CERTIFIED AUDIT REPORT

VyStar Credit Union

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended
December 31, 2018 and 2017

Nearman Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

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INDEPENDENT AUDITOR'S

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Audit Committee
VyStar Credit Union
Jacksonville, Florida

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of VyStar Credit Union, which comprise the statement of financial condition as of December 31, 2018 and 2017, and the related statements of income, changes in members' equity, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

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

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

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

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 18, 2019

CONSOLIDATED FINANCIAL STATEMENTS

VYSTAR CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 443,388,036	$ 890,226,667
Investments:		
Trading	38,599	62,189
Available-for-sale	1,793,706,340	1,079,065,450
Other	4,846,895	5,231,046
Federal Home Loan Bank (FHLB) stock	69,754,800	54,831,900
Loans to members, net	5,642,343,022	5,033,484,126
Accrued interest receivable	18,072,328	14,892,042
Property and equipment, net	233,104,521	151,095,618
National Credit Union Share Insurance Fund deposit	54,102,418	50,249,657
Other assets	24,819,326	20,318,832
Total Assets	$ 8,284,176,285	$ 7,299,457,527

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2018	December 31, 2017
Liabilities		
Deposits	$ 5,998,723,816	$ 5,404,639,703
Borrowed funds	1,487,350,725	1,152,864,720
Accrued expenses and other liabilities	87,798,892	105,816,054
Total liabilities	7,573,873,433	6,663,320,477
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	96,605,882	96,605,882
Undivided earnings	624,383,083	543,974,174
Accumulated other comprehensive loss	(10,686,113)	(4,443,006)
Total members' equity	710,302,852	636,137,050
Total Liabilities and Members' Equity	$ 8,284,176,285	$ 7,299,457,527

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

VYSTAR CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME

	December 31, 2018	December 31, 2017
Interest Income		
Interest on loans to members	$ 223,814,803	$ 190,533,700
Interest on investments and cash equivalents	44,742,836	27,553,184
Interest income	268,557,639	218,086,884
Interest Expense		
Dividends on deposits	37,809,168	26,976,441
Interest on borrowed funds	29,116,151	17,215,218
Interest expense	66,925,319	44,191,659
Net Interest Income	201,632,320	173,895,225
Provision for Loan Losses	18,421,948	19,770,032
Net Interest Income After Provision for Loan Losses	183,210,372	154,125,193
Non-Interest Income		
Commissions	84,300,417	74,899,875
Fees and service charges	28,078,496	26,215,219
Loan servicing fees	371,936	387,203
Net gains on sales of loans	104,627	7,687
Other non-interest gains	10,197,358	-
Non-interest income	123,052,834	101,509,984
	306,263,206	255,635,177
Non-Interest Expense		
Compensation and employee benefits	107,064,140	90,115,509
Operations	95,483,820	87,103,030
Occupancy	20,853,146	16,957,046
Other non-interest losses	2,453,191	650,803
Non-interest expense	225,854,297	194,826,388
Net Income	$ 80,408,909	$ 60,808,789

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

VYSTAR CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

COMPREHENSIVE INCOME

	December 31, 2018	December 31, 2017
Net Income	$ 80,408,909	$ 60,808,789
Other Comprehensive Loss		
Net unrealized holding losses on securities arising during the year	(7,730,441)	(283,915)
Add reclassification adjustment for net losses included in net income	1,487,334	21,073
Total other comprehensive loss	(6,243,107)	(262,842)
Total Comprehensive Income	$ 74,165,802	$ 60,545,947

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ 96,605,882	$ 483,173,062	$ (4,180,164)	$ 575,598,780
Net income	-	60,808,789	-	60,808,789
Net change in unrealized loss on securities	-	-	(262,842)	(262,842)
Equity acquired in merger	-	(7,677)	-	(7,677)
Balance, December 31, 2017	96,605,882	543,974,174	(4,443,006)	636,137,050
Net income	-	80,408,909	-	80,408,909
Net change in unrealized loss on securities	-	-	(6,243,107)	(6,243,107)
Balance, December 31, 2018	$ 96,605,882	$ 624,383,083	$ (10,686,113)	$ 710,302,852

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

VYSTAR CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2018	December 31, 2017
Cash Flows From Operating Activities		
Net income	$ 80,408,909	$ 60,808,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	18,421,948	19,770,032
Depreciation and amortization	13,910,008	11,191,763
Premium amortization, net of accretion	4,017,670	6,139,973
Gain on sale of property and equipment	-	(49,066)
Net realized loss on sale of investments	1,487,334	21,073
Increase in accrued interest receivable	(3,180,286)	(2,037,769)
(Increase) decrease in other assets	(4,500,494)	1,182,250
(Decrease) increase in accrued expenses and other liabilities	(18,017,162)	3,343,927
Net cash provided by operating activities	92,547,927	100,370,972
Cash Flows From Investment Activities		
Net proceeds from sale of assets	-	474,066
Purchases of available-for-sale investments	(1,159,662,192)	(206,709,158)
Proceeds from maturities, prepayments sales and calls of available-for-sale investments	327,783,966	260,253,906
Proceeds from sales of available-for-sale investments	105,489,225	-
Net increase in other investments	(14,515,159)	(12,472,724)
Net increase in loans to members	(627,280,844)	(629,168,107)
Merger, net of cash received	-	(7,677)
Increase in the National Credit Union Share Insurance Fund deposit	(3,852,761)	(3,940,659)
Purchases of property and equipment	(95,918,911)	(26,301,370)
Net cash used in investing activities	(1,467,956,676)	(617,871,723)
Cash Flows From Financing Activities		
Net change in deposits	594,084,113	418,628,352
Proceeds from borrowings	334,486,005	264,959,808
Net cash provided by financing activities	928,570,118	683,588,160
Net Change in Cash and Cash Equivalents	(446,838,631)	166,087,409
Cash and Cash Equivalents at Beginning of Year	890,226,667	724,139,258
Cash and Cash Equivalents at End of Year	$ 443,388,036	$ 890,226,667
Supplemental Cash Flow Disclosure		
Dividends paid on deposits & interest paid on borrowed funds	$ 66,925,319	$ 44,191,659
Other real estate acquired in settlement of loans	$ 675,240	$ 192,080

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

VYSTAR CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

VyStar Credit Union (the Credit Union) is a state-chartered credit union organized under the provisions of Florida Statutes.

Principles of Consolidation

The consolidated financial statements include the accounts of VyStar Credit Union and its wholly-owned subsidiary, VyStar Financial Group, LLC, a credit union service organization that provides title insurance to Credit Union members as well as non-members. All significant inter-company accounts and transactions have been eliminated.

Nature of Operations

The Credit Union operates forty-nine full service branches, fourteen high school branches, two drive-thru branches and one Call Center in Jacksonville, Florida and the surrounding areas. The Credit Union's primary source of revenue is providing loans to members who live or work in a forty-nine-county area in northeastern and central Florida and four counties in Georgia.

Use of Estimates in the Preparation of Financial Statements

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

Subsequent Events

Credit Union Management has evaluated subsequent events through March 18, 2019, the date on which the financial statements were available to be issued.

Cash and Cash Equivalents and Cash Flows

Cash and cash equivalents consist of cash on hand, demand deposits, and other non-term deposits in other financial institutions. For purposes of reporting, cash flows, loans to members, other investments, members' deposits and borrowed funds are reported net.

Investments

Investments the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their costs that are other than temporary, result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost except for the deferred compensation plan created in accordance with Internal Revenue Code 457(b), which is stated at fair market value as trading investments.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Atlanta, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock

In early 2008, as part of the restructuring of Visa Inc., the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. At December 31, 2018, the Credit Union held 80,778 shares of Visa's Class B Common Stock. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union's financial statements. Once a readily available fair market value of the stock is known, the value of the stock will be reflected in the Credit Union's financial statements.

Loans

The Credit Union grants mortgage, business and consumer loans to members. Mortgage loans secured by real estate located primarily in northeast Florida comprise about 49% of the loan portfolio at December 31, 2018 and 51% of the loan portfolio at December 31, 2017. The ability of the members to honor their contracts is dependent upon the member's financial soundness and general economic conditions in this area.

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

The accrual of interest on loans is discontinued at the time the loan is 90 or more days delinquent. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. 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.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Troubled Debt Restructurings

A loan is classified as a troubled debt restructure when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Credit Union grants concessions to the borrower in the restructuring that it would not otherwise consider. The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These concessions include but are not limited to interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral.

Troubled debt restructurings are considered impaired loans by their nature. The amount of the impairment is derived based on discounting expected cash flows at the loan's effective rate of interest. Therefore, assumptions must be made as to the amount of the future cash flows, which will consider the borrower's willingness and ability to pay contractual principal and interest payments.

Other Real Estate Owned (Foreclosed Property)

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, additional expenses related to improvements to the property are capitalized. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

The Credit Union's foreclosed residential and commercial real estate property held for sale approximated $675,000 and $192,000 as of December 31, 2018 and 2017, respectively. In addition, the Credit Union has approximately $2.1 million and $4.3 million in loans collateralized by residential and commercial real estate in the process of foreclosure as of December 31, 2018 and 2017, respectively.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to an estimation process, Management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Transfers and Servicing of Financial Assets

The Credit Union accounts for transfers and servicing of financial assets in accordance with generally accepted accounting principles (GAAP) codified in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Section 860. GAAP requires application of a financial-components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

The Credit Union generally retains the right to service mortgage loans sold to others. The cost allocated to the mortgage servicing rights retained has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income. Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Property and Equipment

Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

National Credit Union Share Insurance Fund 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 federally insured Credit Union in an amount equal to 1% of its insured members' deposits. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source or if management of the fund is transferred from the NCUA Board.

Deposits

Members' deposits consist of the savings and other deposit accounts of the owners of the Credit Union. Ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of deposits owned, no member has more than one vote. Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' deposits are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

At the end of June 2018, the National Credit Union Administration (NCUA) and the Florida Office of Financial Regulation (FOFR) approved VyStar's request to be designated as a low-income credit union. This designation affords certain benefits that are not available to other credit unions. One such benefit is the ability to accept non-member deposits from any source up to the greater of $3 million or 20% of total shares. In August 2018, VyStar started offering Brokered Certificates to non-members. Non-member deposits consist of brokered certificates of deposits. The certificate terms range from 12-months to 60-months.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, "regular reserve". The regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends to members.

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this accounting method, regular reserves and undivided earnings of the acquiree are combined on the acquirer's statement of financial condition as a component of equity called merged equity. This component of equity is considered part of net worth as defined by regulations established by the NCUA. Merged equity is included in undivided earnings on the balance sheet.

Income Taxes

The Credit Union is exempt, by statute, from federal taxes on income related to the exempt purpose of the Credit Union. However, the Credit Union is subject to taxes on certain "unrelated business income" as further discussed in Note 8.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Recently Issued Accounting and Reporting

Accounting Standards Update (ASU) 2016-13 – *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 significantly changes how entities will measure credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss (CECL) model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses (ALLL). In addition, CECL requires credit unions to measure expected credit losses on financial assets carried at amortized cost on a collective or pool basis when similar risk characteristics exist. ASU 2016-13 is effective for "private" companies, including credit unions, for interim and annual reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Since all credit unions' fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2022. The Credit Union is currently not planning to early adopt. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to undivided earnings as of the beginning of the period in which the guidance is effective. While the Credit Union is currently evaluating the impact this standard will have on the results of operations, financial position and disclosures, the Credit Union expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective.

ASU 2016-02 – *Leases* (*Topic 842*) (ASU 2016-02). ASU 2016-02 amends the existing standards for lease accounting effectively requiring most leases be carried on the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability. ASU 2016-02 includes qualitative and quantitative disclosure requirements intended to provide greater insight into the nature of an entity's leasing activities. The standard must be adopted using a modified retrospective transition with a cumulative-effect adjustment to undivided earnings as of the beginning of the period in which it is adopted. The effective date of ASU 2016-02 for credit unions is for annual reporting periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted. The Credit Union has several leases, which are currently treated as operating leases and are not shown on the Credit Union's Consolidated Statements of Financial Condition. The Credit Union is currently evaluating the impact this standard will have on the Credit Union's results of operations, financial position and disclosures, but it is not expected to have a material impact. Since all credit unions' fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2020.

ASU 2016-01 – *Financial Instruments – Overall* (*Subtopic 825-10*): *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 requires equity investments to be measured at fair value with adjustments to fair value recorded in net income. Currently the Credit Union does not have any securities meeting the definition of an equity security. Credit Unions with investments in mutual funds and stocks could see unacceptable levels of earnings volatility on the income statements. The amendments exempt all entities that are not public business entities from disclosing fair value information for financial instruments measured at amortized cost. The Credit Union has early adopted this portion of the ASU. The effective date for the accounting for equity securities for credit unions is for fiscal years beginning after December 15, 2018. Credit Unions may adopt this ASU early with fiscal years beginning after December 15, 2017. The Credit Union is currently evaluating the impact this standard will have on the Credit Union's results of operations, financial position and disclosures, but it is not expected to have a material impact. Since all credit unions' fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2019.

ASU 2017-08 - *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-10): Premium Amortization on Purchased Callable Debt Securities*. The Board issued this Update to amend the amortization period for certain callable debt securities held at a premium. The Board is shortening the amortization period for the premium to the earliest call date. The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2019. Early application of the standard is permitted. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2020. A credit union should apply this update on a modified retrospective basis through a cumulative adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle.

Reclassifications

Certain account reclassifications have been made to the 2017 financial statements in order to conform to classifications used in the current year.

NOTE 2: INVESTMENTS

Trading

The carrying amount of trading securities as shown in the consolidated statement of financial condition was approximately $39,000 and $62,000 as of December 31, 2018 and 2017, respectively. The securities include no set maturity date and were purchased to offset executive compensation agreements.

Available-for-Sale

Investments classified as available-for-sale securities consist of the following:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations and federal agency securities	$ 14,798,498	$ -	$ (290,065)	$ 14,508,433
Federal agency mortgage backed securities	175,348,920	486,095	(3,480,830)	172,354,185
Corporate Bonds	342,599,086	627,799	(6,788,061)	336,438,824
CMOs	1,271,645,949	2,387,975	(3,629,026)	1,270,404,898
Total	$1,804,392,453	$ 3,501,869	$ (14,187,982)	$ 1,793,706,340

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations and federal agency securities	$ 56,351,440	$ 2,016	$ (367,959)	$ 55,985,497
Federal agency mortgage backed securities	214,099,908	1,180,287	(1,544,337)	213,735,858
Corporate Bonds	278,525,769	228,767	(3,175,089)	275,579,447
CMOs	534,531,339	727,827	(1,494,518)	533,764,648
Total	$1,083,508,456	$ 2,138,897	$ (6,581,903)	$ 1,079,065,450

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017, are as follows:

	December 31, 2018			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government obligations and federal agency securities	$ -	$ -	$ 14,508,434	$ 290,065
Federal agency mortgage backed securities	51,416,082	455,867	89,403,561	3,024,963
Corporate Bonds	118,215,080	2,102,336	150,373,434	4,685,725
CMOs	751,196,455	2,396,921	128,258,303	1,232,105
Total	$ 920,827,617	$ 4,955,124	$ 382,543,732	$ 9,232,858

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government obligations and federal agency securities	$ 25,458,249	$ 67,926	$ 20,525,948	$ 300,033
Federal agency mortgage backed securities	34,203,495	174,163	73,874,442	1,370,174
Corporate Bonds	95,325,031	386,667	136,214,940	2,788,422
CMOs	163,888,611	263,130	135,879,256	1,231,388
Total	$ 318,875,386	$ 891,886	$ 366,494,586	$ 5,690,017

There are a total of 251 and 163 securities with unrealized losses as of December 31, 2018 and 2017, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Gross realized gains on sales of investments available-for-sale were $235 in 2018 and zero in 2017; gross realized losses were $1.5 million in 2018 and $21,000 in 2017. Proceeds from the sales of investments available-for-sale were $105.5 million in 2018 and zero in 2017.

Investments by maturity as of December 31, 2018 are summarized as follows:

	Available-for-sale	
	Amortized Cost	Fair Value
No contractual maturity	$ -	$ -
Less than 1 year maturity	30,873,948	30,636,518
1 to 5 years maturity	160,600,357	157,112,688
5 to 10 years maturity	165,923,279	163,198,051
Mortgage-backed securities and CMOs	1,446,994,869	1,442,759,083
Total	$1,804,392,453	$ 1,793,706,340

Expected maturities of mortgage-backed securities and CMOs may differ from contractual maturities because borrowers may have the right to call or prepay the obligations. Securities not due at a single maturity date, primarily mortgage-backed securities and CMOs, are shown separately.

Other Investments

Other investments consist of the following:

	December 31,	
	2018	2017
FHLB stock	$ 69,754,800	$ 54,831,900
Credit Union Service Organizations	4,846,895	4,723,682
Other Credit Unions-CDs	-	507,364
Total	$ 74,601,695	$ 60,062,946

NOTE 3: LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES

Loans to Members

Loans to members are shown below. Included in the amounts below are approximately $67.7 million and $59.2 million of deferred loan origination fees/costs as of December 31, 2018 and 2017, respectively.

	December 31, 2018	**2017**
Residential first mortgage real estate loans	$2,239,628,273	$ 2,116,169,907
Residential second mortgage real estate loans	274,569,677	258,146,054
Consumer secured loans	2,329,708,006	1,974,643,720
Consumer unsecured loans	543,121,693	502,100,462
Commercial real estate loans	277,302,815	205,604,352
Other commercial loans	11,675,667	9,728,094
	5,676,006,131	5,066,392,589
Allowance for loan losses	(33,663,109)	(32,908,463)
Loans to members, net	$5,642,343,022	$ 5,033,484,126

The following summarizes the activity by loan categories in the allowance for loan losses account:

	For the year ending December 31, 2018			
	Residential Real Estate	**Consumer**	**Business**	**Total**
Allowance for loan losses:				
Beginning balance	$ 9,464,325	$ 19,107,265	$ 4,336,873	$ 32,908,463
Provision for loan losses	(896,403)	18,885,470	432,881	18,421,948
Recoveries	192,115	1,610,967	7,685	1,810,767
Loans charged off	(381,765)	(19,047,158)	(49,146)	(19,478,069)
Ending balance	$ 8,378,272	$ 20,556,544	$ 4,728,293	$ 33,663,109
Allowance for loan losses:				
Individually evaluated for impairment	$ 439,039	$ -	$ 1,587,308	$ 2,026,347
Collectively evaluated for impairment	7,939,233	20,556,544	3,140,985	31,636,762
Total allowance for loan losses	$ 8,378,272	$ 20,556,544	$ 4,728,293	$ 33,663,109
Loans to Members:				
Loans individually evaluated for impairment	$ 981,867	$ -	$ 11,957,934	$ 12,939,801
Loans collectively evaluated for impairment	2,513,216,083	2,872,829,699	277,020,548	5,663,066,330
Total loans receivables	$2,514,197,950	$2,872,829,699	$ 288,978,482	$ 5,676,006,131

	For the year ending December 31, 2017			
	Residential Real Estate	Consumer	Business	Total
Allowance for loan losses:				
Beginning balance	$ 12,677,050	$ 13,292,674	$ 4,292,258	$ 30,261,982
Provision for loan losses	(2,587,461)	22,420,388	(62,895)	19,770,032
Recoveries on previous loan losses	300,097	1,311,504	192,797	1,804,398
Loans receivable charged off	(925,361)	(17,917,301)	(85,287)	(18,927,949)
Ending balance	$ 9,464,325	$ 19,107,265	$ 4,336,873	$ 32,908,463
Allowance for loan losses:				
Individually evaluated for impairment	$ 172,495	$ -	$ 1,924,932	$ 2,097,427
Collectively evaluated for impairment	9,291,830	19,107,265	2,411,941	30,811,036
Total allowance for loan losses	$ 9,464,325	$ 19,107,265	$ 4,336,873	$ 32,908,463
Loans to Members:				
Loans individually evaluated for impairment	$ 719,096	$ -	$ 17,140,872	$ 17,859,968
Loans collectively evaluated for impairment	2,373,596,865	2,476,744,182	198,191,574	5,048,532,621
Total loans receivables	$2,374,315,961	$2,476,744,182	$ 215,332,446	$ 5,066,392,589

Impaired Loans

The Credit Union considers a loan to be impaired when, based on current information and events, it is determined the collection of all amounts due according to the loan contract, including scheduled interest payments, is unlikely. Determination of impairment is treated the same across all classes of loans. When a loan is identified as impaired, impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, impairment is based on the current fair value of the collateral, less estimated selling costs when foreclosure is probable, instead of discounted cash flows. If the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), an impairment is recognized through an allowance estimate or a charge-off to the allowance for loan losses account.

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Allowance reserves have been determined based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral less selling costs was used to determine the specific allowance recorded. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

The following is a summary of information pertaining to impaired loans at:

	As of December 31, 2018		
	Unpaid Principal Balance	**Related Allowance**	**Average Ending Principal Balance**
With a related allowance recorded:			
Residential first mortgage real estate	$ 54,754,670	$ 6,138,646	$ 121,407
Residential second mortgage real estate	5,437,262	1,164,786	32,953
Consumer secured	517,997	5,585	6,557
Consumer unsecured	1,287,551	245,421	647
Commercial real estate loans	11,912,216	773,033	360,976
Other commercial loans	104,513	45,718	17,419
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate loans	-	-	-
Other commercial loans	-	-	-
Total:			
Residential real estate	$ 60,191,932	$ 7,303,432	$ 154,360
Consumer	$ 1,805,548	$ 251,006	$ 7,204
Commercial	$ 12,016,729	$ 818,751	$ 378,395

	As of December 31, 2017		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential 1st mortgage real estate loans	$ 56,833,517	$ 6,835,768	$ 129,167
Residential 2nd mortgage real estate	6,043,813	1,139,984	34,340
Consumer secured loans	622,406	6,270	5,763
Consumer unsecured loans	1,010,585	193,864	605
Commercial real estate loans	17,115,501	1,899,562	475,431
Other commercial loans	592,712	82,105	98,785
With no related allowance recorded:			
Residential 1st mortgage real estate loans	-	-	-
Residential 2nd mortgage real estate	-	-	-
Consumer secured loans	-	-	-
Consumer unsecured loans	-	-	-
Commercial real estate loans	-	-	-
Other commercial loans	-	-	-
Total:			
Residential real estate loans	$ 62,877,330	$ 7,975,752	$ 163,507
Consumer loans	$ 1,632,991	$ 200,134	$ 6,368
Commercial loans	$ 17,708,213	$ 1,981,667	$ 574,216

The following is a summary age analysis of past due loans:

	As of December 31, 2018			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$2,230,895,103	$ 3,755,470	$ 4,977,700	$ 2,239,628,273
Residential second mortgage real estate	273,470,066	485,030	614,581	274,569,677
Consumer secured	2,323,302,560	3,560,696	2,844,750	2,329,708,006
Consumer unsecured	538,210,370	1,427,424	3,483,899	543,121,693
Commercial real estate loans	275,413,605	1,889,210	-	277,302,815
Other commercial loans	11,675,667	-	-	11,675,667
Total	$5,652,967,371	$ 11,117,830	$ 11,920,930	$ 5,676,006,131

	As of December 31, 2017			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$2,107,727,415	$ 3,697,893	$ 4,744,599	$ 2,116,169,907
Residential second mortgage real estate	256,296,461	671,877	1,177,716	258,146,054
Consumer secured	1,970,597,401	2,013,547	2,032,772	1,974,643,720
Consumer unsecured	495,924,939	367,157	5,808,366	502,100,462
Commercial real estate loans	203,736,815	193,460	1,674,077	205,604,352
Other commercial loans	9,728,094	-	-	9,728,094
Total	$5,044,011,125	$ 6,943,934	$ 15,437,530	$ 5,066,392,589

The accrual of interest income on loans, is discontinued at the time the loan is 90 days past due or when the collection of interest or principal becomes uncertain, unless the credit is well-secured and in the process of collection. Loans on which the accrual of interest has been discontinued approximated $11.9 million and $15.4 million as of December 31, 2018 and 2017, respectively. There were no loans ninety days or more past due and still accruing interest as of December 31, 2018 or 2017.

The following table presents a summary of credit exposure based upon payment activity. Internally assigned loan grades are defined as either performing loans or nonperforming loans. A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

The following is a summary of loans based on credit quality:

	As of December 31, 2018		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$2,234,650,573	$ 4,977,700	$ 2,239,628,273
Residential second mortgage real estate	273,955,096	614,581	274,569,677
Consumer secured	2,326,863,256	2,844,750	2,329,708,006
Consumer unsecured	539,637,794	3,483,899	543,121,693
Commercial real estate loans	277,302,815	-	277,302,815
Other commercial loans	11,675,667	-	11,675,667
Total	$5,664,085,201	$ 11,920,930	$ 5,676,006,131

	As of December 31, 2017		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$2,111,425,308	$ 4,744,599	$ 2,116,169,907
Residential second mortgage real estate	256,968,338	1,177,716	258,146,054
Consumer secured	1,972,610,948	2,032,772	1,974,643,720
Consumer unsecured	496,292,096	5,808,366	502,100,462
Commercial real estate loans	203,930,275	1,674,077	205,604,352
Other commercial loans	9,728,094	-	9,728,094
Total	$5,050,955,059	$ 15,437,530	$ 5,066,392,589

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a TDR. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include interest rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms deemed to be a concession, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit periods:

	For the year ending December 31, 2018		
Troubled debt restructurings:	**# of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Residential real estate	35	$ 3,459,968	$ 3,459,968
Consumer	79	$ 656,861	$ 656,861
Commercial	2	$ 35,079	$ 35,079

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	-	$ -
Consumer	3	$ 27,381
Commercial	-	$ -

	For the year ending December 31, 2017		
Troubled debt restructurings:	**# of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Residential real estate	18	$ 1,646,666	$ 1,646,666
Consumer	76	$ 483,155	$ 483,155
Commercial	-	$ -	$ -

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	-	$ -
Consumer	5	$ 34,015
Commercial	-	$ -

NOTE 4: LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2018 and 2017 are summarized as follows:

	December 31, 2018	December 31, 2017
Mortgage loan portfolios serviced for Federal National Mortgage Association	$ 213,667,428	$ 238,846,170

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits, were approximately $1.6 million and $1.8 million at December 31, 2018 and 2017 respectively.

A summary of the changes in the balance of mortgage servicing rights in 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 624,606	$ 884,184
Servicing assets recognized during the year	36,621	2,090
Amortization of servicing assets	(207,567)	(261,668)
Balance, end of year	$ 453,660	$ 624,606

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2018	December 31, 2017
Land	$ 71,609,166	$ 62,716,934
Buildings	160,100,221	93,758,813
Land and leasehold improvements	11,360,165	10,673,738
Furniture and equipment	81,159,600	80,800,399
Construction in process	12,653,295	2,982,860
	336,882,447	250,932,744
Less accumulated depreciation and amortization	(103,777,926)	(99,837,126)
Total property and equipment, net	$ 233,104,521	$ 151,095,618

NOTE 6: DEPOSITS

Deposit accounts consist of the following:

	December 31, 2018	December 31, 2017
Checking accounts	$1,161,782,523	$ 1,073,527,926
Money market accounts	1,430,539,280	1,311,518,062
Savings accounts	1,664,409,321	1,550,343,042
Individual retirement accounts	174,390,545	186,308,735
Certificate accounts	1,567,602,147	1,282,941,938
Total	$5,998,723,816	$ 5,404,639,703

The aggregate amount of certificate accounts in denominations of $250,000 or more were approximately $370 million and $132 million as of December 31, 2018 and 2017, respectively.

The aggregate amount of members' checking and saving accounts maintaining a negative balance that were reclassed to loans were approximately $1.2 million and $838,000 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	**Amount**
2019	$ 711,585,750
2020	413,825,704
2021	209,636,015
2022	79,693,685
2023	152,698,478
2024	141,459
2025	21,056
Total	$1,567,602,147

Non-member Deposits

Included in the certificate accounts are certificates issued to non-members. The amounts of non-member certificates were approximately $235 million and $0 as of December 31, 2018 and 2017, respectively.

The National Credit Union Share Insurance Fund insures members' shares up to $250,000. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional $250,000.

NOTE 7: BORROWED FUNDS

The Credit Union utilizes a demand loan agreement with the Federal Home Loan Bank of Atlanta (FHLB). The terms of the agreement call for pledging a portion of the Credit Union’s mortgage portfolio. The agreement provides for a maximum borrowing amount of $2.4 billion. As of December 31, 2018, fixed rate advances total $1.5 billion and have interest rates ranging from 1.13% to 4.935%.

The outstanding balances by maturity dates are as follows:

	December 31,	
2018	**2018**	**2017**
2019	$ -	$ 871,766,667
2020	1,326,357,143	109,071,429
2021	65,119,047	67,976,190
2022	6,071,428	8,928,571
2023	-	-
Subsequent years	7,466,667	-
	80,459,132	93,669,076
Interest payable	1,485,473,417	1,151,411,933
	1,877,308	1,452,787
	$1,487,350,725	$1,152,864,720

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union leases office and ATM facilities. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments for office and ATM facilities under operating leases with remaining terms of one year or more at December 31, 2018 are as follows:

Year Ending December 31,	Amount
2019	$ 2,050,589
2020	1,455,355
2021	1,392,154
2022	1,265,982
2023	1,020,064
2024 and after	3,302,321
Total	$ 10,486,465

Rental expense for the years ending December 31, 2018 and 2017 for all office facilities leased under operating leases approximated $612,000 and $346,000, respectively. Rental expense for the years ending December 31, 2018 and 2017 for all ATM facilities leased under operating leases approximated $847,000 and $773,000, respectively.

During the 2018 audit year, the Credit Union entered into contracts for the construction and renovation of branches. The current estimated cost of the construction and the amount incurred related to the projects was approximately $29.5 million as of December 31, 2018. The Credit Union is expecting to be complete with construction in 2019.

Legal contingencies

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

Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Jacksonville area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Off-Balance-Sheet Risk

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

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

Unfunded loan commitments under lines-of-credit are summarized as follows:

	December 31, 2018	December 31, 2017
Credit card	$ 629,990,502	$ 584,379,392
Home equity	215,618,680	196,021,054
Other consumer	96,144,626	94,007,491
Business	1,069,656	721,052
Total	$ 942,823,464	$ 875,128,989

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

Unrelated Business Income Tax

Unrelated Business Income Tax (UBIT) applies to income derived from a trade or business that is not substantially related to the performance of the organization's tax-exempt status. At the end of 2017, the President signed into law the Tax Cuts and Jobs Act of 2017 (TCJA). One provision under the law requires exempt organizations with more than one unrelated trade or business to compute Unrelated Business Taxable Income (UBTI) separately for each trade or business activity. The organization's unrelated business taxable income is calculated for each distinct trade or business and a net operating loss deduction is allowed only for a trade or business from which the lose occurred. This means that a deduction from one trade or business for a taxable year may not be used to offset income from a different unrelated trade or business for the same taxable year. However, the provision generally does not prevent an organization from using a net operating loss deduction from one taxable year to offset income from the same unrelated trade or business activity in another taxable year, where applicable. The provision is effective for tax for taxable years beginning after December 31, 2017.

In a second provision, the UBTI for exempt organizations with more than one unrelated trade or business is increased by certain fringe benefit expenses for which a deduction is not allowed. Under this provision, any expense with respect to qualified transportation fringe (QTF) benefits or any parking facility used for qualified parking is disallowed as an income tax deduction and treats the same expense as a UBTI. QFT include transportation in a commuter highway vehicle between the employee's residence and place of employment; any transit pass, qualified parking and bicycle commuting reimbursement. Parking is a QTF if the parking is provided by an employer to an employee on or near the business locations. The provision is effective for tax for taxable years beginning after December 31, 2017.

Both provisions are applicable to the Credit Union's operations and in the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Credit Union's non-taxable status is not expected to have a material effect on the Credit Union's financial position or results of operations.

NOTE 9: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a qualified, contributory 401(k) profit sharing plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage deferrals. The employer contributions are funded on a bi-weekly basis. The Credit Union funded $2.5 million and $2.2 million for 401(k) plan years ending December 31, 2018 and 2017, respectively.

Deferred Compensation 457(b) Plan

The Credit Union also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan permits the eligible employees to defer a portion of their salary until future years. The employer contributions are funded on a bi-weekly basis. The Credit Union funded $9,800 and $10,000 for Internal Revenue Code Section 457(b) plan years ended December 31, 2018 and 2017, respectively.

NOTE 10: RENTS UNDER OPERATING LEASES

The Credit Union leases office space to unrelated parties. These leases are classified as operating leases. Certain of these leases contain options to renew. The rental revenue recognized by the Credit Union was approximately $1.3 million and $0 for the years ended December 31, 2018 and 2017, respectively. The rental revenue includes reimbursement for various operating costs including common area maintenance, property taxes, and parking income.

A summary of the minimum future rents under the operating leases that have remaining noncancelable lease terms in excess of one year are as follows:

Year Ending December 31,	**Minimum Future Rents**
2019	$ 2,403,887
2020	2,859,158
2021	2,937,727
2022	2,699,406
2023	2,372,204
2024 and after	3,426,480
Total	$ 16,698,862

NOTE 11: MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under accounting standards generally accepted in the United States of America. 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 to total assets. Further, credit unions over $50 million in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement which establishes whether the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNW requirements as of December 31, 2018 and 2017 were 5.28% and 5.17%, respectively. The minimum ratio to be considered “complex” under the regulatory framework is 6%. Management believes, as of December 31, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

General Capital Requirements:

	December 31, 2018		December 31, 2017	
	Amount	**Ratio**	**Amount**	**Ratio**
Amount needed to be classified as "adequately capitalized"	$ 497,050,577	6.00%	$ 437,967,452	6.00%
Amount needed to be classified as "well capitalized"	$ 579,892,340	7.00%	$ 510,962,027	7.00%
Actual net worth	$ 720,988,965	8.70%	$ 640,580,056	8.78%

For December 31, 2018 and December 31, 2017, 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% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

Because the RBNW requirement is less than the net worth ratio, the Credit Union retains its original category of “well capitalized”. Further, in performing its calculation of total assets, the Credit Union used the average of the quarter-end balances of the four most recent quarters, as permitted by regulation.

NOTE 12: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Audit Committee Members, and Executive Officers. The aggregate loans to related parties as of December 31, 2018 and 2017, were approximately $3.9 million and $1.6 million, respectively.

NOTE 13: FAIR VALUE FINANCIAL INSTRUMENTS

The Credit Union discloses the fair value of assets and liabilities in accordance with the provisions of GAAP which defines fair value and establishes a framework for measuring fair value. The fair value of financial instruments represents the fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).

To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The availability of inputs relevant to the asset or liability and the relative reliability of the inputs might affect the selection of appropriate valuation techniques.

Level 1 Inputs
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity 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. In general, a quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 Inputs
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. An adjustment to a Level 2 input that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs shall reflect the reporting Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the Credit Union's own data. However, the unobservable inputs shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Available-for-Sale Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Assets Acquired in Liquidation

Fair value is measured based on the appraised value of the collateral or based on the collateral type, through the National Automobile Dealers Association (NADA) valuation tables. Collateral may be real estate, vehicles and/or business assets including equipment, and value is determined based on appraisals by qualified licensed appraisers hired by the Credit Union for real estate or NADA valuation tables for consumer collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the member and member's business.

Fair Value on a Recurring Basis

The following table presents the balances of financial assets that are measured and presented in the statements of financial condition at fair value on a recurring basis:

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments AFS	$1,793,706,340	$1,793,706,340	$ -	$ -

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments AFS	$1,079,065,450	$1,079,065,450	$ -	$ -

Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. The following table presents assets and liabilities carried on the statements of financial condition for which a nonrecurring change in fair value has been recorded during the year ended:

	December 31, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets acquired in liquidation	$ 1,380,432	$ -	$ 1,380,432	$ -

	December 31, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets acquired in liquidation	$ 691,576	$ -	$ 691,576	$ -

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