanding borrowings under this arrangement.

Principal payments by year required on these notes are as follows:

2016	\$ 1,000,000
2017	1,000,000
2018	1,000,000
2019	1,000,000
2020 and beyond	<u>1,000,000</u>
<b>Total notes payable</b>	<b><u>\$ 5,000,000</u></b>

#### Related Party Transactions

The official family of the Credit Union includes Board members, supervisory committee members, credit committee members and staff. Loans and shares receivable from members of the official Credit Union family at December 31 was as follows:

	2015	2014
Loans	<b>\$ 7,326,866</b>	\$ 8,513,774
Shares	<b>\$ 6,539,572</b>	\$ 5,248,710

#### Employee Benefits

The Credit Union has entered into three Collateral Assignment Split-Dollar Life Insurance Arrangements with officers of the organization. The life insurance policy is owned by the officer but premiums are paid by the Credit Union. The premiums paid are recorded as loan receivables from the participants. The imputed interest rate on the loans is treated as compensation for the officers.

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Employee Benefits (continued)

The Credit Union has a profit-sharing plan covering substantially all employees. This discretionary contribution is determined by the Board of Directors annually. The Credit Union had a liability of \$200,000 and \$150,000 accrued as of December 31, 2015 and 2014, respectively.

The Credit Union also has a 401(K) salary reduction plan. Employees are eligible for participation when they have attained eighteen years of age and completed six months of service. The Credit Union may make discretionary matching contributions. The employer contributions for the years ended December 31, 2015 and 2014 were \$104,423 and \$101,768, respectively.

#### Commitments and Contingent Liabilities

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

The Credit Union has extended lines of credit to members who have not been entirely drawn at December 31, 2015 and 2014. The available credit to members that has not been reflected in the consolidated financial statements was as follows:

	2015	2014
Loan Type:		
Business loans	\$ 3,169,909	\$ 1,768,730
Open-end loans	1,273,960	3,127,927
Credit cards	49,523,504	49,903,788
Construction loans	12,084,408	21,626,871
Home equity loans	6,482,129	6,910,479
Overdraft protection	<u>17,074,903</u>	<u>14,216,016</u>
<b>Total</b>	<b><u>\$ 89,608,813</u></b>	<b><u>\$ 97,553,811</u></b>

**DIRECTIONS CREDIT UNION, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Leases**

The Credit Union leases three of its branch office locations under long-term lease arrangements. These leases are accounted for as operating leases and have minimum payment requirements summarized as follows:

Lease Property	Lease Expiration	Remaining Payment Obligations
Reynolds Road	10/31/2016	\$ 313,500
Owens Corning	08/31/2017	245,752
Westgate Village	03/31/2020	28,000
Lambertville	09/30/2020	<u>46,708</u>
<b>Total remaining obligations</b>		<b><u>\$ 633,960</u></b>

Rent expense totaled \$180,480 and \$153,489 for the years ended December 31, 2015 and 2014.

**Fair Values of Financial Instruments**

The estimated fair values of the Credit Union's financial instruments, none of which are held for trading purposes, were as follows (dollars in thousands):

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 34,700	\$ 34,700	\$ 27,365	\$ 27,365
Investments	99,087	99,087	100,468	100,517
Loans to members and participations-net	462,337	462,877	431,758	436,045
Other real estate owned	521	521	602	602
Accrued interest receivable	1,768	1,768	1,963	1,963
Financial liabilities:				
Members' shares and savings accounts	560,876	566,674	525,914	531,858
Borrowed funds	5,000	4,940	5,000	4,888
Off-balance-sheet credit related financial instruments:				
Commitments to extend credit	89,609	89,609	97,554	97,554

# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

#### Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. 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 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 5.85% and 5.61%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2015, 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 a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirements. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31 are also presented in the table (dollars in thousands):

	Actual		To Be Adequately Capitalized Under the Prompt Corrective Action Provisions		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2015</b>	<b>\$ 54,439</b>	<b>8.67%</b>	<b>\$ 37,694</b>	<b>&gt;6.00%</b>	<b>\$ 43,977</b>	<b>&gt;7.00%</b>
December 31, 2014	\$ 53,513	8.99%	\$ 35,697	>6.00%	\$ 41,646	>7.00%



# DIRECTIONS CREDIT UNION, INC.

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014



### **NCUA Corporate Stabilization and Other Activities**

The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if: (1) the insurance coverage is terminated; (2) the Credit Union converts to insurance coverage from another source or (3) the operations of the fund are transferred from the NCUA Board. The insurance fund currently insures share accounts up to \$250,000.

### **Subsequent Events - Date of Management's Review**

Management has evaluated subsequent events through the date of the Independent Auditor's Report, the date on which the consolidated financial statements were available to be issued.