Consolidated Financial Statements

Directions Credit Union, Inc.

December 31, 2016 and 2015

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GBQ Partners

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, 2016 and 2015, 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.

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, 2016 and 2015, 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 24, 2017

DIRECTIONS CREDIT UNION, INC.
Consolidated Statement of Financial Condition
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 37,457,543	$ 34,700,204
Investments		
Investments - available-for-sale	32,181,788	84,997,617
Investments - held-to-maturity	1,984,000	2,000,000
Investments - other	8,891,895	12,089,184
Total investments	43,057,683	99,086,801
Loans to Members and Participations, less allowance for loan losses	558,626,691	462,337,054
Other Real Estate Owned	345,591	521,228
Property and Equipment, net	13,968,631	13,543,734
Other Assets		
Accrued interest receivable on investments	99,106	213,691
Accrued interest receivable on loans	1,520,693	1,553,861
Share insurance capitalization deposit	5,981,474	5,614,753
Prepaid expenses and other assets	9,691,090	10,668,085
Total other assets	17,292,363	18,050,390
TOTAL ASSETS	$ 670,748,502	$ 628,239,411
LIABILITIES AND MEMBERS' EQUITY		
Members' Share Accounts	$ 603,248,238	$ 560,876,368
Notes Payable	4,000,000	5,000,000
Accrued Expenses and Other Liabilities	8,172,420	8,039,109
Total liabilities	615,420,658	573,915,477
Members' Equity, substantially restricted	55,327,844	54,323,934
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 670,748,502	$ 628,239,411

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, 2016 and 2015

	2016	2015
Interest Income		
Interest on loans	$ 20,845,276	$ 19,861,274
Interest on investments	962,271	1,016,408
Total interest income	21,807,547	20,877,682
Interest Expense		
Dividend expense on share accounts	1,987,980	2,022,024
Borrowed funds	68,599	64,545
Total interest expense	2,056,579	2,086,569
Net interest income	19,750,968	18,791,113
Provision for Loan Losses	2,412,517	1,135,000
Net interest income after provision for loan losses	17,338,451	17,656,113
Loss on Student Loan Settlement	2,109,640	2,900,000
Net interest income after student loan loss	15,228,811	14,756,113
Non-Interest Income		
Fees and charges	8,233,977	7,694,548
Other income	1,803,534	1,275,300
(Loss) income from joint ventures	(1,503)	19,783
Gain on sale of assets	1,821,439	1,437,579
Total non-interest income	11,857,447	10,427,210
Non-Interest Expenses		
Compensation and benefits	12,358,939	12,330,465
Office operations	8,208,919	7,186,639
Occupancy	3,142,171	2,774,958
Insurance and assessments	135,202	152,782
Education and promotion	1,105,205	955,569
Travel and conference	274,434	267,860
Professional fees	402,663	227,889
Other	429,407	432,300
Total non-interest expenses	26,056,940	24,328,462
Net Income	$ 1,029,318	$ 854,861

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

Consolidated Statement of Comprehensive Income
For the Years Ended December 31, 2016 and 2015

	2016	2015
Net Income	**$ 1,029,318**	$ 854,861
Other comprehensive loss:		
Change in unrealized gain (loss) on investments - available for sale	**(25,408)**	(156,334)
Comprehensive Income	**$ 1,003,910**	$ 698,527

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

Consolidated Statement of Changes in Members' Equity
For the Years Ended December 31, 2016 and 2015

	Appropriated Statutory Reserve	Unappropriated Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired in Mergers	Total Members' Equity
Balance, December 31, 2014	**$ 11,380,528**	**$ 42,132,697**	**$ 41,240**	**$ -**	**$ 53,554,465**
Net income for the year ended December 31, 2015	-	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
Balance, December 31, 2015	**11,380,528**	**42,987,558**	**(115,094)**	**70,942**	**54,323,934**
Net income for the year ended December 31, 2016	-	1,029,318	-		1,029,318
Change in unrealized loss on investments - available for sale	-	-	(25,408)		(25,408)
Total comprehensive income (loss)	-	1,029,318	(25,408)	-	1,003,910
Balance, December 31, 2016	**$ 11,380,528**	**$ 44,016,876**	**$(140,502)**	**$ 70,942**	**$ 55,327,844**

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

DIRECTIONS CREDIT UNION, INC.

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Interest income received	$ 23,516,531	$ 21,991,008
Dividends paid on share accounts	(2,056,579)	(2,086,569)
Fees and other income received	9,775,275	8,606,609
Cash paid to suppliers and employees	(25,771,425)	(25,095,326)
Net cash and cash equivalents provided by operating activities	5,463,802	3,415,722
Cash Flows from Investing Activities:		
Cash acquired in merger	-	245,445
Purchases of available-for-sale investments	(9,663,504)	(35,115,000)
Maturities of available-for-sale investments	62,372,570	20,523,377
Purchases of held-to-maturity investments	(1,984,000)	(2,000,000)
Maturities of held-to-maturity investments	2,000,000	18,048,794
Purchases of other investments	(822,214)	(992,000)
Maturities of other investments	4,018,000	809,178
Loans made to members	(309,815,141)	(231,877,740)
Loan repayments from members	211,454,550	200,852,676
Proceeds from sale of other real estate owned	175,637	80,409
Purchase of property and equipment	(1,447,510)	(1,073,048)
Increase in insurance deposit	(366,721)	(163,853)
Net cash and cash equivalents used in investing activities	(44,078,333)	(30,661,762)
Cash Flows from Financing Activities:		
Net increase in members' shares	42,371,870	34,581,234
Repayment of borrowings on notes payable	(1,000,000)	-
Net increase in cash and cash equivalents	2,757,339	7,335,194
Cash and Cash Equivalents at Beginning of Year	34,700,204	27,365,010
Cash and Cash Equivalents at End of Year	$ 37,457,543	$ 34,700,204

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

	2016	2015
Reconciliation of Net Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Net income	$ 1,029,318	$ 854,861
Non-Cash Items:		
Provision for loan loss	2,412,517	1,135,000
Loss on student loan settlement	2,109,640	2,900,000
Amortization of premiums on investments - available-for-sale	259,790	-
Amortization of premiums on investments -		
Dealer reserve amortization	1,301,441	918,224
Mortgage servicing rights	(262,236)	(363,239)
Equity in loss (income) of subsidiary - unconsolidated	1,503	(19,783)
Gain on sale of mortgage loans	(1,643,004)	(1,413,084)
Gain on sale of investments	(178,435)	(24,495)
Depreciation and amortization expense	1,022,613	908,785
Total non-cash items	5,023,829	4,041,408
Changes in Certain Statement of Financial Condition Accounts:		
Interest receivable	147,753	195,102
Other assets and prepaid expenses	(870,409)	(1,549,745)
Accrued expenses and other liabilities	133,311	(125,904)
Total changes in certain statement of financial condition accounts	(589,345)	(1,480,547)
Net Cash and Cash Equivalents Provided by Operating Activities	$ 5,463,802	$ 3,415,722

Information on Assets and Liabilities Acquired in Merger:	2016	2015
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.

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 agency bonds, collateralized mortgage obligations, mortgage-backed securities 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 agency bonds 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.

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.

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.

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.

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, 2016. 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 three 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 2016 and 2015, management determined there was no impairment to the assets.

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.

Summary of Significant Accounting Policies (continued)

Comprehensive Income (Loss)

Comprehensive income consists of net income (loss) and other comprehensive income (loss) 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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

GAAP 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.

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:

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 either a level 1 or Level 2 fair value hierarchy, accordingly.

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.

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

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.

New Accounting Pronouncements

The FASB recently issued Accounting Standards Update (ASU) 2016-02, a new standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the statement of financial condition for nearly all lease arrangements. The new standard is effective for the Credit Union for annual periods beginning after December 15, 2019. Management is in the process of determining the effect of this change on its accounting and disclosure of lease activity.

Cash and Cash Equivalents

In 2016 and 2015, 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 at both December 31, 2016 and 2015.

Cash and Cash Equivalents (continued)

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

	2016	2015
Cash on hand and accounts held in non-interest bearing accounts at other financial institutions	$ 8,630,683	$ 8,886,775
Cash and cash equivalents held in interest bearing accounts at other institutions	28,826,860	25,813,429
Total cash and cash equivalents	$ 37,457,543	$ 34,700,204

Investments

The amortized cost and market value of investments at December 31, 2016 were:

Available-for-Sale	Weighted Average Yield at 12/31/16	2016			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.39%	$ 649,178	$ 6,632	$(3,638)	$ 652,172
Mortgage-backed securities	1.29%	3,610,424	746	(84,646)	3,526,524
U.S. Government and agency obligations	1.08%	27,062,688	10,680	(74,809)	26,998,559
Negotiable certificates of deposits	1.45%	1,000,000	5,235	(702)	1,004,533
Total		$ 32,322,290	$ 23,293	$(163,795)	$ 32,181,788

Investments (continued)

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	0.86%	81,290,091	88,988	(178,100)	81,200,979
Negotiable certificates of deposits	1.08%	1,250,000	55	(3,909)	1,246,146
Total		$ 85,112,711	$ 92,907	$(208,001)	$ 84,997,617

Gross unrealized losses at December 31 were:

	2016	2015
Gross unrealized losses for less than one year	**$ 12,121**	$ 178,100
Gross unrealized losses for more than one year	**151,674**	29,901
Total	**$ 163,795**	$ 208,001

Investments (continued)

Held-to-Maturity	Weighted Average Yield at 12/31/16	2016			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Negotiable certificates of deposit	1.24%	$ 1,984,000	$ 4,291	$ -	$ 1,988,291
Total		$ 1,984,000	$ 4,291	$ -	$ 1,988,291

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%	$ 2,000,000	$ 133	$ -	$ 2,000,133
Total		$ 2,000,000	$ 133	$ -	$ 2,000,133

Other Investments	Weighted Average Yield at 12/31/16	2016	
		Amortized Cost	Market Value
Certificates of deposits– non-negotiable	1.08%	$ 3,474,000	$ 3,474,000
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%	1,480,082	1,480,082
Other investments	n/a	214,772	214,772
Total		$ 8,891,895	$ 8,891,895

Investments (continued)

Other Investments	Weighted Average Yield at 12/31/15	2015 Amortized Cost	2015 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	216,190	216,190
Total		$ 12,089,184	$ 12,089,184

The amortized cost and estimated market value of investment securities at December 31, 2016 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 2017	$ 16,012,529	$ 16,004,826	$ 992,000	$ 993,662	$ 1,736,000	$ 1,736,000
Due in 2018	9,031,126	9,020,271	744,000	746,455	496,000	496,000
Due in 2019	1,532,135	1,516,065	248,000	248,174	994,000	994,000
Due in 2020	1,510,616	1,484,414			248,000	248,000
Due in 2021 and beyond	4,235,884	4,156,212	-	-	-	-
Non-maturing	-	-	-	-	5,417,895	5,417,895
Total	$ 32,322,290	$ 32,181,788	$ 1,984,000	$ 1,988,291	$ 8,891,895	$ 8,891,895

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

Loans to Members and Loan Participations

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

	2016	2015
Auto loans	$ 155,829,967	$ 113,990,147
Real estate loans	219,639,046	223,396,567
Direct financing leases	90,409,117	40,362,410
Credit card loans	29,204,406	25,229,104
Student loans	17,275,566	18,027,071
Business loans	6,599,048	7,777,200
Other secured loans	14,049,659	11,991,965
Unsecured loans	11,762,803	10,607,406
Loan participations	13,649,187	11,813,543
Deferred loan origination fees	3,211,203	1,253,792
Total	561,630,002	464,449,205
Less: allowance for loan losses	(3,003,311)	(2,112,151)
Loans to Members and Participations, net	$ 558,626,691	$ 462,337,054

The interest rates on the loans range from 1.89% to 19.00% and 2.24% to 18.00% for the years ended December 31, 2016 and 2015, respectively.

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

	2016	2015
Beginning balance	$ 2,112	$ 2,094
Provision charged to operations	2,413	1,135
Loans charged-off	(2,088)	(1,577)
Recoveries	566	460
Ending balance	$ 3,003	$ 2,112

Loans to Members and Loan Participations (continued)

The allowance for loan losses was allocated between loan pools as follows at December 31 (in 000's):

	2016	2015
Auto	**$ 702**	$ 604
Real estate	**645**	761
Credit cards	**378**	342
Student loans	**879**	58
Participation	**35**	-
Other	**364**	347
Ending balance	**$ 3,003**	$ 2,112

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, 2016 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical Loss %	**0.28%**	**0.00%**	**0.14%**	**1.29%**	**0.00%**	**0.62%**	**0.56%**
Delinquency:							
Over 60 days - total	**$ 243**	**$ 40**	**$ 265**	**$ 141**	**$ 673**	**$ 601**	**$ 1,963**
60-179 days	**232**	**40**	**265**	**141**	**627**	**343**	**1,648**
180-359 days	**11**	**-**	**-**	**-**	**15**	**10**	**36**
Over 360 days	**-**	**-**	**248**	**-**	**31**	**-**	**279**
Impaired restructured loan balances	**-**	**-**	**2,175**	**-**	**-**	**29**	**2,204**
Specific reserves on restructured loans included in overall allowance	**-**	**-**	**325**	**-**	**-**	**-**	**325**
Loans in non-accrual status	**101**	**40**	**438**	**79**	**3,272**	**14**	**3,944**

Loans to Members and Loan Participations (continued)

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%
Delinquency:							
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

Information on troubled debt restructurings for the year ended December 31, 2016 was as follows (in 000's):

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:			
Mortgage	28	2,175	1,850
Total	28	$ 2,175	$ 1,850

Loans to Members and Loan Participations (continued)

Information on troubled debt restructurings for the year ended December 31, 2015 was as follows (in 000's):

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:			
Mortgage	27	$ 2,381	$ 2,381
Total	27	$ 2,381	$ 2,381

Property and Equipment

Property and equipment at December 31 consisted of the following:

	2016	2015
Land and improvements	$ 3,523,487	$ 3,523,487
Buildings and improvements	16,573,472	15,981,595
Furniture and equipment	9,755,534	8,977,797
Total property	29,852,493	28,482,879
Less: accumulated depreciation	(15,883,862)	(14,939,145)
Total property and equipment, net	$ 13,968,631	$ 13,543,734

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 were to be 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 were to be reimbursed through a guarantee by ITT. During 2016, ITT declared bankruptcy and ceased paying the Credit Union for losses in excess of 35%. The RSA called for payments to be made by the 15th of the subsequent month in which a claim was submitted for losses incurred in excess of 35%.

Student Loan Guarantee Receivable (continued)

As of December 31, 2016 and 2015, participation pool balances totaled $2,575,662 and $3,989,588 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% and were supposed to be protected from further losses by the RSA. Management believes the entire outstanding balance guaranteed by ITT, due to its bankruptcy, 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, 2016 and 2015, the Credit Union had a receivable of $8,204,438 and $7,859,456, respectively, and a reserve of $5,663,640 and $3,554,000, respectively, from ITT related to the RSA recorded in prepaid expenses and other assets on the consolidated statements of financial condition.

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:

	2016	2015
Balance, beginning of the year	**$ 1,643,822**	$ 1,280,583
New servicing rights	**523,843**	593,708
Amortization	**(261,607)**	(230,469)
Balance, end of year	**$ 1,906,058**	$ 1,643,822
Fair Value, end of year	**$ 1,907,000**	$ 1,644,000

The unpaid principal balance of residential loans serviced for third parties was approximately $199,000,000 and $173,000,000 at December 31, 2016 and 2015, respectively.

Members' Share Accounts

Members' share accounts at December 31 were as follows:

	Weighted Average Yield at 12/31/16	2016	Weighted Average Yield at 12/31/15	2015
Regular shares	0.05%	$ 184,805,122	0.05%	$ 162,877,783
Checking accounts	0.05%	118,741,820	0.05%	108,585,889
Money market accounts	0.20%	141,216,349	0.16%	136,581,716
Club accounts	0.05%	26,655,509	0.05%	22,590,337
IRA accounts	0.15%	19,423,724	0.15%	19,195,407
Share and IRA certificates	1.46%	112,405,714	1.37%	111,045,236
Total members' share		$ 603,248,238		$ 560,876,368

Scheduled maturities of shares at December 31, 2016 were as follows:

2017	$ 521,973,989
2018	19,818,111
2019	21,406,438
2020	22,140,257
2021	17,909,443
Total maturities	$ 603,248,238

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

	2016	2015
Regular shares	$ 107,999	$ 95,280
Checking accounts	39,963	37,514
Money market accounts	228,541	215,163
Club accounts	8,981	7,859
IRA accounts	27,820	26,373
Share and IRA certificates	1,574,676	1,639,835
Total dividend expense	$ 1,987,980	$ 2,022,024

The aggregate amount of members' share accounts that exceed the NCUA's primary insured limit and the Credit Union's excess insurance, at December 31, 2016 and 2015 totaled $6,123,931 and $5,922,249, respectively.

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, 2016 and 2015, 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 $48,000,000. The borrowing arrangement is collateralized by substantially all 1-4 family home first mortgage loans. At December 31, 2016 and 2015, there was $4,000,000 and $5,000,000 in outstanding borrowings under this arrangement, respectively.

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, 2016 and 2015, there were no outstanding borrowings under this arrangement.

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

2017	$ 1,000,000
2018	1,000,000
2019	1,000,000
2020	1,000,000
Total notes payable	$ 4,000,000

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:

	2016	2015
Loans	**$ 4,065,934**	$ 7,326,866
Shares	**6,564,931**	6,539,572

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.

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 $200,004 and $200,000 accrued as of December 31, 2016 and 2015, 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, 2016 and 2015 were $101,662 and $104,423, 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, 2016 and 2015. The available credit to members that has not been reflected in the consolidated financial statements was as follows:

	2016	2015
Loan Type:		
Business loans	**$ 2,169,539**	$ 3,169,909
Open-end loans	**1,692,112**	1,273,960
Credit cards	**68,396,161**	49,523,504
Construction loans	**13,618,059**	12,084,408
Home equity loans	**7,253,056**	6,482,129
Overdraft protection	**17,773,779**	17,074,903
Total	**$ 110,902,706**	$ 89,608,813

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
Lambertville	09/30/2020	$ 247,500
Westgate Village	03/31/2020	187,928
Reynolds Rd	10/31/2017	28,000
Owens Corning	09/31/17	21,018
Total remaining obligations		$ 484,446

Rent expense totaled $232,248 and $180,480 for the years ended December 31, 2016 and 2015, respectively.

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, 2016 and 2015 was 5.66% and 5.85%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

Regulatory Capital (continued)

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
December 31, 2016	**$ 55,468**	**8.27%**	**$ 40,245**	**>6.00%**	**$ 46,952**	**>7.00%**
December 31, 2015	54,439	8.67%	37,694	>6.00%	43,977	>7.00%

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.