ELKO FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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YEARS ENDED DECEMBER 31, 2016 AND 2015

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Elko Federal Credit Union
Elko, Nevada

We have audited the accompanying financial statements of Elko Federal Credit Union, which comprise the statements of financial condition as of December 31, 2016 and 2015, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Supervisory Committee and Board of Directors
Elko Federal Credit Union

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elko Federal Credit Union as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
April 25, 2017

ELKO FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 59,660,408	$ 54,227,380
Securities - Held-to-Maturity	25,084,582	23,140,661
Other Investments	10,691,905	7,458,905
Loans, Net	52,904,114	53,619,615
Accrued Interest Receivable	283,805	221,437
Foreclosed Assets	-	42,500
Premises and Equipment, Net	2,828,644	3,040,515
NCUSIF (National Credit Union Share Insurance Fund) Deposit	1,284,931	1,229,130
Other Assets	207,187	192,715
Total Assets	$ 152,945,576	$ 143,172,858
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 137,491,705	$ 129,034,433
Accrued Expenses and Other Liabilities	181,990	138,747
Total Liabilities	137,673,695	129,173,180
MEMBERS' EQUITY		
Regular Reserves	1,649,106	1,649,106
Undivided Earnings	500,000	500,000
Other Reserves	13,122,775	11,850,572
Total Members' Equity	15,271,881	13,999,678
Total Liabilities and Members' Equity	$ 152,945,576	$ 143,172,858

See accompanying Notes to Financial Statements.

ELKO FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
INTEREST INCOME		
Loans	$ 3,093,890	$ 3,014,578
Securities, Interest Bearing Deposits and Cash Equivalents	831,773	656,484
Total Interest Income	3,925,663	3,671,062
INTEREST EXPENSE		
Members' Share and Savings Accounts	341,888	342,741
Net Interest Income	3,583,775	3,328,321
PROVISION FOR LOAN LOSSES	10,352	125,869
Net Interest Income After Provision for Loan Losses	3,573,423	3,202,452
NONINTEREST INCOME		
Service Charges and Fees	1,300,342	1,365,276
Other Noninterest Income	199,192	184,436
Gain on Sale of Credit Card Loan Portfolio	148,610	-
Net Gain on Sale of Foreclosed Assets	13,261	27,500
Total Non-Interest Income	1,661,405	1,577,212
NONINTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	1,786,787	1,800,076
Occupancy	207,549	202,912
Operations	1,427,296	1,373,181
Professional and Outside Services	540,993	431,984
Total Non-Interest Expense	3,962,625	3,808,153
NET INCOME	$ 1,272,203	$ 971,511

See accompanying Notes to Financial Statements.

ELKO FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Regular Reserves	Undivided Earnings	Other Reserves	Total
BALANCES - DECEMBER 31, 2014	$ 1,649,106	$ 500,000	$ 10,879,061	$ 13,028,167
Net Income	-	971,511	-	971,511
Transfers, Net	-	(971,511)	971,511	-
BALANCES - DECEMBER 31, 2015	1,649,106	500,000	11,850,572	13,999,678
Net Income	-	1,272,203	-	1,272,203
Transfers, Net	-	(1,272,203)	1,272,203	-
BALANCES - DECEMBER 31, 2016	$ 1,649,106	$ 500,000	$ 13,122,775	$ 15,271,881

See accompanying Notes to Financial Statements.

ELKO FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,272,203	$ 971,511
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	224,829	239,399
Amortization of Security Premiums/Discounts, Net	125,386	91,100
Provision for Loan Losses	10,352	125,869
Amortization of Net Deferred Loan Origination Costs	46,571	36,086
Gain on Sale of Credit Card Portfolio	(148,610)	-
Gain on Sale of Foreclosed Assets	(13,261)	-
Changes in:		
Accrued Interest Receivable	(62,368)	4,988
Other Assets	(14,472)	103,562
Accrued Expenses and Other Liabilities	43,243	(22,895)
Net Cash Provided by Operating Activities	1,483,873	1,549,620
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Securities:		
Held-to-Maturity	(8,461,574)	(8,600,018)
Proceeds from Repayments or Maturities of Securities:		
Held-to-Maturity	6,392,267	7,918,748
Proceeds from Maturities of Other Investments	5,980,000	5,884,000
Purchases of Other Investments	(9,213,000)	(5,434,000)
Loan Originations Net of Principal Collected on Loans, Net	(381,345)	(3,283,305)
Proceeds from Sale of Credit Card Portfolio	1,188,533	-
(Increase) Decrease in NCUSIF Deposit	(55,801)	1,621
Proceeds from Sales of Foreclosed Assets	55,761	-
Proceeds from Sales of Premises and Equipment	-	13,952
Expenditures for Premises and Equipment	(12,958)	(161,064)
Net Cash Used by Investing Activities	(4,508,117)	(3,660,066)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	8,457,272	3,130,822
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,433,028	1,020,376
Cash and Cash Equivalents - Beginning of Year	54,227,380	53,207,004
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 59,660,408	$ 54,227,380
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Member Share and Savings Accounts Interest Paid	$ 341,888	$ 342,741

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Elko Federal Credit Union is a federally-chartered cooperative association headquartered in Elko, Nevada, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of those who live, work, worship or attend school in, and businesses and other legal entities in Elko, Eureka, and Lander Counties, Nevada and selected employee groups within the region. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The material estimate that is particularly susceptible to significant change in the near term includes the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical field of membership. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk.

The Credit Union has a concentration of funds on deposit at Catalyst Corporate Federal Credit Union (Catalyst) of approximately $50,795,000 and $48,609,000 at December 31, 2016 and 2015, respectively.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income. Realized gains and losses on securities available-for-sale are included in Noninterest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Noninterest Income.

The Credit Union did not hold any securities classified as available-for-sale for the years ended December 31, 2016 and 2015.

The Credit Union did not record any other-than-temporary impairment during the years ended December 31, 2016 and 2015.

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment.

Loans, Net

The Credit Union grants consumer, mortgage, and member business loans to members and purchases loan participations. A substantial portion of the loan portfolio is represented by consumer and mortgage loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

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

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

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union did not enter into any new troubled debt restructurings during the years ended December 31, 2016 and 2015.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than member business real estate loan portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Member Business: Member business real estate loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations. Member business other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

The Credit Union assigns a risk rating to member business loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

High Quality

Risk Rating 1: Highest Quality

These loans have the highest quality and lowest amount of inherent risk. It reflects the financial capacity of the most creditworthy borrowers and will carry the following general characteristics:

Commercial and Industrial (C&I) Loans (including owner occupied real estate):

- DSCR of 2.0 or greater
- Loan to value less than 55% of policy maximum
- Debt to tangible net worth under 1:1
- Quick ratio over 3:1
- 6+ consecutive profitable years
- Business credit score of 80+
- Guarantor FICO scores over 800

Commercial Real Estate Income Property Loans – same as C&I, except:

- DSCR of 1.60 or greater
- 6+ years of positive NOI

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

High Quality (Continued)

Risk Rating 1: Highest Quality (Continued)

Other Key Characteristics: Borrower will have been in business 10 or more years with management having 10 or more years of experience. Collateral will be highly liquid and/or highly marketable. Businesses will be ranked at or higher than the upper quartiles of industry comparisons. Financial information will be of highest quality, e.g. audited or reviewed for larger borrowers. All loans secured by cash and government securities with comfortable margins are included in this risk rating. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 0.25% of the outstanding balance.

Risk Rating 2: Superior Quality

These loans have many of the same qualities as those of Highest Quality but with slightly lower ratings and characteristics and would reflect the following general conditions:

C&I Loans (including owner occupied real estate):

- DSCR of 1.75 or greater
- Loan to value less than 60% of policy maximum
- Debt to tangible net worth of 1:1
- Quick ratio of 3:1
- 5+ consecutive profitable years
- Business credit score of 75+
- Guarantor FICO scores over 750

Commercial Real Estate Income Property Loans – same as C&I, except:

- DSCR of 1.50 or greater
- 5+ consecutive years of positive NOI

Other Key Characteristics: Borrower will have been in business at least 7 years and management will have 7 or more years of experience. Collateral can be liquidated in a short period of time or be very marketable in current market conditions. Business will rate in the upper quartile when compared to industry standards. Financial information will be of very good quality and generally CPA prepared for larger borrowers. Loans secured by high quality corporate stocks and bonds (adequately margined and monitored) may also be risk rated in this category. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 0.25% of the outstanding balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

High Quality (Continued)

Risk Rating 3: Excellent Quality

These loans have many excellent qualities to include strong primary and secondary repayment sources. Businesses in this category are very stable and proven in the market place reflecting the following general characteristics:

C&I Loans (including owner occupied real estate):
- DSCR of 1.50 or greater
- Loan to value less than 65% of policy maximum
- Debt to tangible net worth of 1.50:1
- Quick ratio of 2.5:1 or higher
- 4+ consecutive profitable years
- Business credit score of 71+
- Guarantor FICO scores over 700

Commercial Real Estate Income Property Loans – same as C&I, except:
- DSCR of 1.45 or greater
- Debt to tangible net worth of 2:1 or less
- 4+ consecutive years of positive NOI

Other Key Characteristics: Business will have been in operation 6 years or longer and management will have 6 years of experience. Collateral is readily marketable with good margins in an active market. Business will rate at or very near the upper quartile in industry comparisons. Financial information will be of good quality and generally CPA prepared for larger borrowers. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 0.50% of the outstanding balance.

Acceptable Quality

Risk Rating 4: Good Quality

These loans have many good qualities to include sound primary and secondary repayment sources with an established history. They will reflect following general characteristics:

C&I Loans (including owner occupied real estate):
- DSCR of 1.40 or greater
- Loan to value less than 70% of policy maximum
- Debt to tangible net worth at or under 2:1
- Quick ratio over 2:1
- 3+ consecutive profitable years
- Business credit score of 66+
- Guarantor FICO scores over 685

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Acceptable Quality (Continued)

Risk Rating 4: Good Quality (Continued)

Commercial Real Estate Income Property Loans – same as C&I, except:
- Debt to tangible net worth of 3:1
- 3+ consecutive years of positive NOI

SBA Loans – same as C&I, except:
- DSCR of 1.35 or greater
- Debt to tangible net worth of 3:1

Other Key Characteristics: Borrower will have been in business at least 5 years and have management with 5 or more years of experience, 3+ years is acceptable for SBA loans. Collateral is readily marketable, stable with slight market risks and has margins that slightly exceed policy requirements. Business will rank in the upper end of the middle quartile for industry comparisons. Financial statements are of good quality and professionally prepared. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 0.50% of the outstanding balance.

Risk Rating 5: Acceptable Quality

These loans have satisfactory credit aspects with sound secondary repayment sources to support any credit issues and carry the following general characteristics:

C&I Loans (including owner occupied real estate):
- DSCR of 1.30 or greater
- Loan to value less than 75% of policy maximum
- Debt to tangible net worth under 3:1
- Quick ratio over 1.5:1
- 2+ consecutive profitable years
- Business credit score of 60+
- Guarantor FICO scores over 670

Commercial Real Estate Income Property Loans:
- DSCR of 1.30 or greater
- Loan to value less than 75% of policy maximum
- Debt to tangible net worth of 4:1
- Quick ratio of 1.5:1
- 2+ years of positive NOI
- Business credit score of 60+
- Guarantor FICO scores over 670

SBA Loans – same as C&I, except:
- DSCR of 1.25 or greater
- Loan to value at 80% of policy maximum
- 2 years of profitability

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Acceptable Quality (Continued)

Risk Rating 5: Acceptable Quality (Continued)

Other Key Characteristics: Borrowers have been in business 4 years or more matched with management of equal length. 2 years for management and age of business is acceptable for SBA loans. Collateral is fully marketable subject to inherent market risks for its type. The business will rank in the middle quartile for industry comparisons. Financial information can be internally prepared by qualified staff or externally reviewed and has been proven to be reliable. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 1% of the outstanding balance.

Risk Rating 6: Minimum Acceptable Quality

These loans meet all minimum credit criteria. They have a viable primary source of repayment but could be subject to some volatility. Some original elements of risk or developing events remain mitigated by structure, performance and/or monitoring. These loans may reflect the following general characteristics:

C&I Loans (including owner occupied real estate):

- DSCR of 1.25
- Loan to value less than 80% of policy maximum
- Debt to tangible net worth of 4:1
- Quick ratio of 1:1
- 1 year of profitability
- Business credit score of 55+
- Guarantor FICO scores over 660

Commercial Real Estate Income Property Loans – same as C&I, except:

- Debt to tangible net worth of 5:1
- 1 year positive NOI

SBA Loans – same as C&I, except:

- DSCR 1.15
- Loan to value not exceeding 90%
- Debt to tangible net worth 5:1

Other Key Characteristics: Businesses and management are generally less experienced with 3 or fewer years. Collateral may be less marketable with few buyers. Businesses will rank in the lower quartile for industry comparisons. Financial information is borrower prepared, not extensive but deemed accurate. Most loans with a high reliance on projections to achieve repayment would fall in this category. In the absence of a 3+ year actual loss history, we will generally target a loan loss reserve of 1% of the outstanding balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Watch

Risk Rating 7: Watch

A Watch asset has potential weaknesses that deserve management's close attention. These loans are for the most part current but show some sign(s) of deterioration. These loans usually remain in this category for up to one year as they either improve to pass status or decline to classified status. In some cases there may be notable improvement or stabilization in financial performance during this period; however, current fiscal year end results will not support an upgrade to a pass credit. Consideration may be given to extending the watch period for an additional year subject to ongoing monitoring for improvement or decline. Generally, watch credits will have one or more of the following weaknesses: The business has been open less than three years and management is new or has limited or no prior experience; Collateral value has declined and the loan to value exceeds the policy maximum; The most recent year end statement shows a loss, the debt service coverage ratio is less than 1:25:1 (1:1 for SBA), the debt to tangible net worth exceeds 5:1 (6:1 for SBA), and the quick ratio is less than 1:1 or the company shows a trend of book overdrafts. The industry risk is high and the peer group comparison is below in all categories. The business credit score is 54 or below or payable agings exceed acceptable levels. The guarantors' FICO drops below 660 or recent late payments show a negative trend. Loans will not usually be upgraded from the watch category based on interim statements but only after year end statements have been analyzed.

Classified

Risk Rating 8: Substandard

The loan is inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified Substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

Risk Rating 9: Doubtful

A loan classified as Doubtful has all the weaknesses inherent in one classified Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: proposed merger, acquisition, or liquidation actions; capital injection; perfecting liens on collateral; and refinancing plans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Classified (Continued)

Risk Rating 10: Loss

Loans classified as Loss are considered uncollectible and as such little value that their continuance as loans is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

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.

Foreclosed Assets

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

Premises and Equipment, Net

Land is carried at cost. Buildings and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

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.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. It is anticipated that the NCUA Board will assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. No CCUSF premium was assessed in 2016 and 2015 due to subsequent loss recovery settlements and gains recognized by the CCUSF in the recent years. NCUA currently anticipates no future premium assessments.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory regular reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

Retirement Plans

401(k) plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the plan were approximately $48,000 and $50,000 for the years ended December 31, 2016 and 2015, respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $42,000 and $51,000 for the years ending December 31, 2016 and 2015, respectively, are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

> *Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.
>
> *Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.
>
> *Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

In May 2014, the FASB approved ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expended disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgements and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the amended revenue recognition guidance on the Credit Union's financial statements.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Consolidated Statement of Financial Condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the financial statements.

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2020, and interim periods within the fiscal year beginning after December 15, 2021. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 on the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through April 25, 2017, the date the financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Held-to-Maturity

The amortized cost and estimated fair value of securities held-to-maturity are as follows:

	Amortized Cost (Carrying Value)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
U.S. Government and Federal Agency Securities	$ 6,000,000	$ -	$ (116,470)	$ 5,883,530
Federal Agency Mortgage Backed Securities	14,719,005	21,845	(224,496)	14,516,354
Collateralized Mortgage Obligation Securities	4,365,577	-	(83,730)	4,281,847
Total	$ 25,084,582	$ 21,845	$ (424,696)	$ 24,681,731
December 31, 2015				
U.S. Government and Federal Agency Securities	$ 3,615,000	$ -	$ (17,280)	$ 3,597,720
Federal Agency Mortgage Backed Securities	14,460,918	43,204	(126,600)	14,377,522
Collateralized Mortgage Obligation Securities	5,064,743	113,056	(88,761)	5,089,038
Total	$ 23,140,661	$ 156,260	$ (232,641)	$ 23,064,280

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of securities, at December 31, 2016, by contractual 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.

	Held-to-Maturity	
	Amortized Cost (Carrying Value)	Estimated Fair Value
U.S. Government and Federal Agency Securities:		
Five to Ten Years	$ 6,000,000	$ 5,883,530
Federal Agency Mortgage Backed Securities and Collateralized Mortgage Obligation Securities	19,084,582	18,798,201
Total	$ 25,084,582	$ 24,681,731

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2016				
U.S. Government and Federal Agency Securities	$ (116,470)	$ 5,883,530	$ -	$ -
Federal Agency Mortgage Backed Securities	(214,724)	11,028,437	(9,772)	245,291
Collateralized Mortgage Obligation Securities	(43,374)	3,475,039	(40,356)	806,808
Total Held-to-Maturity	$ (374,568)	$ 20,387,006	$ (50,128)	$ 1,052,099

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015				
U.S. Government and Federal Agency Securities	$ (17,280)	$ 3,597,720	$ -	$ -
Federal Agency Mortgage Backed Securities	(100,353)	9,311,281	(26,247)	966,413
Collateralized Mortgage Obligation Securities	(30,008)	2,155,899	(58,753)	999,311
Total Held-to-Maturity	$ (147,641)	$ 15,064,900	$ (85,000)	$ 1,965,724

At December 31, 2016, the 35 securities with unrealized losses have depreciated 1.94% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future, no declines are deemed to be other-than-temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows at December 31:

	2016	2015
Perpetual Contributed Capital Account	$ 228,905	$ 228,905
Certificates of Deposit at Other Financial Institutions	10,463,000	7,230,000
Total	$ 10,691,905	$ 7,458,905

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Other Investments (Continued)

Perpetual Contributed Capital Account

The Credit Union maintains a perpetual contributed capital account with Catalyst that is uninsured and part of Catalyst's regulatory capital. This is subject to impairment or loss in the event Catalyst is required to merge, placed into conservatorship, incurs significant losses, or is liquidated.

Certificates of Deposit at Other Financial Institutions

These accounts are stated at cost and generally have original maturities within two years.

NOTE 3 LOANS, NET

The composition of loans is as follows at December 31:

	2016	2015
Consumer:		
Auto	$ 13,561,332	$ 13,326,351
Credit Card	-	1,040,317
Other Secured	12,785,372	12,551,513
Other Unsecured	2,585,373	2,239,716
Subtotal	28,932,077	29,157,897
Residential Real Estate:		
First Mortgage	10,083,107	10,314,103
Second Mortgage	4,970,622	4,668,799
Subtotal	15,053,729	14,982,902
Member Business:		
Real Estate	8,737,450	9,326,843
Other	800,487	836,062
Subtotal	9,537,937	10,162,905
Gross Loans	53,523,743	54,303,704
Net Deferred Loan Origination Costs	48,924	48,162
Allowance for Loan Losses	(668,553)	(732,251)
Total	$ 52,904,114	$ 53,619,615

The Credit Union has purchased loan participations originated by other credit unions, which are secured by commercial real estate, to members of other credit unions. These loan participations were purchased without recourse and the originating credit unions perform all loan servicing functions on these loans. The total loan participations, included in the member business real estate segment, totaled $735,231 and $1,219,621 at December 31, 2016 and 2015, respectively.

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union offers nontraditional mortgage loans to its members. These loans include balloon mortgages. Balloon mortgage loans consist of loans that are fixed for an initial period of ten, twelve, and fifteen years. After this period, the mortgages are due and callable. At that time, the member has the option to pay the balloon payment or refinance the loan at current rates. These types of loans may result in a lack of principal amortization or even negative amortization if the minimum payment is less than the interest accruing on the loan.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the residential real estate – first mortgage and member business – real estate loan captions above, totaled approximately $14,803,000 and $14,274,000 at December 31, 2016 and 2015, respectively.

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2016	Consumer	Residential Real Estate	Member Business	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 504,156	$ 26,961	$ 201,134	$ 732,251
Provision for Loan Losses	211,487	-	(201,134)	10,353
Loans Charged-Off	(86,906)	-	-	(86,906)
Recoveries of Loans Previously Charged-Off	12,855	-	-	12,855
Balance at End of Year	$ 641,592	$ 26,961	$ -	$ 668,553
Ending Balance: Individually Evaluated for Impairment	$ 13,509	$ -	$ -	$ 13,509
Ending Balance: Collectively Evaluated for Impairment	$ 628,083	$ 26,961	$ -	$ 655,044
Total Allowance for Loan Losses	$ 641,592	$ 26,961	$ -	$ 668,553
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 133,174	$ 93,780	$ 63,156	$ 290,110
Ending Balance: Collectively Evaluated for Impairment	$ 28,798,903	$ 14,959,949	$ 9,474,781	$ 53,233,633
Total Loans	$ 28,932,077	$ 15,053,729	$ 9,537,937	$ 53,523,743

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows (continued):

December 31, 2015	Consumer	Residential Real Estate	Member Business	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 499,913	$ 72,403	$ 74,410	$ 646,726
Provision (Credit) for Loan Losses	50,587	(51,442)	126,724	125,869
Loans Charged-Off	(65,407)	-	-	(65,407)
Recoveries of Loans Previously Charged-Off	19,063	6,000	-	25,063
Balance at End of Year	$ 504,156	$ 26,961	$ 201,134	$ 732,251
Ending Balance: Individually Evaluated for Impairment	$ 41,528	$ -	$ -	$ 41,528
Ending Balance: Collectively Evaluated for Impairment	$ 462,628	$ 26,961	$ 201,134	$ 690,723
Total Allowance for Loan Losses	$ 504,156	$ 26,961	$ 201,134	$ 732,251
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 182,699	$ -	$ 66,058	$ 248,757
Ending Balance: Collectively Evaluated for Impairment	$ 28,975,198	$ 14,982,902	$ 10,096,847	$ 54,054,947
Total Loans	$ 29,157,897	$ 14,982,902	$ 10,162,905	$ 54,303,704

NOTE 3 LOANS, NET (CONTINUED)

The following tables show the member business loan portfolio segment allocated by management's internal risk ratings:

December 31, 2016	Member Business Credit Risk Profile by Risk Rating		
Risk Rating:	Real Estate	Other	Total
High Quality	$ 6,218,737	$ 729,658	$ 6,948,395
Acceptable Quality	1,942,204	70,829	2,013,033
Watch	576,509	-	576,509
Classified	-	-	-
Total	$ 8,737,450	$ 800,487	$ 9,537,937

December 31, 2015			
Risk Rating:	Real Estate	Other	Total
High Quality	$ 6,744,867	$ 632,812	$ 5,185,047
Acceptable Quality	2,515,908	203,250	2,719,158
Watch	66,068	-	66,068
Classified	-	-	-
Total	$ 9,326,843	$ 836,062	$ 7,970,273

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

December 31, 2016	Consumer and Residential Real Estate Credit Risk Profile by Payment Activity		
Payment Activity	Auto	Other Secured	Other Unsecured
Performing	$ 13,561,332	$ 12,770,995	$ 2,585,373
Nonperforming	-	14,377	-
Total	$ 13,561,332	$ 12,785,372	$ 2,585,373

Payment Activity	First Mortgage	Second Mortgage	Total
Performing	$ 10,083,107	$ 4,970,622	$ 43,971,429
Nonperforming	-	-	14,377
Total	$ 10,083,107	$ 4,970,622	$ 43,985,806

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2015 — Consumer and Residential Real Estate Credit Risk Profile by Payment Activity

Payment Activity	Auto	Credit Card	Other Secured	Other Unsecured
Performing	$ 13,311,844	$ 1,037,033	$ 12,524,641	$ 2,224,412
Nonperforming	14,507	3,284	26,872	15,304
Total	$ 13,326,351	$ 1,040,317	$ 12,551,513	$ 2,239,716

Payment Activity	First Mortgage	Second Mortgage	Total
Performing	$ 10,314,103	$ 4,668,799	$ 44,080,832
Nonperforming	-	-	59,967
	$ 10,314,103	$ 4,668,799	$ 44,140,799

The following tables show an aging analysis of the loan portfolio by time past due:

December 31, 2016	Accruing Interest				
	Current	30-59 Days Past Due	60-90 Days or More Past Due	Nonaccrual 91 Days or More Past Due	Total Loans
Consumer:					
Auto	$ 13,452,792	$ 53,825	$ 54,715	$ -	$ 13,561,332
Other Secured	12,668,639	73,187	29,169	14,377	12,785,372
Other Unsecured	2,569,245	16,128	-	-	2,585,373
Residential Real Estate:					
First Mortgage	9,989,327	-	93,780	-	10,083,107
Second Mortgage	4,970,622	-	-	-	4,970,622
Member Business:					
Real Estate	8,737,450	-	-	-	8,737,450
Other	800,487	-	-	-	800,487
Total	$ 53,188,562	$ 143,140	$ 177,664	$ 14,377	$ 53,523,743
December 31, 2015					
Consumer:					
Auto	$ 13,192,612	$ 86,593	$ 32,639	$ 14,507	$ 13,326,351
Credit Card	1,012,590	24,443	-	3,284	1,040,317
Other Secured	12,421,397	69,606	33,638	26,872	12,551,513
Other Unsecured	2,201,617	21,411	1,384	15,304	2,239,716
Residential Real Estate:					
First Mortgage	10,314,103	-	-	-	10,314,103
Second Mortgage	4,668,799	-	-	-	4,668,799
Member Business:					
Real Estate	9,326,843	-	-	-	9,326,843
Other	836,062	-	-	-	836,062
Total	$ 53,974,023	$ 202,053	$ 67,661	$ 59,967	$ 54,303,704

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans:

December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Auto	$ 76,081	$ 76,081	$ -	$ 79,713
Other Secured	-	-	-	4,006
First Mortgage	93,780	93,780	-	46,890
Member Business Real Estate	63,156	63,156	-	64,607
Subtotal	233,017	233,017	-	195,216
With An Allowance Recorded:				
Auto	46,519	46,519	10,435	51,704
Other Secured	10,574	10,574	3,074	12,529
Other Unsecured	-	-	-	9,986
Subtotal	57,093	57,093	13,509	74,218
Total Impaired Loans:				
Consumer	133,174	133,174	13,509	160,682
Residential Real Estate	93,780	93,780	-	46,890
Member Business	63,156	63,156	-	64,607
Total	$ 290,110	$ 290,110	$ 13,509	$ 272,179
December 31, 2015				
With No Related Allowance:				
Auto	$ 83,345	$ 83,345	$ -	$ 65,767
Other Secured	8,011	8,011	-	23,914
Member Business Real Estate	66,058	66,058	-	67,506
Subtotal	157,414	157,414	-	157,187
With An Allowance Recorded:				
Auto	56,888	56,888	12,248	34,984
Credit Card	-	-	-	9,008
Other Secured	14,483	14,483	9,483	32,595
Other Unsecured	19,972	19,972	19,797	11,800
Subtotal	91,343	91,343	41,528	88,387
Total Impaired Loans:				
Consumer	182,699	182,699	41,528	178,068
Member Business	66,058	66,058	-	67,506
Total	$ 248,757	$ 248,757	$ 41,528	$ 245,574

Interest income recognized and foregone on nonaccrual and impaired loans was immaterial for the years ended December 31, 2016 and 2015.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

NOTE 4 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment is summarized as follows at December 31:

	2016	2015
Land	$ 287,326	$ 287,326
Buildings	2,989,562	2,989,562
Furniture and Equipment	1,699,875	1,814,670
	4,976,763	5,091,558
Less: Accumulated Depreciation and Amortization	(2,148,119)	(2,051,043)
Total	$ 2,828,644	$ 3,040,515

Lease Commitments

The Credit Union is obligated under a noncancelable operating lease for office space in Nevada. The lease contains renewal options for periods from three to five years at the fair rental value at the time of renewal. Net rent expense under operating leases, included in Occupancy Expenses, was approximately $22,000 and $21,000 for the years ended December 31, 2016 and 2015, respectively.

The required minimum rental payments under the terms of this noncancelable lease at December 31, 2016 are as follows:

Year Ending December 31,	Amount
2017	$ 22,850
2018	21,450
Total	$ 44,300

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS

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

	2016	2015
Share Savings	$ 83,119,283	$ 75,883,116
Share Drafts	26,791,141	24,714,623
IRA Deposits	12,258,524	12,813,590
Other Deposits	46,881	49,457
Share and IRA Certificates	15,275,876	15,573,647
Total	$ 137,491,705	$ 129,034,433

The aggregate amounts of certificates of deposit in denominations of $250,000 or more were approximately $2,091,000 and $1,536,000 at December 31, 2016 and 2015, respectively.

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2016, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2017	$ 14,388,518
2018	599,213
2019	288,145
Total	$ 15,275,876

Member accounts are insured to at least $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 6 BORROWED FUNDS

At December 31, 2016 and 2015, the Credit Union had an available line of credit of $2,500,000 with Catalyst. The interest rates applied on any borrowing are determined on that borrowing date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2016 and 2015.

NOTE 7 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-statement of financial condition items as calculated under U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications 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 ratios (set forth in the table below) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2016, the most recent quarterly regulatory filing date, was 4.51%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

NOTE 7 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of December 31, 2016, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory frame work for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are also presented in the table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016						
Net Worth	$ 15,271,881	9.99%	$ 9,176,735	6.00%	$ 10,706,190	7.00%
Risk-Based Net Worth Requirement	$ 6,897,845	4.51%	N/A	N/A	N/A	N/A
December 31, 2015						
Net Worth	$ 13,999,678	9.78%	$ 8,590,371	6.00%	$ 10,022,100	7.00%
Risk-Based Net Worth Requirement	$ 6,700,490	4.68%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2016, 4.51%, is less than the regulatory net worth ratio of 9.99%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 8 RELATED-PARTY TRANSACTION

Included in Loans, Net at December 31, 2016 and 2015, are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of approximately $1,666,000 and $2,171,000 respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at December 31, 2016 and 2015 are approximately $931,000 and $572,000 respectively.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Statement of Financial Condition Activities

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

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

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2016	2015
Commitments to Extend Credit:		
Home Equity Lines of Credit	$ 3,338,195	$ 2,806,843
Residential Construction	252,644	551,021
Member Business	943,969	1,011,205
Unfunded Unsecured Commitments Under Lines of Credit		
Open-End Loans	376,474	387,370
Overdraft Protection	36,007	31,617
Lines of Credit	218,645	242,914
Credit Cards	-	3,441,985
Total	$ 5,165,934	$ 8,472,955

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Legal Contingencies

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

NOTE 10 FAIR VALUE

Recurring Basis

The Credit Union has no assets or liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2016 and 2015 consisted of the following:

	Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 43,584	$ 13,509

	Fair Value at December 31, 2015			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 49,815	$ 41,528

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	December 31, 2016			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 43,584	Evaluation of Collateral	Estimation of Value	Not Meaningful

	December 31, 2015			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 49,815	Evaluation of Collateral	Estimation of Value	Not Meaningful

NOTE 10 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.