



Report of Independent Auditors
and Financial Statements for

Orange County's Credit Union

December 31, 2014 and 2013

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

Members of the Supervisory Committee and Board of Directors
Orange County's Credit Union

Report on Financial Statements

We have audited the accompanying financial statements of Orange County's Credit Union, which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of income, comprehensive income (loss), members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County's Credit Union as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
March 27, 2015

**ORANGE COUNTY'S CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION**

ASSETS

	December 31,	
	2014	2013
Cash and cash equivalents	\$ 58,084,775	\$ 64,894,092
Investment securities		
Available-for-sale	365,972,459	380,387,397
Other investments	5,537,315	7,060,000
Federal Home Loan Bank stock	6,552,600	6,356,100
Loans held-for-sale	3,349,832	323,500
Loans to members, net of allowance for loan losses	686,076,277	580,448,435
Accrued interest receivable	2,410,911	2,298,240
Premises and equipment, net	20,923,230	21,977,414
NCUSIF deposit	9,589,031	9,304,890
Life insurance policies	18,885,837	18,151,282
Other assets	30,956,041	5,492,477
	\$ 1,208,338,308	\$ 1,096,693,827

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Members' share and savings accounts	\$ 1,051,323,581	\$ 965,906,140
Borrowed funds	33,750,000	25,750,000
Accrued expenses and other liabilities	8,685,788	6,111,493
	1,093,759,369	997,767,633

MEMBERS' EQUITY - substantially restricted

Regular reserve	14,248,147	14,248,147
Undivided earnings	101,217,902	90,149,051
Accumulated other comprehensive loss	(887,110)	(5,471,004)
	114,578,939	98,926,194

Total members' equity	114,578,939	98,926,194
Total liabilities and members' equity	\$ 1,208,338,308	\$ 1,096,693,827

ORANGE COUNTY'S CREDIT UNION
STATEMENTS OF INCOME

	Years Ended December 31,	
	2014	2013
INTEREST INCOME		
Interest on loans	\$ 28,553,292	\$ 26,161,761
Interest on investment securities and cash equivalents	6,146,614	5,675,110
Total interest income	<u>34,699,906</u>	<u>31,836,871</u>
INTEREST EXPENSE		
Dividends on members' share and savings accounts	2,900,428	3,069,942
Interest on borrowed funds	837,417	534,787
Total interest expense	<u>3,737,845</u>	<u>3,604,729</u>
Net interest income	30,962,061	28,232,142
RECOVERY OF PROVISION FOR LOAN LOSSES		
Net interest income after recovery of provision for loan losses	<u>(823,433)</u>	<u>(458,570)</u>
NONINTEREST INCOME		
Fees and charges	4,996,521	5,727,436
Gain on sales of loans held-for-sale	931,006	1,105,555
Interchange income	3,875,730	3,474,745
Other noninterest income	7,708,044	6,896,726
Total noninterest income	<u>17,511,301</u>	<u>17,204,462</u>
NONINTEREST EXPENSE		
Compensation and benefits	20,468,714	19,921,101
Occupancy	2,660,920	2,477,077
Operations	8,598,802	8,141,351
NCUSIF premium assessment	-	744,391
Professional and outside services	720,986	655,314
Educational and promotional	1,229,386	1,199,348
Loan servicing	1,232,710	1,939,374
Other expense	3,316,426	1,397,192
Total noninterest expense	<u>38,227,944</u>	<u>36,475,148</u>
NET INCOME	<u><u>\$ 11,068,851</u></u>	<u><u>\$ 9,420,026</u></u>

ORANGE COUNTY'S CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
NET INCOME	\$ 11,068,851	\$ 9,420,026
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized holding gain (loss) on securities available-for-sale	<u>4,583,894</u>	<u>(9,533,292)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 15,652,745</u>	<u>\$ (113,266)</u>

ORANGE COUNTY'S CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCE, December 31, 2012	\$ 14,248,147	\$ 80,729,025	\$ 4,062,288	\$ 99,039,460
Net income	-	9,420,026	-	9,420,026
Other comprehensive loss	-	-	(9,533,292)	(9,533,292)
BALANCE, December 31, 2013	14,248,147	90,149,051	(5,471,004)	98,926,194
Net income	-	11,068,851	-	11,068,851
Other comprehensive income	-	-	4,583,894	4,583,894
BALANCE, December 31, 2014	<u>\$ 14,248,147</u>	<u>\$ 101,217,902</u>	<u>\$ (887,110)</u>	<u>\$ 114,578,939</u>

ORANGE COUNTY'S CREDIT UNION
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,068,851	\$ 9,420,026
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	1,754,641	1,631,001
Amortization of premiums and discounts on investment securities, net	2,352,402	3,710,215
Accretion of deferred loan origination fees and costs, net	(110,407)	(479,320)
Recovery of provision for loan losses	(823,433)	(458,570)
Originations of loans held-for-sale	(68,764,588)	(81,539,335)
Proceeds from sale of loans	66,669,262	90,632,992
Gain loss on sale of loans	(931,006)	(1,105,555)
Gain on sale of foreclosed assets	(34,316)	-
(Gain) loss on disposal of premises and equipment	68,329	(9,173)
Increase in cash surrender value of life insurance policies	(734,555)	(751,708)
Capitalization of servicing assets	(730,785)	(833,179)
Amortization of servicing assets	259,594	294,859
Effect of changes in operating assets and liabilities		
Accrued interest receivable	(112,671)	229,384
Other assets	(25,038,689)	(486,458)
Accrued expenses and other liabilities	2,574,295	1,320,287
Net cash from operating activities	<u>(12,533,076)</u>	<u>21,575,466</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from repayments or maturity of available-for-sale securities	77,012,230	142,356,484
Purchases of available-for-sale securities	(60,365,800)	(124,210,056)
Purchases of other investments	-	(2,000,000)
Decrease in other investments	1,522,685	-
Purchase of Federal Home Loan Bank stock	(196,500)	(540,900)
Loans to members, net of principal collections	(104,316,002)	(88,027,287)
Proceeds from sale of foreclosed assets	(297,368)	-
Increase in NCUSIF deposit	(284,141)	(350,086)
Proceeds from sale of premises and equipment	166,447	14,132
Purchases of premises and equipment	<u>(935,233)</u>	<u>(1,145,537)</u>
Net cash from investing activities	<u>(87,693,682)</u>	<u>(73,903,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	85,417,441	26,356,702
Payments made on borrowed funds	-	(4,000,000)
Proceeds from borrowed funds	<u>8,000,000</u>	<u>14,000,000</u>
Net cash from financing activities	<u>93,417,441</u>	<u>36,356,702</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,809,317)	(15,971,082)
CASH AND CASH EQUIVALENTS, beginning of year	<u>64,894,092</u>	<u>80,865,174</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 58,084,775</u>	<u>\$ 64,894,092</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 3,737,845</u>	<u>\$ 3,604,729</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on available-for-sale securities	<u>\$ 4,583,894</u>	<u>\$ (9,533,292)</u>
Noncash transfer of loans to foreclosed assets	<u>\$ 378,000</u>	<u>\$ 263,052</u>

See accompanying notes.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Nature of operations - Orange County's Credit Union (the Credit Union) is a state-chartered credit union organized under the provisions of the California Credit Union Act and administratively responsible to the California Department of Business Oversight. The Credit Union's primary purpose is to promote thrift among and create a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws. The Credit Union's primary source of revenue is providing loans to its members and income earned from its investment securities.

Use of estimates in preparing financial statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimate that is particularly susceptible to change relates to the determination of the allowance for loan losses.

Significant group concentrations of credit risk - The Credit Union provides a variety of financial services to its members, most of whom live, work, or worship in Orange County, California, and Riverside County, California. The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in the state of California. The Credit Union continually monitors its operations, including the loan and investment portfolios, for potential impairment.

The Credit Union's loan portfolio primarily consists of member business, residential real estate, and consumer auto loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential and commercial real estate.

Cash and cash equivalents - For purposes of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investment securities - Debt and equity securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity or trading, including debt and equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

The Credit Union evaluates debt and equity securities for other-than-temporary impairment (OTTI) at least quarterly. This guidance specifies that (a) if the Credit Union does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell the security and it is more likely than not the Credit Union will not have to sell the security before recovery of its cost basis, the Credit Union will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income (loss) for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Credit Union's statements of income reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Credit Union intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. The credit component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected on cash flow projections. There were no securities with other-than-temporary impairment for the years ended December 31, 2014 and 2013.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Credit Union does not maintain a trading or held-to-maturity portfolio. Other investments are classified separately, stated at cost, and subject to OTTI evaluation.

Federal Home Loan Bank stock - The Credit Union is a member of the Federal Home Loan Bank (FHLB) of San Francisco. Under the FHLB's capital structure, members are required to own FHLB stock. The FHLB stock is carried at cost, because there is no quoted fair market value. FHLB stock is restricted as to purchase, sale, and redemption. The Credit Union evaluates its investment in FHLB stock for impairment on a periodic basis and has not recorded any impairment for the years ended December 31, 2014 and 2013.

Loans held-for-sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse and with servicing rights retained.

Loans to members - The Credit Union grants mortgage, member business, and consumer loans to members and purchases loan participations. A substantial portion of the loan portfolio is represented by member business, residential real estate, and consumer auto loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the real estate and economic stability of the various groups comprising the Credit Union's field of membership.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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 fees. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Loans may be charged off at an earlier date if collection of principal or interest is considered doubtful. Past-due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

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

Loan origination fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method (first mortgage loans) and the effective yield method, which approximates the interest method (all other loan types) over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

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

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

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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

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 and 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. Impairment is measured by either a historical loan loss ratio for homogeneous group loans or on a loan-by-loan basis for member business and residential real estate loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Loans are reported as troubled debt restructurings (TDR) when the Credit Union grants a concession to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include extending the maturity date or providing a lower interest rate that would be normally unavailable for a transaction of similar risk. As a result of these concessions, restructured loans are impaired because the Credit Union will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment allowances on restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value or based on the current fair value of the collateral, less cost to sell, if the loan is collateral-dependent. These impairment allowances are recognized as a specific component of the allowance for loan losses.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures. Regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Servicing - Servicing assets are recognized separately when mortgage servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently records servicing assets at amortized cost, with related amortization recorded into earnings over the estimated remaining weighted-average useful life of the servicing rights.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment, unless the impairment is permanent. Changes in valuation allowances are reported in noninterest expense on the statements of income. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. There was no impairment recognized for the years ended December 31, 2014 and 2013.

Servicing fee income for serviced loans is based on a contractual percentage of the outstanding principal and is recorded as income when earned.

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

Collateral in process of liquidation and 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.

Transfers of financial assets - Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. 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 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 maturity.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Premises and equipment - Land is carried at cost. Buildings and improvements, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 2 to 55 years. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Impairment of long-lived assets - Long-lived 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.

NCUSIF 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.

NCUSIF insurance premiums - A credit union is required to pay an annual insurance premium based on a percentage of its total insured shares as declared by the NCUA board, unless the payment is waived by the NCUA board.

Members' share and savings accounts - Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of a dividend period and is not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by management, based on an evaluation of current and future market conditions.

Members' equity - The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income taxes - The Credit Union is exempt, by statute, from federal and state income taxes.

The Credit Union is a tax-exempt entity under Internal Revenue Code 501(c)(14), but may be subject to taxation on income unrelated to the Credit Union's exempt function. State-chartered credit unions should pay income tax on certain types of net taxable income from activities that taxing authorities consider unrelated to the purpose for which the Credit Union was granted nontaxable status. The Credit Union has filed Unrelated Business Income Tax (UBIT) returns (990-T) in the past, which has resulted in no income taxes paid for the years ended December 31, 2014 and 2013. In addition, there were no material uncertain tax positions at December 31, 2014 and 2013.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

The Credit Union recognizes the tax benefit from uncertain tax positions, if any, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. The Credit Union had no unrecognized tax benefits at December 31, 2014 or 2013. During the years ended December 31, 2014 and 2013, the Credit Union recognized no interest and penalties.

A tax-exempt organization information return, unrelated business income tax return, and California income tax return are filed annually with the applicable tax jurisdictions. With few exceptions, the Credit Union is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2011.

As of December 31, 2014, the Credit Union had net operating loss carryforwards available to offset approximately \$4,220,000 of future unrelated business income taxes. The carryforwards expire in approximately 11 to 20 years. The tax asset representing the value of the net operating loss carryforwards has been offset by a full valuation allowance as of December 31, 2014 and 2013, since it is uncertain if the Credit Union's deferred tax assets will become available to offset future tax liabilities.

Pension plan - 401(k) - The Credit Union has a qualified 401(k) plan covering substantially all of its employees. The Credit Union matches a portion of employees' wage reductions, which is recorded in compensation and benefits expense in the statements of income.

Pension plan - deferred compensation plan - The Credit Union has nonqualified deferred compensation plans for members of management. Under the 457(b) nonqualified plan, the Credit Union makes discretionary contributions and employees are allowed to contribute to the plan. The Credit Union contributes 100% of funds to the 457(f) nonqualified deferred compensation plan. Gains and losses for the 457(b) nonqualified plan are recognized through the statements of financial condition with offsetting asset and liability accounts and for the 457(f) nonqualified plan through noninterest income.

Life insurance policies - Life insurance policies held as part of the Credit Union's deferred compensation plan are carried at their cash surrender value.

Advertising costs - Advertising costs are charged to operations when incurred and totaled approximately \$1,223,309 and \$1,181,941 for the years ended December 31, 2014 and 2013, respectively.

Comprehensive income (loss) - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. The Credit Union has only one component of comprehensive income (loss) for 2014 and 2013; other comprehensive income (loss) includes no reclassification adjustments.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Fair value measurements - The fair value measurement standard provides a comprehensive framework for measuring fair value and expands disclosures for assets and liabilities reported at fair value. Specifically, it sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Subsequent events - Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date. Management has reviewed subsequent events through March 27, 2015, the date the financial statements were issued, and no subsequent events occurred that require accrual or disclosure.

Reclassification - Certain amounts from the prior-year footnotes have been reclassified, in order to conform to the current-year presentation. There were no changes in previously reported net income or equity.

Note 2 - Investment Securities

The amortized cost and fair value of investment securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
U.S. government and federal agency securities	\$ 56,279,158	\$ 182,873	\$ (27,123)	\$ 56,434,908
Federal agency mortgage-backed securities	127,678,571	993,659	(559,768)	128,112,462
Federal agency collateralized mortgage obligations	99,409,567	341,474	(1,064,841)	98,686,200
Mutual funds	75,997,311	-	(664,876)	75,332,435
Municipal bonds	7,494,962	7,849	(96,357)	7,406,454
	<u>\$ 366,859,569</u>	<u>\$ 1,525,855</u>	<u>\$ (2,412,965)</u>	<u>\$ 365,972,459</u>
December 31, 2013				
U.S. government and federal agency securities	\$ 51,754,021	\$ 186,001	\$ (133,073)	\$ 51,806,949
Federal agency mortgage-backed securities	147,515,153	713,141	(2,675,394)	145,552,900
Federal agency collateralized mortgage obligations	103,402,744	443,900	(3,154,936)	100,691,708
Mutual funds	75,649,495	-	(507,140)	75,142,355
Municipal bonds	7,536,988	-	(343,503)	7,193,485
	<u>\$ 385,858,401</u>	<u>\$ 1,343,042</u>	<u>\$ (6,814,046)</u>	<u>\$ 380,387,397</u>

The mutual funds invest exclusively in U.S. government securities.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Investment Securities (continued)

At December 31, 2014, securities valued at approximately \$261,157,409 were pledged as collateral against a line of credit with the Federal Home Loan Bank. At December 31, 2014, securities carried at approximately \$21,583,088 were pledged as collateral against a line of credit with the Federal Reserve Bank (FRB). At December 31, 2013, securities valued at approximately \$287,874,819, were pledged as collateral against a line of credit with the Federal Home Loan Bank. At December 31, 2013, securities carried at approximately \$4,129,095 were pledged as collateral against a line of credit with the Federal Reserve Bank. There were no sales of securities during 2014 or 2013.

The amortized cost and fair values of investment securities available-for-sale at December 31, 2014, 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.

	Amortized Cost	Fair Value
Due in one year or less	\$ 6,533,244	\$ 6,572,110
Due in one year through five years	<u>57,240,876</u>	<u>57,269,252</u>
	63,774,120	63,841,362
Federal agency mortgage-backed securities	127,678,571	128,112,462
Federal agency collateralized mortgage obligations	99,409,567	98,686,200
Mutual funds	<u>75,997,311</u>	<u>75,332,435</u>
	<u>\$ 366,859,569</u>	<u>\$ 365,972,459</u>

Temporarily impaired investment securities - Information pertaining to available-for-sale securities with gross unrealized losses at December 31, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, is as follows:

	<u>Less Than 12 Months</u>		<u>Greater Than 12 Months</u>	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2014				
U.S. government and federal agency securities	\$ (27,123)	\$ 15,745,760	\$ -	\$ -
Federal agency mortgage-backed securities	(95,959)	26,418,219	(463,809)	33,401,920
Federal agency collateralized mortgage obligations	(196,598)	31,863,608	(868,243)	32,599,567
Mutual funds	-	-	(664,876)	75,332,435
Municipal bonds	<u>(6,703)</u>	<u>1,785,044</u>	<u>(89,654)</u>	<u>4,929,313</u>
	<u>\$ (326,383)</u>	<u>\$ 75,812,631</u>	<u>\$ (2,086,582)</u>	<u>\$ 146,263,235</u>
December 31, 2013				
U.S. government and federal agency securities	\$ (133,073)	\$ 17,788,322	\$ -	\$ -
Federal agency mortgage-backed securities	(2,373,800)	93,754,337	(301,594)	6,975,040
Federal agency collateralized mortgage obligations	(2,782,366)	57,820,625	(372,570)	7,374,401
Mutual funds	(507,140)	75,649,495	-	-
Municipal bonds	<u>(343,503)</u>	<u>7,193,483</u>	<u>-</u>	<u>-</u>
	<u>\$ (6,139,882)</u>	<u>\$ 252,206,262</u>	<u>\$ (674,164)</u>	<u>\$ 14,349,441</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 2 - Investment Securities (continued)

U.S. government and federal agency - As of December 31, 2014 and 2013, the investment portfolio included 8 securities in an unrealized loss position, none of which had unrealized losses that had existed for longer than one year.

Federal agency mortgage-backed securities and collateralized mortgage obligations - As of December 31, 2014, the investment portfolio included 67 securities in an unrealized loss position, 30 of which had unrealized losses that had existed for longer than one year. As of December 31, 2013, the investment portfolio included 82 securities in an unrealized loss position, 7 of which had unrealized losses that had existed for longer than one year.

Municipal bonds - As of December 31, 2014, the investment portfolio included 9 securities in an unrealized loss position, 7 of which had unrealized losses that had existed for longer than one year. As of December 31, 2013, the investment portfolio included 10 securities in an unrealized loss position, none of which had unrealized losses that had existed for longer than one year.

Mutual funds - As of December 31, 2014, the mutual fund portfolio included an unrealized loss position due to changes in net asset value (NAV) that existed for longer than one year. As of December 31, 2013, the mutual fund portfolio included an unrealized loss position due to changes in NAV that existed for less than one year.

The Credit Union assesses for credit impairment using a cash flow model. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these 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.

Other-than-temporary impairment - The Credit Union routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine whether an OTTI has occurred. Various inputs to the economic model are used to determine whether an unrealized loss is other than temporary. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities; therefore, no OTTI is deemed necessary or reported for the years ended December 31, 2014 and 2013.

Investment risk - Investment securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial condition.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 2 - Investment Securities (continued)

Other investments - Other investment securities at December 31 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ 4,200,000	\$ 6,700,000
Investment in credit union service organizations	<u>1,337,315</u>	<u>360,000</u>
	<u>\$ 5,537,315</u>	<u>\$ 7,060,000</u>

Note 3 - Loans to Members

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

	<u>2014</u>	<u>2013</u>
Member business		
Real estate	<u>\$ 126,551,324</u>	<u>\$ 123,918,743</u>
Residential real estate		
First mortgage	331,414,071	260,640,488
Second mortgage	<u>42,797,775</u>	<u>42,018,055</u>
	<u>374,211,846</u>	<u>302,658,543</u>
Consumer		
Auto	153,423,256	128,668,957
Unsecured	34,470,268	30,740,665
Other secured	2,385,934	2,196,613
Member share overdrafts	<u>782,691</u>	<u>1,065,511</u>
	191,062,149	162,671,746
Total loans	691,825,319	589,249,032
Net deferred loan origination fees and costs	418,440	(261,785)
Allowance for loan losses	<u>(6,167,482)</u>	<u>(8,538,812)</u>
	<u>\$ 686,076,277</u>	<u>\$ 580,448,435</u>

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

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

The composition of loan participations purchased at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Member business - real estate	\$ 8,816,390	\$ 14,454,904
Residential real estate - first mortgage	<u>154,578</u>	<u>178,778</u>
	<u>\$ 8,970,968</u>	<u>\$ 14,633,682</u>

In 2014 and 2013, the Credit Union sold loan participations that are secured by commercial property. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the member business - real estate loan segment above totaled \$12,124,341 and \$9,226,943 at December 31, 2014 and 2013, respectively.

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the years ended December 31 are as follows:

	<u>Member Business</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
December 31, 2014				
Allowance for loan losses				
Beginning balance	\$ 2,761,796	\$ 3,986,353	\$ 1,790,663	\$ 8,538,812
Recovery of provision for loan losses	(436,550)	(882,326)	495,443	(823,433)
Charge-offs	(715,442)	(206,613)	(1,077,084)	(1,999,139)
Recoveries	<u>52,130</u>	<u>71,868</u>	<u>327,244</u>	<u>451,242</u>
Ending balance	<u>\$ 1,661,934</u>	<u>\$ 2,969,282</u>	<u>\$ 1,536,266</u>	<u>\$ 6,167,482</u>
Ending balance individually evaluated for impairment	\$ 1,161,220	\$ 1,450,102	\$ -	\$ 2,611,322
Ending balance collectively evaluated for impairment	<u>500,714</u>	<u>1,519,180</u>	<u>1,536,266</u>	<u>3,556,160</u>
	<u>\$ 1,661,934</u>	<u>\$ 2,969,282</u>	<u>\$ 1,536,266</u>	<u>\$ 6,167,482</u>
Loans to members				
Ending balance individually evaluated for impairment	\$ 11,657,795	\$ 12,896,607	\$ -	\$ 24,554,402
Ending balance collectively evaluated for impairment	<u>114,893,529</u>	<u>361,315,239</u>	<u>191,062,149</u>	<u>667,270,917</u>
	<u>\$ 126,551,324</u>	<u>\$ 374,211,846</u>	<u>\$ 191,062,149</u>	<u>\$ 691,825,319</u>

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

December 31, 2013	<u>Member Business</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses				
Beginning balance	\$ 2,821,506	\$ 6,295,991	\$ 1,685,965	\$ 10,803,462
Recovery of provision for loan losses	369,070	(1,839,953)	1,012,313	(458,570)
Charge-offs	(428,780)	(641,686)	(1,238,781)	(2,309,247)
Recoveries	-	172,001	331,166	503,167
Ending balance	<u>\$ 2,761,796</u>	<u>\$ 3,986,353</u>	<u>\$ 1,790,663</u>	<u>\$ 8,538,812</u>
Ending balance individually evaluated for impairment	\$ 2,228,101	\$ 2,014,707	\$ -	\$ 4,242,808
Ending balance collectively evaluated for impairment	<u>533,695</u>	<u>1,971,646</u>	<u>1,790,663</u>	<u>4,296,004</u>
	<u>\$ 2,761,796</u>	<u>\$ 3,986,353</u>	<u>\$ 1,790,663</u>	<u>\$ 8,538,812</u>
Loans to members				
Ending balance individually evaluated for impairment	\$ 13,867,054	\$ 14,544,969	\$ -	\$ 28,412,023
Ending balance collectively evaluated for impairment	<u>110,051,689</u>	<u>288,113,574</u>	<u>162,671,746</u>	<u>560,837,009</u>
	<u>\$ 123,918,743</u>	<u>\$ 302,658,543</u>	<u>\$ 162,671,746</u>	<u>\$ 589,249,032</u>

Member business loan credit quality indicators - As part of the ongoing monitoring of the credit quality of the Credit Union's member business loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of member business loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the market area.

Management regularly reviews and risk grades member business loans in the Credit Union's portfolio. The risk rating system allows management to classify asset by credit quality in accordance with Credit Union policy. The Credit Union's risk grading definitions are as follows:

Pass - Financial condition of the borrower at minimum will have low to moderate leverage and adequate liquidity with stable to slightly declining trends. Cash flow will be no less than a 1.20X debt service coverage ratio (DSCR) and loan payments will be current. Collateral will have a loan-to-value at policy maximum or better. The industry outlook at worst could have an outlook that is uncertain.

Special mention - Financial condition of the borrower may be marginal with liquidity and/or equity trends declining. Cash flows may be below the Credit Union's policy minimums or negative and loan payments will not exceed 59 days past due. Collateral may have a loan-to-value exceeding the Credit Union's policy of 80%. The industry outlook would be in a declining environment.

Substandard - Financial condition of the borrower shows negative trends with highly leveraged loans, poor liquidity, and equity. Cash flows will be negative and loan payments will not exceed 89 days past due. Collateral will have a loan-to-value exceeding the Credit Union's policy of 80% with minimal equity. The industry outlook would be showing problems at this point.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

Doubtful - Financial condition of the borrower will be a negative net worth position. Cash flows could be significantly negative and loan payments could be more than 90 days past due. Legal action will be starting at this point. Collateral will have a loan-to-value exceeding the Credit Union's policy with little to no equity. The industry outlook would be fragmented at this point.

Loss - Loans in this classification are considered uncollectible and of such little value that their continuance as loans is not warranted.

Member business credit exposure - The member business loan credit risk profile by internally assigned risk ratings by class at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Real estate		
Pass	\$ 114,893,528	\$ 110,051,690
Special mention	5,346,991	5,393,986
Substandard	5,017,430	5,848,692
Doubtful	<u>1,293,375</u>	<u>2,624,375</u>
	<u>\$ 126,551,324</u>	<u>\$ 123,918,743</u>

Residential real estate and consumer loan credit quality indicators - As part of the ongoing monitoring of the credit quality of the Credit Union's residential real estate and consumer loan portfolios, management tracks certain credit quality indicators based on whether these loans are performing or nonperforming. To differentiate these categories, management tracks the loan's performance and when the loan becomes 60 days past due, the loan is classified as a nonperforming loan.

Residential real estate credit exposure - The residential real estate credit risk profile based on payment activity by class at December 31 is as follows:

	<u>First Mortgage</u>	<u>Second Mortgage</u>	<u>Total</u>
2014			
Performing	\$ 329,216,823	\$ 42,608,352	\$ 371,825,175
Nonperforming	<u>2,197,248</u>	<u>189,423</u>	<u>2,386,671</u>
	<u>\$ 331,414,071</u>	<u>\$ 42,797,775</u>	<u>\$ 374,211,846</u>
2013			
Performing	\$ 257,699,368	\$ 41,672,098	\$ 299,371,466
Nonperforming	<u>2,941,120</u>	<u>345,957</u>	<u>3,287,077</u>
	<u>\$ 260,640,488</u>	<u>\$ 42,018,055</u>	<u>\$ 302,658,543</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

Member business credit exposure - The member business loan credit risk profile based on payment activity by class at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Performing	\$ 123,690,879	\$ 123,571,371
Nonperforming	<u>2,860,445</u>	<u>347,372</u>
	<u>\$ 126,551,324</u>	<u>\$ 123,918,743</u>

Consumer credit exposure - The consumer loan credit risk profile based on payment activity by class at December 31 is as follows:

	<u>Auto</u>	<u>Unsecured</u>	<u>Other Secured</u>	<u>Member Share Overdrafts</u>	<u>Total</u>
2014					
Performing	\$ 153,313,625	\$ 34,392,558	\$ 2,385,934	\$ 782,691	\$ 190,874,808
Nonperforming	<u>109,631</u>	<u>77,710</u>	<u>-</u>	<u>-</u>	<u>187,341</u>
	<u>\$ 153,423,256</u>	<u>\$ 34,470,268</u>	<u>\$ 2,385,934</u>	<u>\$ 782,691</u>	<u>\$ 191,062,149</u>
2013					
Performing	\$ 128,473,454	\$ 30,530,875	\$ 2,196,613	\$ 1,065,511	\$ 162,266,453
Nonperforming	<u>195,503</u>	<u>209,790</u>	<u>-</u>	<u>-</u>	<u>405,293</u>
	<u>\$ 128,668,957</u>	<u>\$ 30,740,665</u>	<u>\$ 2,196,613</u>	<u>\$ 1,065,511</u>	<u>\$ 162,671,746</u>

Information concerning impaired loans by loan class as of December 31 is as follows:

	<u>Recorded Investment Balance</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
2014					
With no specific reserve recorded					
Member business					
Real estate	\$ 451,918	\$ 451,918	\$ -	\$ 3,905,245	\$ 25,281
Residential real estate					
First mortgage	3,508,447	3,508,447	-	2,458,452	139,033
Second mortgage	<u>799,804</u>	<u>799,804</u>	<u>-</u>	<u>939,235</u>	<u>31,814</u>
	<u>\$ 4,760,169</u>	<u>\$ 4,760,169</u>	<u>\$ -</u>	<u>\$ 7,302,932</u>	<u>\$ 196,128</u>
With specific reserve recorded					
Member business					
Real estate	\$ 11,205,877	\$ 11,205,877	\$ 1,161,220	\$ 8,857,180	\$ 626,876
Residential real estate					
First mortgage	7,970,671	7,970,671	1,280,320	9,641,784	315,862
Second mortgage	<u>617,685</u>	<u>617,685</u>	<u>169,782</u>	<u>681,317</u>	<u>24,570</u>
	<u>\$ 19,794,233</u>	<u>\$ 19,794,233</u>	<u>\$ 2,611,322</u>	<u>\$ 19,180,281</u>	<u>\$ 967,308</u>
Total					
Member business	\$ 11,657,795	\$ 11,657,795	\$ 1,161,220	\$ 12,762,425	\$ 652,157
Residential real estate	<u>12,896,607</u>	<u>12,896,607</u>	<u>1,450,102</u>	<u>13,720,788</u>	<u>511,279</u>
	<u>\$ 24,554,402</u>	<u>\$ 24,554,402</u>	<u>\$ 2,611,322</u>	<u>\$ 26,483,213</u>	<u>\$ 1,163,436</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

	<u>Recorded Investment Balance</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
2013					
With no specific reserve recorded					
Member business					
Real estate	\$ 7,358,571	\$ 7,358,571	\$ -	\$ 5,580,605	\$ 385,256
Residential real estate					
First mortgage	1,408,457	1,408,457	-	3,206,045	55,489
Second mortgage	<u>1,078,666</u>	<u>1,078,666</u>	<u>-</u>	<u>1,016,045</u>	<u>45,964</u>
	<u>\$ 9,845,694</u>	<u>\$ 9,845,694</u>	<u>\$ -</u>	<u>\$ 9,802,695</u>	<u>\$ 486,709</u>
With specific reserve recorded					
Member business					
Real estate	\$ 6,508,483	\$ 6,508,483	\$ 2,228,101	\$ 9,192,996	\$ 226,062
Residential real estate					
First mortgage	11,312,897	11,312,897	1,906,540	12,225,426	421,741
Second mortgage	<u>744,949</u>	<u>744,949</u>	<u>108,167</u>	<u>843,201</u>	<u>33,116</u>
	<u>\$ 18,566,329</u>	<u>\$ 18,566,329</u>	<u>\$ 4,242,808</u>	<u>\$ 22,261,623</u>	<u>\$ 680,919</u>
Total					
Member business	\$ 13,867,054	\$ 13,867,054	\$ 2,228,101	\$ 14,773,601	\$ 611,318
Residential real estate	<u>14,544,969</u>	<u>14,544,969</u>	<u>2,014,707</u>	<u>17,290,717</u>	<u>556,310</u>
	<u>\$ 28,412,023</u>	<u>\$ 28,412,023</u>	<u>\$ 4,242,808</u>	<u>\$ 32,064,318</u>	<u>\$ 1,167,628</u>

A summary of nonaccrual loans by class at December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Member business		
Real estate	\$ 2,860,445	\$ 1,218,525
Residential real estate		
First mortgage	2,197,248	2,941,120
Second mortgage	189,423	345,957
Consumer		
Auto	109,631	195,503
Unsecured	<u>77,710</u>	<u>209,790</u>
	<u>\$ 5,434,457</u>	<u>\$ 4,910,895</u>
Forgone interest on nonaccrual loans	<u>\$ 226,910</u>	<u>\$ 244,102</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

A summary of past-due loans by class as of December 31 is as follows:

	30 - 59 Days	60 - 90 Days	Greater Than 90 Days	Total Past Due	Current	Total Loans to Members
2014						
Member business						
Real estate	\$ -	\$ 745,127	\$ 2,115,318	\$ 2,860,445	\$ 123,690,879	\$ 126,551,324
Residential real estate						
First mortgage	-	-	2,197,248	2,197,248	329,216,823	331,414,071
Second mortgage	91,799	105,237	84,186	281,222	42,516,553	42,797,775
Consumer						
Auto	603,895	68,527	41,104	713,526	152,709,730	153,423,256
Unsecured	148,044	23,089	54,621	225,754	34,244,514	34,470,268
Other secured	444	-	-	444	2,385,490	2,385,934
Member share overdrafts	-	-	-	-	782,691	782,691
	<u>\$ 844,182</u>	<u>\$ 941,980</u>	<u>\$ 4,492,477</u>	<u>\$ 6,278,639</u>	<u>\$ 685,546,680</u>	<u>\$ 691,825,319</u>
2013						
Member business						
Real estate	\$ 558,477	\$ 871,153	\$ 347,372	\$ 1,777,002	\$ 122,141,741	\$ 123,918,743
Residential real estate						
First mortgage	548,136	-	2,941,120	3,489,256	257,151,232	260,640,488
Second mortgage	272,036	301,284	44,673	617,993	41,400,062	42,018,055
Consumer						
Auto	854,499	84,730	110,773	1,050,002	127,618,955	128,668,957
Unsecured	154,604	98,855	110,935	364,394	30,376,271	30,740,665
Other secured	-	-	-	-	2,196,613	2,196,613
Member share overdrafts	-	-	-	-	1,065,511	1,065,511
	<u>\$ 2,387,752</u>	<u>\$ 1,356,022</u>	<u>\$ 3,554,873</u>	<u>\$ 7,298,647</u>	<u>\$ 581,950,385</u>	<u>\$ 589,249,032</u>

The Credit Union had no loans that were greater than 60 days past due for which the loans were accruing interest at December 31, 2014 or 2013.

A summary of loan troubled debt restructurings by class that were granted during the year ended December 31 is as follows:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
2014			
Residential real estate			
Second mortgage	3	\$ 432,502	\$ 432,502
Consumer			
Auto	13	124,686	124,686
Unsecured	5	13,002	13,002
	<u>21</u>	<u>\$ 570,190</u>	<u>\$ 570,190</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 3 - Loans to Members (continued)

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
2013			
Member business			
Real estate	2	\$ 3,320,260	\$ 3,320,260
Residential real estate			
First mortgage	3	885,691	885,691
Second mortgage	6	462,338	462,338
Consumer			
Auto	30	314,157	314,157
	<u>41</u>	<u>\$ 4,982,446</u>	<u>\$ 4,982,446</u>

Management has defined that a troubled debt restructured loan is considered in default when it becomes 60 days past due. A summary of loan troubled debt restructurings by class that were granted and subsequently defaulted during the years ended December 31 is as follows:

	Number of Contracts	Recorded Investment
2014		
Consumer		
Unsecured	1	\$ 4,980
2013		
Residential real estate		
Second mortgage	1	\$ 73,089
Consumer		
Auto	3	\$ 52,911

The Credit Union does not have any unfunded commitments to members whose loans have been modified in a troubled debt restructuring.

Note 4 - Loan Servicing

The Credit Union sells first mortgage residential real estate loans on the secondary market and retains the servicing. Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balance of first mortgage residential real estate loans serviced for others was \$243,744,838 and \$198,528,652 at December 31, 2014 and 2013, respectively.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 4 - Loan Servicing (continued)

Changes in the balance of mortgage servicing rights (MSRs), which are reported in other assets, were as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 1,433,226	\$ 894,906
Additions	730,785	833,179
Amortization	<u>(259,594)</u>	<u>(294,859)</u>
Balance, end of year	<u>\$ 1,904,417</u>	<u>\$ 1,433,226</u>

At December 31, 2014, the expected weighted-average life of the Credit Union's MSRs was 7 years. Projected amortization expense for the gross carrying value of the MSRs at December 31 is estimated to be as follows:

2015	\$ 309,536
2016	281,396
2017	253,256
2018	225,116
2019	196,976
Thereafter	<u>638,137</u>
Gross carrying value of the MSR	1,904,417
Less valuation allowance	<u>-</u>
Net carrying value of the MSR	<u>\$ 1,904,417</u>

Servicing fee income earned in connection with MSR included in the accompanying financial statements as a component of noninterest income was \$470,931 and \$528,531 for the years ended December 31, 2014 and 2013, respectively. Late fees related for the years ended December 31, 2014 and 2013, were not material.

The assumptions used in determining the projected amortization expense, such as prepayment speeds, are inherently subject to significant fluctuations, primarily due to the effect that changes in mortgage rates have on loan prepayment experience. Accordingly, any projection of MSR amortization in future periods is limited by the conditions that exist at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

The Credit Union performs an annual valuation of its MSR to assess the MSR for impairment. This analysis is based on certain key assumptions, including prepayment speeds, discount rate, and annual inflation. Prepayment speeds (PSAs) ranged from 160 to 199 as of December 31, 2014, and 115 to 163 as of December 31, 2013. The discount rate and annual inflation rate as of December 31, 2014, was 8.5% and 2.2%, respectively. The discount rate and annual inflation rate as of December 31, 2013, was 8.5% and 2.3%, respectively.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 5 - Premises and Equipment

Premises and equipment at December 31 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 4,853,742	\$ 4,853,742
Buildings and improvements	18,137,726	18,025,507
Furniture and equipment	3,907,464	3,828,169
Computer equipment	6,521,756	5,874,180
Leasehold improvements	<u>3,470,006</u>	<u>3,540,310</u>
	36,890,694	36,121,908
Accumulated depreciation and amortization	<u>(15,967,464)</u>	<u>(14,144,494)</u>
	<u>\$ 20,923,230</u>	<u>\$ 21,977,414</u>

Depreciation and amortization expense amounted to \$1,754,641 and \$1,631,001 for the years ended December 31, 2014 and 2013, respectively.

Note 6 - Lease Commitments

The Credit Union leases certain office facilities under noncancelable operating leases expiring in various years through August 2018. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Future minimum lease payments under these leases are as follows:

2015	\$ 612,000
2016	387,000
2017	306,000
2018	<u>122,000</u>
	<u>\$ 1,427,000</u>

Minimum lease payments exclude rentals under renewal options, which, as of December 31, 2013, are not reasonably assured of being exercised.

Rent expense was approximately \$791,884 and \$733,793 for the years ended December 31, 2014 and 2013, respectively.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 7 - Members' Share and Savings Accounts

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

	<u>2014</u>	<u>2013</u>
Regular share accounts	\$ 277,649,375	\$ 257,788,830
Share draft accounts	202,136,022	162,178,971
Money market accounts	330,301,841	310,954,276
IRA share accounts	<u>8,406,816</u>	<u>8,726,812</u>
Total share accounts	<u>818,494,054</u>	<u>739,648,889</u>
Share and IRA certificates		
0.00% to 0.99%	174,899,981	177,160,504
1.00% to 1.99%	30,154,292	22,618,345
2.00% to 2.99%	21,021,731	15,300,487
3.00% to 3.99%	<u>6,753,523</u>	<u>11,177,915</u>
Total certificate accounts	<u>232,829,527</u>	<u>226,257,251</u>
Total members' share and savings accounts	<u><u>\$ 1,051,323,581</u></u>	<u><u>\$ 965,906,140</u></u>

Scheduled maturities of share and IRA certificates at December 31 are as follows:

2015	\$ 172,241,315
2016	23,940,885
2017	13,476,127
2018	8,158,896
2019	15,007,966
Thereafter	<u>4,338</u>
	<u><u>\$ 232,829,527</u></u>

The aggregate amounts of members' share and savings accounts in denominations of \$250,000 or more were approximately \$13,493,900 and \$7,446,400 at December 31, 2014 and 2013, respectively.

Overdrawn share accounts reclassified to consumer loans totaled \$782,691 and \$1,065,511 at December 31, 2014 and 2013, respectively.

The NCUSIF insures members' shares and certain individual retirement accounts up to \$250,000.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 8 - Lines of Credit and Borrowed Funds

The Credit Union maintains lines of credit (LOC) with the FHLB of San Francisco and the FRB of San Francisco at December 31 are as follows:

2014	<u>FHLB</u>	<u>FRB</u>	<u>Total Lines</u>
Total available	\$ 543,707,880	\$ 21,583,089	\$ 565,290,969
Borrowed	<u>(33,750,000)</u>	<u>-</u>	<u>(33,750,000)</u>
Remaining available	<u>\$ 509,957,880</u>	<u>\$ 21,583,089</u>	<u>\$ 531,540,969</u>
Term	LOC	LOC	
Weighted-average rate of advances outstanding	2.48%	N/A	
2013			
Total available	\$ 496,893,074	\$ 4,052,614	\$ 500,945,688
Borrowed	<u>(25,750,000)</u>	<u>-</u>	<u>(25,750,000)</u>
Remaining available	<u>\$ 471,143,074</u>	<u>\$ 4,052,614</u>	<u>\$ 475,195,688</u>
Term	LOC	LOC	
Weighted-average rate of advances outstanding	2.64%	N/A	

The FHLB line is collateralized by available-for-sale securities held in safekeeping by the FHLB and certain member business real estate and residential real estate first and second mortgage loans. The outstanding principal balance of real estate loans pledged as collateral to the FHLB totaled approximately \$441,395,778 and \$339,568,000 at December 31, 2014 and 2013, respectively. The FRB line of credit is collateralized by federal agency securities held in safekeeping by the FRB. Future advances under these lines would be at then-existing rates.

Borrowed funds at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
FHLB, fixed rate (2.48% and 2.64% weighted-average rate at December 31, 2014 and 2013, respectively), secured, with various maturity dates	<u>\$ 33,750,000</u>	<u>\$ 25,750,000</u>

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 8 - Lines of Credit and Borrowed Funds (continued)

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

2015	\$ 3,750,000
2016	5,750,000
2017	2,750,000
2018	6,250,000
2019	2,000,000
Thereafter	<u>13,250,000</u>
	<u><u>\$ 33,750,000</u></u>

Note 9 - Off-Balance-Sheet 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, which include lines of credit, credit cards, home equity lines, and overdraft protection commitments 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.

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2014</u>	<u>2013</u>
Commitments to extend credit		
Home equity lines of credit	\$ 36,945,990	\$ 36,848,213
Credit cards	53,227,335	41,301,830
Line-of-credit loans	28,902,591	28,343,371
Overdraft protection program commitments	5,275,675	5,739,954
Member business loan commitments	<u>801,456</u>	<u>919,971</u>
	<u><u>\$ 125,153,047</u></u>	<u><u>\$ 113,153,339</u></u>

Note 9 - Off-Balance-Sheet Activities (continued)

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 members. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Note 10 - Contingencies and Commitments

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

Loans sold with recourse - The Credit Union has implemented a mortgage program whereby some of its mortgage loans are sold on the secondary market. The Credit Union is subject to recourse on the loans sold under certain conditions as disclosed in the loan purchase agreements with the funding corporations. The outstanding principal balance of loans subject to possible recourse was \$243,744,838 and \$198,528,652 at December 31, 2014 and 2013, respectively. There were six loans with an aggregate principal balance of \$1,748,750 that were repurchased with no reserves recorded for the year ended December 31, 2014. There was one loan with a principal balance of \$123,750 that was repurchased with no reserves recorded for the year ended December 31, 2013.

Note 11 - Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under 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.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 11 - Capital Requirements (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined in the regulations) to assets and risk-based net worth (RBNW) ratios (as defined). As of December 31, 2014, the Credit Union's RBNW requirement was 6.03%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that, as of December 31, 2014, the Credit Union meets all capital adequacy requirements to which it is subject. No conditions or events have occurred since the calculation date that management believes have changed the Credit Union's category.

As of December 31, 2014, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for Prompt Corrective Action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%. The Credit Union's actual capital amounts and ratios as of December 31, 2014, are also presented in the table:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Net worth	\$ 115,466,045	9.75%	\$ 72,459,543	6.00%	\$ 84,536,134	7.00%
Risk-based net worth requirement	\$ 72,821,841	6.03%	N/A	N/A	N/A	N/A
December 31, 2013						
Net worth	\$ 104,397,200	9.52%	\$ 65,741,847	6.00%	\$ 76,698,822	7.00%
Risk-based net worth requirement	\$ 63,879,161	5.83%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 6.03% is less than the net worth ratio of 9.75%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of the three month-end balances over the calendar quarter option, as permitted by regulation.

Note 12 - Related Party Transactions

In the normal course of business, the Credit Union extends credit to members of the board of directors, supervisory committee members, and executive officers. The aggregate loans to related parties at December 31, 2014 and 2013, were approximately \$4,045,008 and \$3,912,828, respectively. Deposits from related parties at December 31, 2014 and 2013, amounted to approximately \$1,761,355 and \$1,589,133, respectively.

Note 13 - 401(k) Retirement Plan

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union matches a portion of employees' wage reductions. Total expense under this plan was \$986,662 and \$981,469 for the years ended December 31, 2014 and 2013, respectively.

Note 14 - Deferred Compensation Plans

The Credit Union has a 457(b) nonqualified deferred compensation plan for members of management. The Credit Union makes discretionary contributions to the plan and employees are allowed to contribute to the plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

The Credit Union has a 457(f) nonqualified deferred compensation plan for members of management. The Credit Union contributes 100% of the funds to this plan. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

The cash surrender value of life insurance policies pertaining to these plans were \$18,885,837 and \$18,151,282 as of December 31, 2014 and 2013, respectively. The deferred compensation payable, included in accrued expenses and other liabilities on the statements of financial condition, was \$2,227,241 and \$1,654,265 as of December 31, 2014 and 2013, respectively. Deferred compensation expense was \$557,358 and \$552,858 for the years ended December 31, 2014 and 2013, respectively.

Note 15 - Fair Values of Financial Instruments

Determination of fair value - The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ORANGE COUNTY'S CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

Note 15 - Fair Values of Financial Instruments (continued)

Fair value measurements are to focus on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value hierarchy - The Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgments or estimation.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value estimation.

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures for financial instruments:

Cash and cash equivalents - The carrying amounts of cash and cash equivalents approximate their fair value.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 15 - Fair Values of Financial Instruments (continued)

Available-for-sale securities - The fair value of investment securities is the fair market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Other investment securities - The carrying amounts of other investment securities approximate their fair value.

Federal Home Loan Bank stock - The carrying amount of the FHLB stock approximates the fair value.

Loans held-for-sale - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair market value in the aggregate. Fair value is estimated based on quoted market prices.

Loans to members - For variable-rate loans that reprice frequently and have no significant change in the credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics; or are based on estimated cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair market values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral value, where appropriate.

Accrued interest receivable - The carrying amounts of accrued interest receivable approximates its fair value.

Members' share and savings accounts - The fair values disclosed for shares, drafts, regular savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Borrowed funds - The carrying amounts of borrowed funds maturing within 90 days approximate their fair values. Fair values of other borrowed funds are estimated using discounted cash flow analyses based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 15 - Fair Values of Financial Instruments (continued)

Commitments to extend credit - The estimated fair value of the commitments to extend credit represents the potential unfunded commitments under such lines of credit.

Assets and liabilities measured at fair value on a recurring basis - Assets and liabilities measured at fair value on a recurring basis at December 31, are summarized as follows:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
December 31, 2014				
U.S. government and federal agency securities	\$ -	\$ 56,434,908	\$ -	\$ 56,434,908
Federal agency mortgage-backed securities	-	128,112,462	-	128,112,462
Federal agency collateralized mortgage obligations	-	98,686,200	-	98,686,200
Mutual funds	75,332,435	-	-	75,332,435
Municipal bonds	-	7,406,454	-	7,406,454
December 31, 2013				
U.S. government and federal agency securities	\$ -	\$ 51,806,949	\$ -	\$ 51,806,949
Federal agency mortgage-backed securities	-	145,552,900	-	145,552,900
Federal agency collateralized mortgage obligations	-	100,691,708	-	100,691,708
Mutual funds	75,142,355	-	-	75,142,355
Municipal bonds	-	7,193,485	-	7,193,485

Assets and liabilities measured at fair value on a nonrecurring basis - Under certain circumstances, the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the statements of financial condition by caption and by level in the fair value hierarchy at December 31 for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014			
Impaired loans with an allowance, net	\$ -	\$ -	\$ 17,182,911
December 31, 2013			
Impaired loans with an allowance, net	\$ -	\$ -	\$ 14,323,521

ORANGE COUNTY'S CREDIT UNION
NOTES TO FINANCIAL STATEMENTS

Note 15 - Fair Values of Financial Instruments (continued)

Qualitative information about Level 3 fair value measurements - The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the year ending December 31, 2014, along with the valuation techniques used, are shown in the following table:

	Recorded Amount at December 31, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)*
Impaired loans	\$ 24,554,402	Various	Adjustment to valuation	10%-30% (25%)

* Discount to appraisal value. Amounts are estimated and carrying amount is generally lower than estimated fair value.

The carrying values and estimated fair values of the Credit Union's financial instruments at December 31 are as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 58,084,775	\$ 58,085,000	\$ 64,894,092	\$ 64,894,000
Investment securities				
Available-for-sale	365,972,459	365,972,000	380,387,397	380,387,000
Other investments	5,537,315	5,537,000	7,060,000	7,060,000
FHLB stock	6,552,600	6,553,000	6,356,100	6,356,000
Loans held-for-sale	3,349,832	3,350,000	323,500	324,000
Loans to members, net of allowance for loan losses	686,076,277	687,522,000	580,448,435	574,832,000
Accrued interest receivable	2,410,911	2,411,000	2,298,240	2,298,000
Financial liabilities				
Members' share and savings accounts				
Share, drafts, and money market accounts	\$ 818,494,054	\$ 818,494,000	\$ 739,648,889	\$ 739,649,000
Certificate accounts	232,829,527	228,283,000	226,257,251	224,430,000
Borrowed funds	33,750,000	34,617,000	25,750,000	26,086,000