UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Auditor's Report Thereon)

UNITED STATES SENATE FEDERAL CREDIT UNION

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Independent Auditor's Report

March 26, 2019

To the Supervisory Committee and Board of Directors
of United States Senate Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United States Senate Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

DoerenMayhew

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States Senate Federal Credit Union and its subsidiary, as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Doeren Mayhew

Doeren Mayhew
Miami, FL

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2018 AND 2017

Assets	**2018**	**2017**
Cash and cash equivalents	$98,569,342	$63,140,284
Investments:		
Available-for-sale	55,568,378	67,802,527
Loans to members, net of allowance for loan losses	658,377,673	510,436,027
Accrued interest receivable	2,936,398	2,223,248
Property and equipment	5,181,789	4,801,969
Prepaid and other assets	5,991,526	9,065,195
Other receivables	7,880,401	11,539,026
NCUSIF deposit	5,489,452	4,732,075
Total assets	$839,994,959	$673,740,351
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$743,887,104	$589,084,970
Accrued expenses and other liabilities	6,661,351	6,109,150
Total liabilities	750,548,455	595,194,120
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	3,382,981	3,382,981
Undivided earnings	86,933,477	75,221,771
Accumulated other comprehensive loss	(869,954)	(58,521)
Total members' equity	89,446,504	78,546,231
Total liabilities and members' equity	$839,994,959	$673,740,351

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income:		
Loans to members	$36,433,238	$24,456,124
Investments	2,482,006	2,333,330
Total interest income	38,915,244	26,789,454
Interest expense:		
Members' shares and savings accounts	5,679,858	2,475,871
Net interest income	33,235,386	24,313,583
Provision for loan losses	5,992,943	2,737,072
Net interest income after provision for loan losses	27,242,443	21,576,511
Non-interest income:		
Interchange income	2,542,832	2,477,357
Fees and charges	1,639,030	1,726,067
Other miscellaneous income	933,390	911,658
Total non-interest income	5,115,252	5,115,082
Non-interest expenses:		
Compensation and benefits	11,893,053	11,116,233
Office operations	4,195,053	3,613,316
Loan servicing	1,843,668	1,851,523
Professional and outside servicing costs	1,015,934	1,273,359
Other	1,127,103	1,109,001
Office occupancy	571,178	551,046
Total non-interest expenses	20,645,989	19,514,478
Net income	$11,711,706	$7,177,115

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net income	$11,711,706	$7,177,115
Other comprehensive (loss)/income:		
Available-for-sale investments:		
Net unrealized holding (losses)/gains on available-for-sale investments	(811,433)	34,195
Other comprehensive (loss)/income	(811,433)	34,195
Comprehensive income	$10,900,273	$7,211,310

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	$3,382,981	$68,044,656	($92,716)	$71,334,921
Net income	—	7,177,115	—	7,177,115
Other comprehensive income	—	—	34,195	34,195
Balance, December 31, 2017	3,382,981	75,221,771	(58,521)	78,546,231
Net income	—	11,711,706	—	11,711,706
Other comprehensive loss	—	—	(811,433)	(811,433)
Balance, December 31, 2018	$3,382,981	$86,933,477	($869,954)	$89,446,504

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Net income	$11,711,706	$7,177,115
Adjustments to net cash provided by/(used in) operating activities:		
Provision for loan losses	5,992,943	2,737,072
Depreciation and amortization	1,430,737	1,048,270
Amortization and accretion on investment securities	323,497	429,230
Changes in assets and liabilities:		
Accrued interest receivable	(713,150)	(558,991)
Prepaid and other assets	3,073,669	(2,617,849)
Other receivables	3,658,625	(11,539,026)
Accrued expenses and other liabilities	552,201	1,024,341
Total adjustments	14,318,522	(9,476,953)
Net cash provided by/(used in) operating activities	26,030,228	(2,299,838)

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Cash Flows (Continued)

	2018	2017
Cash flows from investing activities:		
Purchase of available-for-sale investments	—	(45,437,334)
Net change in loans to members	(153,934,589)	(148,278,135)
Proceeds from the repayment, call, or maturity of available-for-sale investments	11,099,219	13,176,567
Increase in NCUSIF deposit	(757,377)	(217,844)
Purchase of property and equipment	(1,810,557)	(1,858,874)
Net cash used in investing activities	(145,403,304)	(182,615,620)
Cash flows from financing activities:		
Net increase in members' shares and savings accounts	154,802,134	56,385,438
Net cash provided from financing activities	154,802,134	56,385,438
Net change in cash and cash equivalents	35,429,058	(128,530,020)
Cash and cash equivalents - beginning	63,140,284	191,670,304
Cash and cash equivalents - ending	$98,569,342	$63,140,284

Supplemental Information

Interest paid	$5,173,233	$2,355,060

See accompanying notes to the consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

United States Senate Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the accounts of its wholly owned credit union service organization (CUSO), CU Strategic Services, LLC. The CUSO provides consulting and outsourcing services for other financial institutions. The CUSO also provides commercial loan underwriting and servicing. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the Washington D.C. area. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside. Additionally, the Credit Union maintains a concentration of real estate loans and unsecured loans. As of December 31, 2018, approximately 38% of the loan portfolio was secured by real estate and approximately 39% of the loan portfolio was unsecured.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/loss. Other comprehensive income/loss is limited to the changes in unrealized gain/loss on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive loss to the gain/loss on sale of investments in the consolidated statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less including overnight deposits. Amounts due from banks may, at times, exceed federally insured limits.

Investments

Mortgage-backed securities and collateralized mortgage obligations are classified as available-for-sale. Investments classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The FHLB stock is included in prepaid and other assets on the consolidated statements of financial condition.

Loans to Members

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 of deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Generally, loan fees are recognized in income when received and direct loan origination costs are recognized as a charge to expense when incurred, except for vehicle loan participations which are amortized over the term of the loan.

Allowance for Loan Losses

The allowance for loan losses (allowance) is an estimate of loan losses incurred in the Credit Union’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are grouped into the following segments: Real Estate, Consumer, and Commercial. The Credit Union further divides these segments into classes based on the associated risk characteristics. Real Estate loans are divided into two classes: First mortgage and Second mortgage. Consumer loans are divided into three classes: Vehicle, Unsecured, and Other secured. Commercial loans are all classified as Real estate.

The allowance consists of specific and general components. The specific component covers impaired loans and troubled debt restructurings and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of December 31, 2018 and 2017, the historical loss time frame for each class was 12 months.

Commercial Segment Allowance Methodology

A majority of the commercial loan portfolio consists of participations in commercial real estate loans underwritten by other financial institutions. Loans are evaluated for impairment on an individual loan-by-loan basis. A specific reserve is provided for individual loans where the Credit Union has deemed there to be an impairment. For all other commercial loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical loss rates to represent the best estimate of incurred losses at the measurement date. The historical loss rates are judgmentally adjusted based on economic and Federal Reserve Bank (FRB) published charge-off data.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring (TDR) if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The Credit Union evaluates the credit quality of loans in the consumer and real estate loan portfolios based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Commercial Credit Quality Indicators

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

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: A special mention credit is a loan that has potential weakness that deserves management's close attention, but does not warrant substandard classification. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Credit Union's credit position at some future date. Special mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Watch: A watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, or less than average credit score. The loan is paid as agreed. If conditions persist or worsen, a more severe risk grade may be warranted.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Substandard: A substandard credit is a loan that is not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Credits classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, or a project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful: A doubtful credit is a loan that has all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss: A loss credit is a loan considered uncollectible and charged-off immediately.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis.

Consumer loans are generally charged off when the loan is deemed to be uncollectible. Factors considered when assessing collectability include:

- Aging of delinquent non-performing loans;
- Estimated deficiency in the value of the underlying collateral for non-performing loans determined to be collateral dependent;
- Additional collection efforts are expected to be non-productive;
- Classification as loss as the result of the Credit Union's internal review process.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Real estate and commercial loans are partially charged off when:

- A real estate loan is foreclosed upon and the estimated loan loss is determined. The loss is estimated by calculating the difference between the loan balance and a reasonable estimate of the fair market value of the collateral less liquidation costs.

Property and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Other Receivables

Other receivables represents ACH receivables related to member payroll direct deposits.

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. The NCUSIF deposit is required to be periodically reviewed for impairment.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote.

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Asset and Liability Committee (ALCO) and approved by the Board of Directors, based on an evaluation of current and future market conditions.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(14)(a) and 501(c)(1)(a)(I). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, no interest or penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions.

Recent Accounting Pronouncements

Accounting for Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses.* ASU 2016-13 introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current accounting standards, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2022. Early application is permitted for annual periods beginning January 1, 2019.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to increase transparency and comparability of accounting for lease transactions. ASU 2016-02 will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

Subsequent Events

Management has evaluated subsequent events through March 26, 2019, the date the consolidated financial statements were available to be issued. ***(See Note 4)***

Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2018:

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale:				
Mortgage-backed securities	$34,759,529	$19,516	($766,772)	$34,012,273
Collateralized mortgage obligations	21,678,803	12,579	(135,277)	21,556,105
Total	$56,438,332	$32,095	($902,049)	$55,568,378

Note 2 - Investments (Continued)

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$42,100,034	$163,585	($214,821)	$42,048,798
Collateralized mortgage obligations	25,761,014	79,830	(87,115)	25,753,729
Total	$67,861,048	$243,415	($301,936)	$67,802,527

As of December 31, 2018, the Credit Union's available-for-sale portfolio consisted entirely of mortgage-backed securities and collateralized mortgage obligations. These securities return principal based on payments received on the underlying mortgages or assets. These securities have expected weighted average lives of less than one to three years. However, return of principal may differ from expectation based on fluctuations in market interest rates, delinquency, foreclosures, and the underlying collateral values.

Information pertaining to investments with gross unrealized losses as of December 31, 2018, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$1,132,872	($3,550)	$31,674,916	($763,222)	$32,807,788	($766,772)
Collateralized mortgage obligations	12,377,597	(35,879)	5,852,823	(99,398)	18,230,420	(135,277)
Total	$13,510,469	($39,429)	$37,527,739	($862,620)	$51,038,208	($902,049)

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of December 31, 2017, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$12,852,529	($50,975)	$9,739,543	($163,846)	$22,592,072	($214,821)
Collateralized mortgage obligations	4,794,927	(84,092)	2,872,914	(3,023)	7,667,841	(87,115)
Total	$17,647,456	($135,067)	$12,612,457	($166,869)	$30,259,913	($301,936)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2018 and 2017 is as follows:

	2018	2017
Real Estate:		
First mortgage	$46,884,055	$39,493,610
Second mortgage	207,895,800	219,095,136
	254,779,855	258,588,746
Consumer:		
Vehicle	64,121,448	71,360,616
Unsecured	255,591,655	79,116,321
Other secured	1,286,925	1,987,955
	321,000,028	152,464,892
Commercial:		
Real estate	91,997,790	105,082,389
	667,777,673	516,136,027
Less: Allowance for loan losses	(9,400,000)	(5,700,000)
Loans to members, net	$658,377,673	$510,436,027

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2018:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$2,476,460	$1,630,982	$1,592,558	$5,700,000
Charge-offs	(728,777)	(1,857,683)	(14,325)	(2,600,785)
Recoveries	134,325	173,517	—	307,842
Provision/(reversal of provision) for loan losses	(52,789)	4,573,206	1,472,526	5,992,943
Ending allowance	$1,829,219	$4,520,022	$3,050,759	$9,400,000
Ending balance individually evaluated for impairment	$782,941	$789,221	$2,267,868	$3,840,030
Ending balance collectively evaluated for impairment	1,046,278	3,730,801	782,891	5,559,970
Ending allowance	$1,829,219	$4,520,022	$3,050,759	$9,400,000

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2018:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$2,360,912	$1,050,775	$6,406,406	$9,818,093
Ending balance collectively evaluated for impairment	252,418,943	319,949,253	85,591,384	657,959,580
Total loans	$254,779,855	$321,000,028	$91,997,790	$667,777,673

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2017:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$902,916	$806,796	$2,000,000	$3,709,712
Charge-offs	(167,990)	(947,347)	—	(1,115,337)
Recoveries	146,833	221,720	—	368,553
Provision/(reversal of provision) for loan losses	1,594,701	1,549,813	(407,442)	2,737,072
Ending allowance	$2,476,460	$1,630,982	$1,592,558	$5,700,000
Ending balance individually evaluated for impairment	$271,275	$239,998	$192,011	$703,284
Ending balance collectively evaluated for impairment	2,205,185	1,390,984	1,400,547	4,996,716
Ending allowance	$2,476,460	$1,630,982	$1,592,558	$5,700,000

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2017:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$2,156,838	$456,258	$6,851,253	$9,464,349
Ending balance collectively evaluated for impairment	256,431,908	152,008,634	98,231,136	506,671,678
Total loans	$258,588,746	$152,464,892	$105,082,389	$516,136,027

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Consumer:				
Unsecured	$—	$—	$—	$—
Real Estate:				
First mortgage	$—	$—	$—	$—
Second mortgage	$—	$—	$—	$—
With an allowance recorded:				
Consumer:				
Vehicle	$89,509	$89,509	$64,426	$14,918
Unsecured	$961,266	$961,266	$724,795	$15,020
Real Estate:				
Second mortgage	$2,360,912	$2,360,912	$782,941	$124,259
Commercial:				
Real estate	$6,406,406	$6,406,406	$2,267,868	$6,406,406
Totals:				
Consumer	$1,050,775	$1,050,775	$789,221	$29,938
Real Estate	2,360,912	2,360,912	782,941	124,259
Commercial	6,406,406	6,406,406	2,267,868	6,406,406
Total	$9,818,093	$9,818,093	$3,840,030	$6,560,603

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Consumer:				
Unsecured	$176,162	$176,162	$—	$12,583
Real Estate:				
First mortgage	$217,914	$217,914	$—	$217,914
Second mortgage	$1,367,883	$1,367,883	$—	$56,995
With an allowance recorded:				
Consumer:				
Vehicle	$48,718	$48,718	$34,915	$9,744
Unsecured	$231,378	$231,378	$205,083	$10,517
Real Estate:				
Second mortgage	$571,041	$571,041	$271,275	$35,690
Commercial:				
Real estate	$6,851,253	$6,851,253	$192,011	$3,425,626
Totals:				
Consumer	$456,258	$456,258	$239,998	$32,844
Real Estate	2,156,838	2,156,838	271,275	310,599
Commercial	6,851,253	6,851,253	192,011	3,425,626
Total	$9,464,349	$9,464,349	$703,284	$3,769,069

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$—	$—	$—	$—	$46,884,055	$46,884,055
Second mortgage	1,763,027	891,026	47,564	2,701,617	205,194,183	207,895,800
	1,763,027	891,026	47,564	2,701,617	252,078,238	254,779,855
Consumer:						
Vehicle	90,131	43,809	63,590	197,530	63,923,918	64,121,448
Unsecured	948,900	909,055	52,210	1,910,165	253,681,490	255,591,655
Other secured	—	—	—	—	1,286,925	1,286,925
	1,039,031	952,864	115,800	2,107,695	318,892,333	321,000,028
Commercial:						
Real estate	—	—	—	—	91,997,790	91,997,790
	—	—	—	—	91,997,790	91,997,790
Total	$2,802,058	$1,843,890	$163,364	$4,809,312	$662,968,361	$667,777,673

Loans on which the accrual of interest has been discontinued or reduced approximated $163,000 as of December 31, 2018. There were no loans 90 days or more past due and still accruing interest as of December 31, 2018.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2017.

	30-59 Days Past Due	60-89 Days Past Due	90 Days Greater Than Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$393,405	$—	$—	$393,405	$39,100,205	$39,493,610
Second mortgage	735,476	454,310	382,275	1,572,061	217,523,075	219,095,136
	1,128,881	454,310	382,275	1,965,466	256,623,280	258,588,746
Consumer:						
Vehicle	110,384	7,577	21,111	139,072	71,221,544	71,360,616
Unsecured	638,481	327,890	63,207	1,029,578	78,086,743	79,116,321
Other secured	65,163	—	4,174	69,337	1,918,618	1,987,955
	814,028	335,467	88,492	1,237,987	151,226,905	152,464,892
Commercial:						
Real estate	—	—	—	—	105,082,389	105,082,389
	—	—	—	—	105,082,389	105,082,389
Total	$1,942,909	$789,777	$470,767	$3,203,453	$512,932,574	$516,136,027

Loans on which the accrual of interest has been discontinued or reduced approximated $471,000 as of December 31, 2017. There were no loans 90 days or more past due and still accruing interest as of December 31, 2017.

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for consolidated financial statement disclosure for the years ended December 31, 2018, and 2017. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval.

The following table presents TDR activity by class of loans as of December 31, 2018:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Other secured	1	$17,374	$—
Unsecured	14	162,909	—
Real Estate:			
Second mortgage	3	101,955	—
Total	18	$282,238	$—

The following table presents TDR activity by class of loans as of December 31, 2017:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Other secured	1	$22,318	$—
Unsecured	21	253,638	—
Real Estate:			
First mortgage	1	217,914	—
Second mortgage	3	51,528	—
Total	26	$545,398	$—

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a nonperforming status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of December 31, 2018 and 2017:

	As of December 31, 2018		As of December 31, 2017	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Real Estate:				
First mortgage	$46,884,055	$—	$39,493,610	$—
Second mortgage	207,848,236	47,564	218,712,861	382,275
	254,732,291	47,564	258,206,471	382,275
Consumer:				
Vehicle	64,057,858	63,590	71,339,505	21,111
Unsecured	255,539,445	52,210	79,053,114	63,207
Other secured	1,286,925	—	1,983,781	4,174
	320,884,228	115,800	152,376,400	88,492
Total	$575,616,519	$163,364	$410,582,871	$470,767

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2018:

	Real Estate
Credit Grade:	
Pass	$80,142,831
Special Mention	3,085,865
Watch	2,362,688
Substandard	6,406,406
Doubtful	—
Loss	—
Total	$91,997,790

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2017:

	Real Estate
Credit Grade:	
Pass	$91,872,824
Special Mention	4,755,404
Watch	8,454,161
Substandard	—
Doubtful	—
Loss	—
Total	$105,082,389

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2018 and 2017 by major classification as follows:

	2018	2017
Land	$822,532	$822,532
Building and building improvements	3,658,586	3,165,631
Furniture and equipment	7,919,570	6,562,192
Leasehold improvements	680,025	735,547
	13,080,713	11,285,902
Less accumulated depreciation and amortization	(7,898,924)	(6,483,933)
	$5,181,789	$4,801,969

As of December 31, 2018, the Credit Union was actively searching for a building to purchase as a new office location. On March 20, 2019, the Credit union purchased a building for approximately $8,501,000.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2018 and and 2017:

	2018	2017
Share accounts	$135,225,536	$126,424,146
Share draft accounts	162,244,537	152,053,628
Business accounts	6,757,104	3,830,024
Money market accounts	199,319,150	198,112,233
Individual retirement accounts	9,606,293	10,038,294
Share, business and IRA certificates	230,734,484	98,626,645
	$743,887,104	$589,084,970

Note 5 - Members' Shares and Savings Accounts (Continued)

As of December 31, 2018, scheduled maturities of share, business and IRA certificates are as follows:

	2018
Within one year	$41,620,472
1 to 2 years	15,047,813
2 to 3 years	11,266,830
3 to 4 years	29,935,932
4 to 5 years	132,863,437
	$230,734,484

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more as of December 31, 2018 was approximately $39,656,000.

Note 6 - Employee Benefits

401(k) Plan

All employees who have completed three consecutive months from their date of employment are eligible to participate in a 401(k) plan. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service and they are 100% vested in their own contributions. The Credit Union matches employee contributions dollar-for-dollar up to 3% of the employees' salary and matches $0.50 for every dollar of employee contributions above 3% up to 5% of the employees' salary. Employees are 100% vested in this contribution. Additional Credit Union contributions can be made at the discretion of the Board of Directors. Employees become 100% vested in these discretionary contributions after 5 years of service. The Credit Union's contributions to the 401(k) plan approximated $748,000 and $503,000 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for certain members of senior management. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities in the Credit Union's consolidated statements of financial condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the asset maintained under this agreement was approximately $253,000 and $505,000 as of December 31, 2018 and 2017, respectively, and is included in prepaid and other assets in the consolidated statements of financial condition. The balance of the liability under this plan was approximately $253,000 and $505,000 as of December 31, 2018 and 2017, respectively, and is included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Note 6 - Employee Benefits (Continued)

Deferred Compensation (Continued)

The Credit Union also has a 457(f) deferred compensation agreement with certain members of senior management in which investment assets have been purchased as a method of measuring and paying for supplemental retirement income for the executives. Under the agreement, the Credit Union is the owner of the assets and a liability is established for the intended obligation to the executive based on the amount of the purchased asset and the performance of the asset. In accordance with the agreement, the benefits are subject to forfeiture and are payable to these employees if they remain employed by the Credit Union until the date specified in the agreement. The balance of the asset maintained under this agreement was approximately $531,000 and $758,000 as of December 31, 2018 and 2017, respectively, and is included in prepaid and other assets in the consolidated statements of financial condition. The balance of the liability under this agreement was approximately $531,000 and $758,000 as of December 31, 2018 and 2017, respectively, and is included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Note 7 - Commitments and Contingent Liabilities

Lines of Credit

The Credit Union has entered into a credit availability agreement with the Federal Reserve Bank of Richmond (FRB) which allows the Credit Union to borrow against its securities held in safekeeping. The Credit Union is able to borrow by pledging specific securities and applying the percentages published in the current “Federal Reserve Discount Window and Payment System Risk Collateral Margins Table” which is available on the Federal Reserve Bank’s website. As of December 31, 2018, the Credit Union was able to borrow between 90% and 99% of the fair market value of its securities held in safekeeping at the FRB depending on the maturity dates of the specific securities pledged. As of December 31, 2018, the total fair market value of the securities held in safekeeping at the FRB was approximately $55,439,000. As of December 31, 2018 and 2017, there were no borrowings outstanding under this agreement.

The Credit Union is a member of the FHLB of Atlanta. As of December 31, 2018, the Credit Union had access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its qualified collateral, as defined in the FHLB Statement of Credit Policy. As of December 31, 2018, the total credit available under this line-of-credit agreement was approximately $23,590,000. There were no borrowings under this line-of-credit agreement as of December 31, 2018 or 2017.

Note 7 - Commitments and Contingent Liabilities (Continued)

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2018, the total unfunded commitments under such lines of credit was approximately $141,573,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 8 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2018 and 2017 was 4.60% and 5.07%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 8 - Regulatory Capital (Continued)

As of December 31, 2018, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2018		As of December 31, 2017	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$90,316,458	10.75%	$78,604,752	11.66%
Amount needed to be classified as "adequately capitalized"	$50,399,698	6.00%	$40,424,421	6.00%
Amount needed to be classified as "well capitalized"	$58,799,647	7.00%	$47,161,825	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Note 9 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Note 9 - Fair Values Measurements (Continued)

Level 2 - Valuation is based on inputs other than quoted market 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 generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

<u>Assets Measured at Fair Value on a Recurring Basis</u>

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$34,012,273	$—	$34,012,273
Collateralized mortgage obligations	—	21,556,105	—	21,556,105
	$—	$55,568,378	$—	$55,568,378

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$42,048,798	$—	$42,048,798
Collateralized mortgage obligations	—	25,753,729	—	25,753,729
	$—	$67,802,527	$—	$67,802,527

Note 9 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

Assets measured at fair value on a non-recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$5,978,063	$5,978,063

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$6,999,106	$6,999,106

* * * End of Notes * * *