United Community Bancorp
Form 10-Q
May 15, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _____________

Commission file number: **0-54876**

United Community Bancorp
(Exact name of registrant as specified in its charter)

Indiana	**80-0694246**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
92 Walnut Street, Lawrenceburg, Indiana	47025
(Address of principal executive offices)	(Zip Code)

(812) 537-4822

(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ¨	Accelerated filer ¨
Non-Accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company x
	Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of May 9, 2017, there were 4,203,972 shares of the registrant’s common stock issued and outstanding.

UNITED COMMUNITY BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	unaudited 3/31/2017	June 30, 2016
Assets		
Cash and due from banks	$ 2,059	$ 2,253
Interest-earning deposits in other financial institutions	33,476	26,727
Cash and cash equivalents	35,535	28,980
Investment securities:		
Securities available for sale - at estimated market value	80,216	77,725
Securities held to maturity - at amortized cost	40,531	40,763
Mortgage-backed securities available for sale - at estimated market value	70,931	74,727
Investment securities	191,678	193,215
Loans receivable, net	280,434	267,138
Loans available for sale	995	783
Property and equipment, net	6,655	6,877
Federal Home Loan Bank stock, at cost	3,527	3,527
Accrued interest receivable:		
Loans	866	872
Investments and mortgage-backed securities	1,016	1,010
Other real estate owned, net	15	70
Cash surrender value of life insurance policies	17,224	17,241
Deferred income taxes	3,578	2,073
Prepaid expenses and other assets	1,319	1,469
Goodwill	2,522	2,522
Intangible asset	222	312
Total assets	$ 545,586	$ 526,089
Liabilities and Stockholders' Equity		
Deposits	$ 463,302	$ 438,885

Advances from FHLB	8,833	12,000
Accrued interest on deposits	12	12
Accrued interest on FHLB advance	9	10
Advances from borrowers for payment of insurance and taxes	782	608
Accrued expenses and other liabilities	2,659	4,120
Total liabilities	475,597	455,635
Stockholders' equity		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value; 25,000,000 shares authorized, 5,149,564 shares issued at March 31, 2017 and June 30, 2016; 4,204,910 and 4,198,143 shares outstanding at March 31, 2017 and June 30, 2016, respectively.	51	51
Additional paid-in capital	51,561	51,320
Retained earnings	34,231	32,484
Less shares purchased for stock plans	(2,087)	(2,335)
Treasury Stock, at cost - 944,654 and 951,421 shares at March 31, 2017 and June 30, 2016, respectively.	(12,402)	(12,445)
Accumulated other comprehensive income:		
Unrealized gain (loss) on securities available for sale, net of income taxes	(1,365)	1,379
Total stockholders' equity	69,989	70,454
Total liabilities and stockholders' equity	$ 545,586	$ 526,089

See accompanying notes to the consolidated financial statements.

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UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

unaudited

(In thousands, except per share data)	For the Three Months Ended March 31, 2017	2016	For the Nine Months Ended March 31, 2017	2016
Interest income:				
Loans	$ 2,960	$ 2,878	$ 8,788	$ 8,655
Investments and mortgage-backed securities	1,123	1,013	3,186	3,077
Total interest income	4,083	3,891	11,974	11,732
Interest expense:				
Deposits	484	472	1,546	1,479
Borrowed funds	49	58	162	178
Total interest expense	533	530	1,708	1,657
Net interest income	3,550	3,361	10,266	10,075
Provision for loan losses	11	52	43	141
Net interest income after provision for loan losses	3,539	3,309	10,223	9,934
Noninterest income:				
Service charges	739	719	2,322	2,212
Gain on sale of loans	130	63	549	219
Gain on sale of investments	-	64	79	124
Gain (loss) on sale of other real estate owned	(13)	-	(13)	27
Provision for loss on real estate owned	-	(19)	-	(60)
Income from bank owned life insurance	117	122	402	653
Other	62	172	281	366
Total noninterest income	1,035	1,121	3,620	3,541
Noninterest expense:				
Compensation and employee benefits	2,145	1,972	6,632	6,254
Premises and occupancy expense	251	298	779	824
Deposit insurance premium	41	68	123	236
Advertising expense	83	76	295	262
Data processing expense	451	348	1,362	1,003
Intangible amortization	30	30	90	90
Professional fees	90	128	514	587

Other operating expenses	326	310	946	1,127
Total noninterest expense	3,417	3,230	10,741	10,383
Income before income taxes	1,157	1,200	3,102	3,092
Income tax provision	219	259	642	474
Net income	$ 938	$ 941	$ 2,460	$ 2,618
Basic earnings per share	$ 0.23	$ 0.23	$ 0.61	$ 0.63
Diluted earnings per share	$ 0.23	$ 0.23	$ 0.60	$ 0.62

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

unaudited

(In thousands)	For the Three Months Ended March 31, 2017	2016	For the Nine Months Ended March 31, 2017	2016
Net income	$ 938	$ 941	$ 2,460	$ 2,618
Other comprehensive income (loss), net of tax				
Net unrealized gain (loss) on available for sale securities net of taxes of $120 and $424 for the three months ended March 31, 2017 and 2016, respectively and $(1,724) and $662 for the nine months ended March 31, 2017 and 2016, respectively	188	663	(2,696)	1,036
Reclassification adjustment for the net realized gain on sale of available for sale securities included in net income, net of taxes of $0 and ($25) for the three months ended March 31, 2017 and 2016, respectively and $(31) and $(48) for the nine months ended March 31, 2017 and 2016, respectively	-	(39)	(48)	(76)
Comprehensive income (loss)	$ 1,126	$ 1,565	$ (284)	$ 3,578

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

unaudited

(In thousands)	For the Nine Months Ended March 31, 2017		2016	
Operating activities:				
Net income	$ 2,460		$ 2,618	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	312		293	
Provision for loan losses	43		141	
Deferred loan origination costs	(62	)	25	
Amortization of premium on investments	1,363		1,397	
Proceeds from sale of loans	21,586		7,204	
Loans disbursed for sale in the secondary market	(21,249	)	(7,287	)
Gain on sale of loans	(549	)	(219	)
Amortization of intangible asset	90		90	
Amortization of acquisition-related loan yield adjustment	(92	)	(123	)
Gain on sale of investment securities	(79	)	(124	)
Provision for loss on real estate owned	-		60	
(Gain) loss on sale of other real estate owned	13		(27	)
Gain recognized from death benefit on bank owned life insurance	(45	)	(298	)
Increase in cash surrender value of life insurance	(357	)	(376	)
Stock-based compensation	180		226	
Amortization of ESOP shares	343		339	
Deferred income taxes	249		(91	)
Effects of change in operating assets and liabilities:				
Accrued interest receivable	-		(42	)
Prepaid expenses and other assets	150		467	
Accrued interest payable	(1	)	-	
Accrued expenses and other	(1,457	)	(1,143	)
Net cash provided by operating activities	2,898		3,130	
Investing activities:				
Proceeds from maturity of available for sale investment securities	530		265	
Proceeds from maturity of held to maturity securities	61		56	
Proceeds from sale of available for sale investment securities	6,935		16,251	

Proceeds from repayment of mortgage-backed securities and collateralized mortgage obligations available for sale	14,770	15,316
Proceeds from sale of mortgage-backed securities available for sale	11,087	23,749
Proceeds from sale of other real estate owned	71	73
Purchases of available for sale investment securities	(21,938)	(24,100)
Purchases of held to maturity investment securities	-	(388)
Purchases of mortgage-backed securities available for sale	(15,690)	(9,114)
Proceeds from bank owned life insurance death benefit	419	1,008
Net increase in loans	(13,214)	(15,262)
Capital expenditures	(90)	(91)
Net cash provided by (used in) investing activities	(17,059)	7,763
Financing activities:		
Net increase (decrease) in deposits	24,417	(553)
Borrowings from Federal Home Loan Bank	-	1,934
Repayments of Federal Home Loan Bank advances	(3,167)	(1,000)
Dividends paid to stockholders	(713)	(729)
Repurchases of common stock	(238)	(6,063)
Exercise of stock options	243	-
Net increase in advances from borrowers for payment of insurance and taxes	174	242
Net cash provided by (used in) financing activities	20,716	(6,169)
Net increase in cash and cash equivalents	6,555	4,724
Cash and cash equivalents at beginning of period	28,980	18,522
Cash and cash equivalents at end of period	$ 35,535	$ 23,246

See accompanying notes to the consolidated financial statements.

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION - United Community Bancorp, a federal corporation (“old United Community Bancorp”) completed its previously announced conversion from the mutual holding company form of organization to the stock holding company form on January 9, 2013. As a result of the conversion, United Community Bancorp, an Indiana corporation (“United Community Bancorp” or “Company”), became the holding company for United Community Bank (“Bank”), and United Community MHC and old United Community Bancorp, ceased to exist. As part of the conversion, all outstanding shares of old United Community Bancorp common stock (other than those owned by United Community MHC) were converted into the right to receive 0.6573 of a share of United Community Bancorp common stock.

The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc., a wholly-owned subsidiary of the Bank, was formed for a variety of purposes, but was primarily being used for the collection of commissions from a wealth management partner. In addition to the collection of commissions, during the prior fiscal year, the Bank applied for, and received approval from the OCC to allow UCB Financial Services, Inc. to own and manage a portion of the Bank’s municipal bond portfolio.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three and nine months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2016, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 2016.

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

2. EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP") – As of March 31, 2017 the ESOP owned 142,371 shares of the Company's common stock. At June 30, 2016, the ESOP owned 173,894 shares of the Company's common stock. The shares owned by the ESOP are held in a suspense account until released for allocation to participants.

3. EARNINGS PER SHARE ("EPS") – Non-vested shares with non-forfeitable dividend rights are considered participating securities and, thus, subject to the two-class method pursuant to ASC 260, *Earnings per Share,* when computing basic and diluted earnings per share. The Company's restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effects of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. For the three months and nine months ended March 31, 2017 there were no outstanding options to purchase shares that were excluded from the computations of diluted earnings per share as all existing options are dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding.

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
Basic weighted average outstanding shares	4,056,993	4,027,432	4,036,066	4,173,027
Effect of dilutive stock options	46,272	30,168	42,009	32,143
Diluted weighted average outstanding shares	4,103,265	4,057,600	4,078,075	4,205,170

4. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718, *Compensation – Stock Compensation*, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on a straight-line basis pursuant to ASC 718. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant. Stock-based compensation expense was $73,000 and $63,000 for the three months ended March 31, 2017 and 2016, respectively. Stock-based compensation was $180,000 and $226,000 for the nine months ended March 31, 2017 and 2016, respectively. No stock-based compensation awards were granted during the three and nine months ended March 31, 2017 and 2016.

5. DIVIDENDS – On August 12, 2016, November 10, 2016, and February 9, 2017 the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of $0.06 per share for each period. The dividends, totaling $713,000, were paid during the nine months ended March 31, 2017.

6. STOCK REPURCHASE PLAN – On February 3, 2014 the Company's board of directors approved the repurchase of up to 514,956 shares of the Company's outstanding common stock, which represented approximately 10% of the Company's outstanding shares as of February 3, 2014. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2014, all 514,956 shares were repurchased at a total cost of $6.0 million.

Additionally, on May 18, 2015, the Company's Board of Directors approved the repurchase of up to 231,571 shares of the Company's outstanding common stock, which was approximately 5% of the Company's outstanding shares as of May 18, 2015. Purchases were conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of December 31, 2015, all of the 231,571 shares were repurchased.

On November 6, 2015, United Community Bancorp entered into a Stock Repurchase Agreement with Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P. and Stilwell Partners, L.P. (collectively, the "Sellers"). Pursuant to the Stock Repurchase Agreement, the Company purchased 318,756 shares of its common stock, $0.01 par value, from the

Sellers for an aggregate purchase price of $4,781,340, or $15.00 per share. The repurchase was funded with cash on hand and completed the 5% repurchase program mentioned above. Following the repurchase transaction, the Company had 4,201,326 shares of common stock outstanding. On April 26, 2016 the Company purchased 3,183 shares of common stock from participants in the equity incentive plan. Following the repurchase, there were 4,198,143 shares of common stock outstanding as of September 30, 2016.

On November 4, 2016, the Company's Board of Directors approved the repurchase of up to 209,907 shares of the Company's outstanding common stock, which was approximately 5% of the Company's outstanding shares as of November 4, 2016. Purchases are being conducted solely through and based upon the parameters of a Rule 10b5-1 repurchase plan. As of March 31, 2017, a total of 14,692 shares have been purchased at a total cost of $238,000.

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7. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended March 31,	
	2017	2016
	(Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes, net	$ 96	$ 225
Interest	$ 1,709	$ 1,657
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains (losses) on securities designated as available for sale, net of tax	$ (2,744)	$ 960
Transfers of loans to other real estate owned	$ 29	$ 29

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES - ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate the value. For financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

Cash and cash equivalents

The carrying values presented in the consolidated statements of position approximate fair value.

Investments and mortgage-backed securities

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank system and is required to maintain an investment based upon a pre-determined formula. The carrying values presented in the consolidated statements of position approximate fair value.

Deposits

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximate their carrying values. The fair values of fixed maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

Advances from Federal Home Loan Bank

The fair value is calculated using rates available to the Company on advances with similar terms and remaining maturities.

Off-balance sheet items

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged.

The estimated fair values of the Company's financial instruments at March 31, 2017 and June 30, 2016 are as follows:

	March 31, 2017		June 30, 2016	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and interest-bearing deposits	$35,535	$35,535	$28,980	$28,980
Investment securities available for sale	80,216	80,216	77,725	77,725
Investment securities held to maturity	40,531	40,765	40,763	43,201
Mortgage-backed securities	70,931	70,931	74,727	74,727
Loans receivable and loans receivable held for sale	281,429	280,141	267,921	270,595
Accrued interest receivable	1,882	1,882	1,882	1,882
Investment in FHLB stock	3,527	3,527	3,527	3,527
Financial liabilities:				
Deposits	463,302	464,142	438,885	439,834

Accrued interest payable	21	21	22	22
FHLB advances	8,833	8,929	12,000	12,322
Off-balance sheet items	$—	$—	$—	$—

ASC 820-10-50-2 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices, such as 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 assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, municipal securities, and other real estate owned. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities.

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Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	(In thousands)			
March 31, 2017:				
Mortgage-backed securities	$70,931	$ —	$ 70,931	$ —
Municipal bonds	36,476	—	36,476	—
Small Business Administration	9,820	—	9,820	—
Collateralized Mortgage Obligations	30,720	—	30,720	—
Certificates of Deposit	3,001	—	3,001	—
Other equity securities	199	199	—	—
Mortgage servicing rights	786	—	786	—
June 30, 2016				
Mortgage-backed securities	$74,727	$ —	$ 74,727	$ —
Municipal bonds	34,790	—	34,790	—
Small Business Administration	7,872	—	7,872	—
Collateralized Mortgage Obligations	31,832	—	31,832	—
Certificates of Deposit	3,064	—	3,064	—
Other equity securities	167	167	—	—
Mortgage servicing rights	639	—	639	—

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	(In thousands)			
March 31, 2017:				
Other real estate owned	$15	$ —	$ 15	$ —
Loans held for sale	995	—	995	—
June 30, 2016:				
Other real estate owned	$70	$ —	$ 70	$ —
Loans held for sale	783	—	783	—

The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate, cash flow analysis or other observable market prices. The Bank’s policy is that fair values for these assets are based on current appraisals or cash flow analysis.

The following table presents fair value measurements for the Company's financial instruments which are not recognized at fair value in the accompanying statements of financial position on a recurring or nonrecurring basis.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
March 31, 2017:				
Financial assets:				
Cash and interest-bearing deposits	$35,535	$ 35,535	$ —	$ —
Investment securities held to maturity	40,765	—	40,765	—
Loans receivable and loans held for sale	280,141	—	280,141	—
Accrued interest receivable	1,882	—	1,882	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	464,142	—	464,142	—
Accrued interest payable	21	—	21	—
FHLB advances	8,929	—	8,929	—
June 30, 2016:				
Financial assets:				
Cash and interest-bearing deposits	$28,980	$ 28,980	$ —	$ —
Investment securities held to maturity	43,201	—	43,201	—
Loans receivable and loans held for sale	270,595	—	270,595	—
Accrued interest receivable	1,882	—	1,822	—
Investment in FHLB stock	3,527	—	3,527	—
Financial liabilities:				
Deposits	439,834	—	439,834	—
Accrued interest payable	22	—	22	—
FHLB advances	12,322	—	12,322	—

9. INVESTMENT SECURITIES

Investment securities available for sale at March 31, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 72,080	$ 51	$ 1,200	$70,931

Municipal bonds	37,064	362	950	36,476
Small Business Administration	9,963	—	143	9,820
Collateralized Mortgage Obligations	31,096	—	376	30,720
Certificates of Deposit	2,971	30	—	3,001
Other equity securities	210	—	11	199
	$ 153,384	$ 443	$ 2,680	$ 151,147

Investment securities held to maturity at March 31, 2017 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 40,531	$ 382	$ 148	$ 40,765

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Investment securities available for sale at June 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities	$ 74,198	$ 619	$ 90	$ 74,727
Municipal bonds	33,512	1,278	—	34,790
Small Business Administration	7,651	221	—	7,872
Collateralized Mortgage Obligations	31,650	182	—	31,832
Certificates of Deposit	2,971	93	—	3,064
Other equity securities	210	—	43	167
	$ 150,192	$ 2,393	$ 133	$ 152,452

Investment securities held to maturity at June 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Municipal Bonds	$ 40,763	$ 2,438	$ —	$ 43,201

The mortgage-backed securities, small business administration, collateralized mortgage obligations, certificates of deposit, and municipal bonds have the following maturities at March 31, 2017:

	Available for sale		Held to maturity	
	Amortized cost	Estimated market value	Amortized cost	Estimated market value
Due or callable in one year or less	$ 1,493	$ 1,491	$ 65	$ 65
Due or callable in 1 - 5 years	87,400	86,870	2,126	2,141
Due or callable in 5 - 10 years	43,461	42,648	4,524	4,574
Due or callable in greater than 10 years	20,820	19,939	33,816	33,985
Total debt securities	$ 153,174	$ 150,948	$ 40,531	$ 40,765

All other securities available for sale at March 31, 2017 are saleable within one year.

Gross proceeds on the sale of investments and mortgage-backed securities were $0 and $5.0 million for the three months ended March 31, 2017 and 2016, respectively. Gross proceeds on the sale of investments and mortgage-backed securities were $18.0 million and $40.0 million for the nine months ended March 31, 2017 and 2016, respectively. Gross realized gains for the three month periods ended March 31, 2017 and 2016 were $0 and $70,000, respectively. Gross realized gains for the nine-month periods ended March 31, 2017 and 2016 were $110,000 and $435,000, respectively. Gross realized losses for the three month periods ended March 31, 2017 and 2016 were $0 and $6,000, respectively. Gross realized losses for the nine-month periods ended March 31, 2017 and 2016 were $31,000 and $311,000, respectively.

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The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at March 31, 2017:

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In thousands)					
Municipal bonds	$31,738	$ 1,098	$ —	$ —	$31,738	$ 1,098
Mortgage-backed securities	42,705	981	14,093	219	56,798	1,200
Small Business Administration	9,820	143	—	—	9,820	143
Collateralized Mortgage Obligations	22,962	376	—	—	22,962	376
Other equity securities	—	—	199	11	199	11
	$107,225	$ 2,598	$ 14,292	$ 230	$121,517	$ 2,828
Number of investments		97		8		105

Securities available for sale are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, management considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer or any credit enhancement providers, and the quality of the underlying collateral. Management does not intend to sell these securities in the foreseeable future, and does not believe that it is more likely than not that the Bank will be required to sell a security in an unrealized loss position prior to a recovery in its value. The decline in market value is due to changes in market interest rates. The fair values are expected to recover as the securities approach maturity dates.

10. GOODWILL AND INTANGIBLE ASSET

In June 2010, old United Community Bancorp acquired three branches from Integra Bank National Association (“Integra”), which was accounted for under the purchase method of accounting. Under the purchase method, the Company is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. The excess cost over the value of net assets acquired represents goodwill, which is not subject to amortization.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Company in connection with its acquisition relates to the inherent value in the business acquired and this value is dependent upon the Company’s ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

As permitted by current accounting rules, the Company completed its qualitative assessment to determine whether current events or changes in circumstances lead to a determination that it is more likely than not, as defined, that the fair value of the reporting unit is less than its carrying amount. Based upon the Company’s assessment, there was no such determination that the fair value of the reporting unit is less than its carrying amount. Accordingly, the Company did not apply the traditional two-step goodwill impairment test.

The following table indicates changes to the core deposit intangible asset and goodwill balances for the nine months ended March 31, 2017:

	Core Deposit Intangible	Goodwill
	(In thousands)	
Balance at June 30, 2016	$312	$ 2,522
Amortization	90	—
Balance at March 31, 2017	$222	$ 2,522

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of March 31, 2017:

April 1, 2017 through June 30, 2017	$27
2018	117
2019	78
	$222

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11. DISCLOSURES ABOUT THE CREDIT QUALITY OF LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (IN THOUSANDS)

The following tables illustrate certain disclosures required by ASC 310-10-50-11B(c), (g) and (h), the changes to the allowance for loan losses, for the three and nine months ended March 31, 2017 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-Family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, January 1, 2017:	$ 1,230	$ 421	$ 68	$ 393	$ 2,170	$ 112	$ 20	$ 169	$ 4,583
Charge offs	(38)	(36)	(7)	—	—	—	(255)	—	(336)
Recoveries	32	26	—	5	2	—	—	—	65
Provision (credit)	(109)	(77)	4	(82)	(68)	34	356	(47)	11
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Allowance for Credit Losses:									
Balance, July 1, 2016:	$ 1,235	$ 426	$ 108	$ 275	$ 2,577	$ 132	$ 10	$ 122	$ 4,885
Charge offs	(47)	(174)	(7)	—	(600)	—	(255)	—	(1,083)
Recoveries	62	158	—	11	247	—	—	—	478
Provision (credit)	(135)	(76)	(36)	30	(120)	14	366	—	43
Ending Balance:	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323
Balance, Individually Evaluated	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance, Collectively	$ 1,115	$ 334	$ 65	$ 316	$ 2,104	$ 146	$ 121	$ 122	$ 4,323

Evaluated									
Financing receivables: Ending balance	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460
Ending Balance: individually evaluated for impairment	$ 1,936	$ 390	$ 257	$ —	$ 1,159	$ —	$ 649	$ —	$ 4,391
Ending Balance: collectively evaluated for impairment	$ 126,498	$ 30,785	$ 10,284	$ 15,843	$ 70,478	$ 11,928	$ 2,275	$ 9,833	$ 277,924
Ending Balance: loans acquired at fair value	$ 4,616	$ 2,263	$ 163	$ —	$ 96	$ —	$—	$ 7	$ 7,145

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For the year ended June 30, 2016 (in thousands):

Allowance for Credit Losses and Recorded Investment in Loans Receivable

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-Family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Beginning balance:	$ 1,348	$ 517	$ 130	$ 474	$ 2,586	$ 4	$ 16	$ 49	$ 5,124
Charge offs	(135)	(157)	—	(192)	(561)	—	—	—	(1,045)
Recoveries	86	274	27	4	223	—	—	5	619
Provision (credit)	(64)	(208)	(49)	(11)	329	128	(6)	68	187
Ending Balance:	$ 1,235	$ 426	$ 108	$ 275	$ 2,577	$ 132	$ 10	$ 122	$ 4,885
Balance, Individually Evaluated	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Balance, Collectively Evaluated	$ 1,235	$ 426	$ 108	$ 275	$ 2,577	$ 132	$ 10	$ 122	$ 4,885
Financing receivables:									
Ending Balance	$ 130,883	$ 35,018	$ 12,160	$ 16,032	$ 58,981	$ 8,555	$ 2,151	$ 10,442	$ 274,222
Ending Balance: individually evaluated for impairment	$ 2,535	$ 398	$ 408	$ —	$ 1,787	$ —	$ 88	$ —	$ 5,216
Ending Balance: collectively evaluated for impairment	$ 123,148	$ 32,071	$ 11,581	$ 16,032	$ 57,076	$ 8,555	$ 2,063	$ 10,313	$ 260,839

Ending Balance: loans acquired at fair value	$ 5,200	$ 2,549	$ 171	$ —	$ 118	$ —	$—	$ 129	$ 8,167

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Federal regulations require us to review and classify our assets on a regular basis. In addition, the OCC has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. “Substandard assets” must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. “Doubtful assets” have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified “loss” is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a “special mention” category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. If we classify an asset as substandard, doubtful or loss, we analyze that asset and may establish a specific allocation for the asset at that time.

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b).

Credit Risk Profile by Internally Assigned Grade

At March 31, 2017

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-Family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 128,255	$ 32,348	$ 6,363	$ 13,780	$ 63,347	$ 9,409	$ 2,209	$ 9,175	$ 264,886
Watch	2,813	529	3,791	2,063	5,997	2,519	66	665	18,443
Special mention	46	171	85	—	1,144	—	—	—	1,446
Substandard	1,936	390	465	—	1,245	—	649	—	4,685
Total:	$ 133,050	$ 33,438	$ 10,704	$ 15,843	$ 71,733	$ 11,928	$ 2,924	$ 9,840	$ 289,460

Credit Risk Profile by Internally Assigned Grade

At June 30, 2016

(in thousands)

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Residential Real Estate	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 125,089	$ 33,820	$ 7,007	$ 13,914	$ 48,886	$ 3,814	$ 1,119	$ 8,475	$ 242,124
Watch	2,545	582	4,298	2,118	5,018	4,741	54	1,967	21,323
Special mention	681	218	160	—	3,201	—	890	—	5,150
Substandard	2,568	398	695	—	1,876	—	88	—	5,625
Total:	$ 130,883	$ 35,018	$ 12,160	$ 16,032	$ 58,981	$ 8,555	$ 2,151	$ 10,442	$ 274,222

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The following tables illustrate certain disclosures required by ASC 310-10-50-7A for gross loans.

Age Analysis of Past Due Loans Receivable

At March 31, 2017

(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Owner-Occupied Mortgage	$ 744	$ 57	$ 364	$ 1,165	$ 131,885	$ 133,050
Consumer	158	—	23	181	33,257	33,438
One- to Four- Family Non-Owner Occupied Mortgage	—	—	257	257	10,447	10,704
Multi-Family Residential Real Estate	—	—	—	—	15,843	15,843
Non-Residential Real Estate	535	—	—	535	71,198	71,733
Construction	—	—	—	—	11,928	11,928
Land	—	—	39	39	2,885	2,924
Commercial and Agricultural	—	—	—	—	9,840	9,840
Total	$ 1,437	$ 57	$ 683	$ 2,177	$ 287,283	$ 289,460

Age Analysis of Past Due Loans Receivable
At June 30, 2016
(in thousands)

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
One- to Four- Family Owner-Occupied Mortgage	$ 594	$ 552	$ 401	$ 1,547	$ 129,336	$ 130,883
Consumer	109	49	23	181	34,837	35,018
One- to Four- Family Non-Owner Occupied Mortgage	95	30	235	360	11,800	12,160
Multi-family Residential Real Estate	—	—	—	—	16,032	16,032
Non-Residential Real Estate	—	—	—	—	58,981	58,981
Construction	—	—	—	—	8,555	8,555
Land	14	—	76	90	2,061	2,151
Commercial and Agricultural	—	—	—	—	10,442	10,442
Total	$ 812	$ 631	$ 735	$ 2,178	$ 272,044	$ 274,222

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The following table illustrates certain disclosures required by ASC 310-10-50-15.

Impaired Loans

(in thousands)

				For the three months ended March 31, 2017		For the nine months ended March 31, 2017	
	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized	Average Recorded investment	Interest income recognized	Average Recorded investment
With a related allowance recorded:							
One- to Four- Family Owner-Occupied Mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer	-	-	-	-	-	-	-
One- to Four- Family Non-Owner Occupied Mortgage	-	-	-	-	-	-	-
Multi-Family Residential Real Estate	-	-	-	-	-	-	-
Non-Residential Real Estate	-	-					