Certified Audit Report

717 CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

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

Nearman
Maynard • Vallez
Certified Public Accountants

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INDEPENDENT AUDITOR'S

REPORT

Nearman
Maynard•Vallez
Certified Public Accountants

Cecil D. Maynard, CPA, MPA, CFE, FCPA, CFF
Christopher J. Vallez, CPA, MBA
Jennifer N. Hoskins, CPA, MPA
Ellen E. Vargo, CPA, CFE, FCPA

Supervisory Committee
Seven Seventeen Credit Union, Inc.
Warren, Ohio

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Seven Seventeen Credit Union, Inc., 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.

Atlanta
205 Brandywine Blvd. Suite 100
Fayetteville, GA 30214-1561
800-288-0293

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10621 N Kendall Dr., #219
Miami, FL 33176
www.nearman.com

Supervisory Committee
Seven Seventeen Credit Union, Inc.
March 8, 2019

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seven Seventeen Credit Union, Inc. 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 8, 2019

CONSOLIDATED FINANCIAL STATEMENTS

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 17,697,439	$ 16,497,379
Investments:		
Available-for-sale	29,351,196	80,015,939
Held-to-maturity	4,426,000	7,954,000
Other	15,472,104	6,685,177
Federal Home Loan Bank (FHLB) stock	2,445,800	2,445,800
Loans held-for-sale	634,937	-
Loans receivable, net of allowance for loan losses	876,196,151	808,386,076
Accrued interest receivable	2,870,644	2,763,338
Premises and equipment, net	15,948,704	9,820,178
National Credit Union Share Insurance Fund deposit	8,201,697	7,910,046
Assets acquired in liquidation	180,420	244,618
Other assets	33,374,230	32,911,771
Total Assets	$ 1,006,799,322	$ 975,634,322

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2018	December 31, 2017
Liabilities		
Members' share and savings accounts	$ 834,278,405	$ 810,135,576
Borrowed funds	5,785,000	10,730,000
Interest payable	852,232	465,652
Accrued expenses and other liabilities	14,652,374	13,957,863
Total liabilities	855,568,011	835,289,091
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	11,249,296	11,249,296
Undivided earnings	136,471,590	125,044,359
Accumulated other comprehensive loss	(1,156,106)	(614,955)
Equity acquired in merger	4,666,531	4,666,531
Total members' equity	151,231,311	140,345,231
Total Liabilities and Members' Equity	$ 1,006,799,322	$ 975,634,322

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	December 31, 2018	December 31, 2017
Interest Income		
Interest on loans receivable	$ 43,920,735	$ 38,167,038
Interest on investments	1,471,632	2,026,418
Interest income	45,392,367	40,193,456
Interest Expense		
Dividends on members' share and savings accounts	3,464,973	2,357,681
Interest on borrowed funds	96,483	54,752
Interest expense	3,561,456	2,412,433
Net Interest Income	41,830,911	37,781,023
Provision for Loan Losses	5,370,983	3,917,835
Net Interest Income After Provision for Loan Losses	36,459,928	33,863,188
Non-Interest Income		
Fees and service charges	8,306,328	7,725,561
Other non-interest income	7,779,713	6,989,756
Gains on sale of investments, net	123,786	-
Gain on disposition of premises and equipment, net	41,533	9,354
Gain on disposition of assets acquired in liquidation, net	3,518	32,348
Non-interest income	16,254,878	14,757,019
	52,714,806	48,620,207
Non-Interest Expense		
Compensation and employee benefits	26,345,522	23,910,153
Operations	9,408,432	8,643,247
Education and promotion	3,375,066	2,973,893
Occupancy	1,529,639	1,460,189
Professional and outside services	628,916	628,059
Loss on sale of investments, net	-	32,567
Non-interest expense	41,287,575	37,648,108
Net Income	$ 11,427,231	$ 10,972,099

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

SEVEN SEVENTEEN CREDIT UNION, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

COMPREHENSIVE INCOME

	December 31, 2018	December 31, 2017
Net Income	$ 11,427,231	$ 10,972,099
Other Comprehensive Income (Loss)		
Net unrealized holding (losses)/gains on securities arising during the year	(417,365)	413,080
Less reclassification adjustment for net losses/(gains) included in net income	(123,786)	32,567
	(541,151)	445,647
Comprehensive Income	$ 10,886,080	$ 11,417,746

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired In Mergers	Total
Balance, December 31, 2016	$ 11,249,296	$ 114,072,260	$ (1,060,602)	$ 2,912,231	$ 127,173,185
Net income	-	10,972,099	-	-	10,972,099
Change in unrealized gain/(loss) on securities	-	-	445,647	-	445,647
Equity acquired in merger	-	-	-	1,754,300	1,754,300
Balance, December 31, 2017	11,249,296	125,044,359	(614,955)	4,666,531	140,345,231
Net income	-	11,427,231	-	-	11,427,231
Change in unrealized gain/(loss) on securities	-	-	(541,151)	-	(541,151)
Balance, December 31, 2018	$ 11,249,296	$ 136,471,590	$ (1,156,106)	$ 4,666,531	$ 151,231,311

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2018	December 31, 2017
Cash Flows From Operating Activities		
Net income	$ 11,427,231	$ 10,972,099
Adjustments to reconcile net income to net cash:		
Provision for loan losses	5,370,983	3,917,835
Depreciation of premises and equipment	932,496	857,121
Gain (loss) on sale of investments, net	(123,786)	32,567
Gain on disposition of premises and equipment, net	(41,533)	(9,354)
Gain on disposition of assets acquired in liquidation, net	(3,518)	(32,348)
Amortization of investment premiums/discounts	115,633	174,524
Amortization of loan premiums/discounts	(6,377)	-
Amortization of deferred loan origination fees/costs	2,708,514	1,940,533
Changes in operating assets and liabilities:		
Loans held-for-sale	(634,937)	-
Accrued interest receivable	(107,306)	(327,482)
Other assets	(462,459)	(6,678,582)
Dividends payable	386,580	93,341
Accrued expenses and other liabilities	694,511	776,590
Net cash provided by operating activities	20,256,032	11,716,844
Cash Flows From Investment Activities		
Purchases of:		
Held-to-maturity securities	-	(2,930,000)
Premises and equipment	(7,113,489)	(2,260,714)
Proceeds from:		
Maturities, paydowns and sales of available-for-sale securities	32,557,891	17,062,752
Maturities and paydowns of held-to-maturity securities	3,528,000	2,873,000
Sale of premises and equipment	94,000	300,000
Sale of mortgage loans	9,381,609	3,810,155
Sale of assets acquired in liquidation, net	349,405	324,989
Net change in:		
Other investments	8,786,927	21,822,494
Loans receivable, net of charge-offs	(86,924,416)	(101,163,335)
Assets acquired in liquidation	(128,275)	(9,778)
NCUSIF deposit	(291,651)	(458,528)
Merger activity	-	1,754,300
Recoveries on loans charged off	1,506,198	1,672,729
Net cash used in investing activities	(38,253,801)	(57,201,936)

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2018	December 31, 2017
Cash Flows From Financing Activities		
Net change in members' share and savings accounts	24,142,829	34,276,510
Proceeds from borrowings	3,055,000	10,730,000
Repayments of borrowings	(8,000,000)	-
Net cash provided by financing activities	19,197,829	45,006,510
Net Change in Cash and Cash Equivalents	1,200,060	(478,582)
Cash and Cash Equivalents at Beginning of Year	16,497,379	16,975,961
Cash and Cash Equivalents at End of Year	$ 17,697,439	$ 16,497,379
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 3,174,876	$ 2,319,092
Loans receivable transferred to assets acquired in liquidation	$ 153,414	$ 368,748
Subsequent write-down of assets acquired in liquidation, net	$ -	$ 1,871
Non-cash change in investments, net	$ -	$ -

Supplemental Schedule of Noncash Investing and Financing Information

Except for the cash received, the balances acquired in the merger as described in Note 13 of these financial statements are not included in the above because no cash was paid. Rather, only the transactions impacting cash flows after the date of acquisition are reflected in the corresponding sections (operating, investing, and financing) above.

The following schedule describes the Credit Union's noncash investing and financing activities relating to the merger during the year ended December 31, 2017.

Cash received in merger	$ 249,572
Acquired assets, net of cash received	10,063,992
Assumed liabilities	(8,559,264)
Equity acquired in merger	$ 1,754,300

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Seven Seventeen Credit Union, Inc. (the "Credit Union") is a cooperative association incorporated in the State of Ohio for the purposes of promoting thrift among, and creating a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

The Credit Union's wholly-owned credit union service organization (CUSO) subsidiary, Sound Financial Services, Inc. is engaged in providing maintenance and security services.

Principles of Consolidation

The consolidated financial statements ("financial statements") include the accounts of Seven Seventeen Credit Union, Inc. and its wholly owned CUSO subsidiary. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

For purposes of the statement of financial condition and the statement of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

The Credit Union's investments are classified and accounted for as follows:

Available-for-Sale: Investments are classified available-for-sale when Management anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value. Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in members' equity and comprehensive income.

Held-to-Maturity: Investments which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income.

Other Investments: Investments in this category do not meet the definition of a debt or equity security under U.S. GAAP. Other investments may include certain cash equivalents that Management has elected to classify as investments.

Realized gains and losses on disposition, if any, are computed using the specific identification method. The amortization of premiums and the accretion of discounts are recognized over the term of the related investment by a method that approximates the interest method.

Management periodically performs analyses to test for impairment of various assets. A significant impairment analysis relates to the other than temporary declines in the value of securities. Management conducts periodic reviews and evaluations of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such a decline is other than temporary. If such decline is deemed other than temporary, Management would adjust the amount of the security by writing it down to fair market value through a charge to current period operations.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Cincinnati, 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

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. The Credit Union received a partial redemption of their Class B Common Stock in Visa Inc. leaving a balance of 11,433 shares. 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 available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse.

Loans Receivable

The Credit Union grants mortgage, commercial, and consumer loans to members. The ability of the members to honor their contract is dependent upon the real estate market and general economic conditions. In addition, the Credit Union has purchased commercial, and/or consumer loan participations. The originating lender performs all servicing functions on these loans.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for loan losses and net deferred loan origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due ninety days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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.

Consumer and non real estate secured commercial loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

Deferred Loan Fees and Costs

Loan origination fees and costs are deferred and amortized over the estimated life of the loan using a method that approximates the interest method. Deferred fees and costs are recognized as an adjustment to interest income on loans over the average life of the related loan.

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 any 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. In addition, the Credit Union's regulator, as an integral part of its examination process, periodically reviews the Credit Union's allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

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.

Premises and Equipment
Land is carried at cost. Building(s), furniture, and equipment are carried at cost, less accumulated depreciation. Building(s), furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. 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.

Assets Acquired in Liquidation
Assets acquired in liquidation in lieu of loan foreclosure are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The Credit Union has approximately $180,000 and $245,000 in foreclosed residential real estate property held for sale as of December 31, 2018 and 2017, respectively. In addition, the Credit Union has approximately $905,000 and $435,000 in loans collateralized by residential real estate in the process of foreclosure as of December 31, 2018 and 2017, respectively.

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 insurable shares, less any reportable impairment. 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.

Members' Share 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 and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

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 Mergers
Equity acquired in mergers 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 National Credit Union Administration.

Federal and State Tax Exemption
The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. However, the Credit Union is subject to unrelated business income tax. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the 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. As of and for the tax years ended December 31, 2018 and 2017, Management has determined there are no material uncertain tax positions. However, the Credit Union is subject to unrelated business income tax.

The Credit Union wholly owns the consolidated CUSO. The income from the CUSO is subject to most federal and state income taxes.

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.

Advertising Costs
Advertising costs are expensed as incurred.

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

Level 1 Inputs
Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 Inputs
Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 Inputs
Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on a instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union adopted the policy to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events
In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through March 8, 2018, the date on which the financial statements were available to be issued.

Reclassifications
Certain 2017 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13, "Financial Instruments-Credit Losses", (Topic 326)

This ASU requires an approach based on expected losses to estimate 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 ASU requires credit unions to measure impairment on their existing loan portfolios on the basis of the current estimate of contractual cash flows not expected to be collected. The estimate of expected credit losses is based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable supportable forecasts that affect the expected collectability of the assets' remaining contractual cash flows. This new model is called the Current Expected Credit Loss (CECL) model.

The transition to the CECL model will bring with it significantly greater data requirements and demand a more complex methodology to accurately account for expected losses under the new parameters. The transition will also require a significant increase in the allowance for loan and lease losses (ALLL) account balance. FASB has allowed for this one-time increase in the ALLL to come directly from undivided earnings, rather than reflected through the provision for loan losses expense account. The increase, or the adjustment to the ALLL, will reduce net worth, however it does spare a negative impact to the income statement. This ASU applies to all financial assets that are not accounted for at fair value and are exposed to potential credit risk.

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2021. Early application of the standard is permitted for fiscal years beginning after December 15, 2018. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2022.

ASU No. 2016-02 "Leases", (Topic 842)

The ASU is intended to improve financial reporting about leasing transactions and affects all companies and other organizations. The ASU will require organizations that lease assets (referred to as "lessees") to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

While the accounting by the lessor will remain largely unchanged from current GAAP, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The effective date for credit unions is for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2020.

ASU No. 2016-01 "Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities."

The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information.

The update has two areas of interest to credit unions. One is the removal of the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The other has a more significant potential impact.

The ASU requires entities to record equity securities at fair value with adjustments to fair value recorded through the income statement. Currently many securities meeting the definition of an equity security are recorded as available-for-sale with fair value adjustments recorded as part of other accumulated comprehensive income. Securities meeting the definition of an equity security include any ownership interest in an entity. Credit unions with investments in mutual funds, stocks, limited partnerships, and trusts could see unacceptable levels of earnings volatility on their income statements.

Removing the disclosure of fair value of financial instruments is available for implementation immediately upon issuance 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 Union's may adopt this ASU early with fiscal years beginning after December 15, 2018. Since all credit union's 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"

In March 2017, the FASB issued 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.

NOTE 2: INVESTMENTS

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**
Federal agency and private label mortgage backed securities	$ 30,507,302	$ 29,115	$ (1,185,221)	$ 29,351,196

	December 31, 2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Federal agency and private label mortgage backed securities	$ 37,523,508	$ 53,236	$ (1,028,717)	36,548,027
Marketable equity securities	23,107,476	615,498	(228,842)	23,494,132
U.S. Government obligations securities	19,999,910	-	(26,130)	19,973,780
Total	$ 80,630,894	$ 668,734	$ (1,283,689)	$ 80,015,939

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
Federal agency and private label mortgage backed securities	$ 640,559	$ (2,310)	$ 28,196,400	$ (1,182,911)

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency and private label mortgage backed securities	$ 6,712,358	$ (38,307)	$ 27,740,580	$ (18,686)
Marketable equity securities	-	-	14,823,501	(228,842)
U.S. Government obligations securities	7,992,556	(7,444)	11,981,224	-
Total	$ 14,704,914	$ (45,751)	$ 54,545,305	$ (1,237,938)

There are a total of 30 and 67 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.

Proceeds from sales of investment securities classified as available-for-sale and gross realized gains and losses from those are as follows:

	December 31,	
	2018	2017
Sales proceeds	$ 23,303,637	$ 7,993,620
Gross realized gains	$ 477,567	$ 141
Gross realized losses	$ (353,781)	$ 32,708

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2018	
	Amortized Cost	Fair Value
Federal agency and private label mortgage backed securities	$ 30,507,302	$ 29,351,196

Mortgage-backed securities classified as available-for-sale represent participation interest in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments, and not to the market value of such securities.

Mortgage-backed securities are issued by lenders, such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities, which provide for the periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or on specific dates. Mortgage-backed securities provide periodic payments which are, in effect, a "pass-through" of the interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. A mortgage-backed security will mature when all the mortgages in the pool mature or are prepaid. Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall.

Other-Than-Temporary Impairment

The Credit Union routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are non-agency mortgage-backed securities (MBS). For each non-agency MBS in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are based on default rates and severity.

Other inputs may include the actual collateral attributes, which include geographic concentrations, credit ratings, and other performance indicators of the underlying asset.

To determine if the unrealized loss for non-agency MBS is other-than-temporary, the Credit Union projects total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected loss. The Credit Union also evaluates the current credit enhancement underlying the bond to determine the impact on cash flows. If it is determined that a given MBS position will be subject to a write-down or loss, the Credit Union records the expected credit loss as a charge to earnings while the non-credit portion is recorded to other comprehensive income (OCI).

Held-to-Maturity

Investments classified as held-to-maturity securities consist of the following:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 4,426,000	$ -	$ (24,424)	$ 4,401,576

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 7,954,000	$ 632	$ (20,596)	$ 7,934,036

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
Certificates of deposit	$ 491,090	$ (8,910)	$ 3,910,486	$ (15,514)

	December 31, 2017			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 5,796,584	$ (18,417)	$ 743,820	$ (2,179)

There are a total of 19 and 30 debt 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.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2018	
	Amortized Cost	Fair Value
Within 1 year	$ 4,026,000	$ 4,010,096
1 to 5 years	400,000	391,480
Total	$ 4,426,000	$ 4,401,576

Other Investments

Other investments consist of the following:

	December 31,	
	2018	2017
Certificates of deposit	$ 1,668,490	$ 3,363,096
Perpetual capital at Corporate One Federal Credit Union	1,351,069	1,351,069
Other deposits at corporate credit unions	12,452,545	1,870,948
Money market accounts	-	100,064
Total	$ 15,472,104	$ 6,685,177

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31, 2018	December 31, 2017
Residential first mortgage real estate	$ 309,709,845	$ 294,015,181
Residential second mortgage real estate	80,707,841	78,479,002
Consumer secured	317,856,897	264,649,181
Consumer unsecured	69,642,757	70,334,981
Commercial real estate	101,599,845	100,372,018
Other commercial	2,619,966	5,252,713
	882,137,151	813,103,076
Allowance for loan losses	(5,941,000)	(4,717,000)
Loans receivable, net	$ 876,196,151	$ 808,386,076

Included in the amounts above are approximately $1,692,000 and $1,514,000 of deferred loan origination fees/costs as of December 31, 2018 and 2017, respectively. Also, included in the amounts above are approximately $44,000 and $20,000 of premiums and discounts on loans acquired as of December 31, 2018 and 2017, respectively.

Allowance for Loan Losses Account

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

	For the year ending December 31, 2018			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 126,220	$ 826,523	$ 3,764,257	$ 4,717,000
Provision for loan losses	156,979	(494,450)	5,708,454	5,370,983
Recoveries on previous loan losses	1,557	293,904	1,210,737	1,506,198
Loans receivable charged off	(183,921)	(264,551)	(5,204,709)	(5,653,181)
Ending balance	$ 100,835	$ 361,426	$ 5,478,739	$ 5,941,000
Allowance for loan losses:				
Individually evaluated for impairment	$ 2,338	$ 29,154	$ 91,439	$ 122,931
Collectively evaluated for impairment	98,497	332,272	5,387,300	5,818,069
Total allowance for loan losses	$ 100,835	$ 361,426	$ 5,478,739	$ 5,941,000
Loans receivables:				
Individually evaluated for impairment	$ 6,892	$ 904,573	$ 576,687	$ 1,488,152
Collectively evaluated for impairment	104,212,919	389,513,113	386,922,967	880,648,999
Total loans receivables	$ 104,219,811	$ 390,417,686	$ 387,499,654	$ 882,137,151

	For the year ending December 31, 2017			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 125,650	$ 895,381	$ 2,896,969	$ 3,918,000
Provision for loan losses	(7,630)	343,477	3,581,988	3,917,835
Recoveries on previous loan losses	8,200	533,148	1,131,381	1,672,729
Loans receivable charged off	-	(945,483)	(3,846,081)	(4,791,564)
Ending balance	$ 126,220	$ 826,523	$ 3,764,257	$ 4,717,000
Allowance for loan losses:				
Individually evaluated for impairment	$ -	$ 48,888	$ 94,734	$ 143,622
Collectively evaluated for impairment	126,220	777,635	3,669,523	4,573,378
Total allowance for loan losses	$ 126,220	$ 826,523	$ 3,764,257	$ 4,717,000
Loans receivables:				
Individually evaluated for impairment	$ 382,518	$ 993,709	$ 660,488	$ 2,036,715
Collectively evaluated for impairment	105,242,213	371,500,474	334,323,674	811,066,361
Total loans receivables	$ 105,624,731	$ 372,494,183	$ 334,984,162	$ 813,103,076

Impaired Loans

The Credit Union considers loans impaired when, based on current information, it is probable that the Credit Union will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Credit Union's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of “minimal delay” in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	As of December 31, 2018		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 793,194	$ 27,278	$ 39,660
Residential second mortgage real estate	111,379	1,876	11,138
Consumer secured	294,863	20,635	7,372
Consumer unsecured	281,824	70,804	9,718
Commercial real estate	6,892	2,338	6,892
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ 904,573	$ 29,154	$ 30,152
Consumer	$ 576,687	$ 91,439	$ 8,358
Commercial	$ 6,892	$ 2,338	$ 6,892

	As of December 31, 2017		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 834,433	$ 38,814	$ 41,722
Residential second mortgage real estate	159,276	10,074	12,252
Consumer secured	286,659	21,563	5,972
Consumer unsecured	373,829	73,171	10,681
Commercial real estate	-	-	-
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	382,518	-	382,518
Other commercial	-	-	-
Total:			
Residential real estate	$ 993,709	$ 48,888	$ 30,112
Consumer	$ 660,488	$ 94,734	$ 7,958
Commercial	$ 382,518	$ -	$ 382,518

Past Due Loans by Class

The following tables present the aging of the recorded investment in past due loans by class of loans.

	As of December 31, 2018			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 308,441,442	$ 395,094	$ 873,309	$ 309,709,845
Residential second mortgage real estate	80,295,760	154,530	257,551	80,707,841
Consumer secured	315,498,529	685,895	1,672,473	317,856,897
Consumer unsecured	68,778,648	284,670	579,439	69,642,757
Commercial real estate	100,690,290	909,555	-	101,599,845
Other commercial	2,619,966	-	-	2,619,966
Total	$ 876,324,635	$ 2,429,744	$ 3,382,772	$ 882,137,151

	As of December 31, 2017			
	Current	**60-89 Days Past Due**	**90 Days or > Past Due**	**Total**
Residential first mortgage real estate	$ 292,091,846	$ 719,455	$ 1,203,880	$ 294,015,181
Residential second mortgage real estate	78,061,553	137,325	280,124	78,479,002
Consumer secured	262,927,124	722,683	999,374	264,649,181
Consumer unsecured	69,410,240	253,326	671,415	70,334,981
Commercial real estate	100,372,018	-	-	100,372,018
Other commercial	5,252,713	-	-	5,252,713
Total	$ 808,115,494	$ 1,832,789	$ 3,154,793	$ 813,103,076

The accrual of interest income on loans, is discontinued at the time the loan is ninety 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 $3,383,000 and $3,155,000 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.

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

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

	As of December 31, 2018		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$ 308,836,536	$ 873,309	$ 309,709,845
Residential second mortgage real estate	80,450,290	257,551	80,707,841
Consumer secured	316,184,424	1,672,473	317,856,897
Consumer unsecured	69,063,318	579,439	69,642,757
Commercial real estate	101,599,845	-	101,599,845
Other commercial	2,619,966	-	2,619,966
Total	$ 878,754,379	$ 3,382,772	$ 882,137,151

	As of December 31, 2017		
	Performing	**Nonperforming**	**Total**
Residential first mortgage real estate	$ 292,811,301	$ 1,203,880	$ 294,015,181
Residential second mortgage real estate	78,198,878	280,124	78,479,002
Consumer secured	263,649,807	999,374	264,649,181
Consumer unsecured	69,663,566	671,415	70,334,981
Commercial real estate	100,372,018	-	100,372,018
Other commercial	5,252,713	-	5,252,713
Total	$ 809,948,283	$ 3,154,793	$ 813,103,076

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	1	$ 22,636	$ 22,636
Consumer	70	$ 442,361	$ 442,361
Commercial	1	$ 6,909	$ 6,909

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	0	$ -
Consumer	34	$ 257,740
Commercial	0	$ -

	For the year ending December 31, 2017		
Troubled debt restructurings:	**# of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Residential real estate	5	$ 200,308	$ 200,308
Consumer	66	$ 546,394	$ 546,394
Commercial	0	$ -	$ -

Troubled debt restructurings that subsequently defaulted:	**# of Loans**	**Balance**
Residential real estate	0	$ -
Consumer	20	$ 163,287
Commercial	0	$ -

NOTE 4: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31, 2018	December 31, 2017
Land	$ 1,632,262	$ 1,632,262
Building(s)	20,411,328	19,513,875
Furniture and equipment	9,576,409	9,546,554
Construction in process	6,914,340	1,716,913
	38,534,339	32,409,604
Less accumulated depreciation	(22,585,635)	(22,589,426)
Premises and equipment, net	$ 15,948,704	$ 9,820,178

NOTE 5: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts consist of the following:

	December 31, 2018	December 31, 2017
Share draft accounts	$ 149,836,577	$ 145,280,511
Money market accounts	187,086,523	207,483,559
Share accounts	338,576,690	327,867,139
Certificate accounts	158,778,615	129,504,367
Total	$ 834,278,405	$ 810,135,576

The aggregate amount of certificate accounts in denominations of $250,000 or more were approximately $5,265,000 and $4,978,000 as of December 31, 2018 and 2017, respectively.

The aggregate amount of members' share and saving accounts maintaining a negative balance that were reclassed to loans receivable were approximately $436,000 and $374,000 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	$ 63,650,351
2020	64,984,414
2021	14,138,012
2022	7,916,887
2023	8,088,951
Total	$ 158,778,615

Non-member Shares

Included in the certificate accounts are certificates issued to non-members. The amounts of non-member certificates were approximately $0 and $1,984,000 for the years ended 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 6: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a safe harbor 401(k) plan covering all eligible employees. The Credit Union has committed to making safe harbor contributions equal to 3% of employees' eligible salary. The employer safe harbor contributions are 100% vested at the time of payment. Additionally, employees may elect to make salary deferral contributions to the Plan. Employees are eligible to participate for purposes of salary deferral after completing 90 days of credited service and attaining age 18. Participant salary deferral contributions can be either Pre-Tax 401(k) deferrals or Roth 401(k) deferrals. Total salary deferrals in any taxable year may not exceed IRC limitations. Participant salary deferrals are 100% vested. The Credit Union contributes a matching contribution up to 6% of the participants' eligible, elective salary deferrals. The Credit Union will make an annual profit sharing contribution equal to a specified percentage of salary to all employees eligible to share in allocations. Employer matching contributions and annual profit sharing contributions are vested subject to the Plan's six Year Graded Schedule. Special annual contributions as described in the Summary Plan Description will be made by the Credit Union to the employees specifically listed and are 100% vested at the time of payment. The 401(k) plan expense was approximately $2,455,000 and $2,329,000 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation 457(f) Plan

The Credit Union maintains non-qualified pension plans for a select group of Management. Participants are eligible based on approval by the Credit Union's Board of Directors. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation. The asset related to this plan approximated $173,000 and $175,000 as of December 31, 2018, and 2017, respectively.

Credit Union Owned Life Insurance (COLI)

The Credit Union has Credit Union Owned Life Insurance (COLI) policies that are maintained to provide income to offset the cost of employee benefits. The balance of the COLI policies were approximately $9,326,000 and $9,325,000 as of December 31, 2018 and 2017, respectively.

Split Dollar Life Insurance

The Credit Union provides certain executives with a Supplemental Executive Retirement Plan (SERP). The SERP is being funded via life insurance policies and split dollar loan agreements have been entered into with each of the executives covered under the SERP. As part of the split dollar loan agreements, the executives have assigned the policies to Seven Seventeen Credit Union, Inc. as collateral. This assignment secures repayment of any advances and accrued interest for the policy premiums and any other advances under any agreement. The loans have a fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually. Total split dollar loans and accrued interest outstanding at December 31, 2018 and 2017 was $20,540,000 and $20,110,000, respectively and is included in other assets in the accompanying consolidated balance sheets.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union has entered into various leasing agreements. The minimum remaining non-cancelable lease obligations are approximately the following as of December 31, 2018:

Year Ending December 31,	Amount
2019	$ 97,000
2020	97,000
2021	47,000
Total	$ 241,000

Total rental expenses approximated $102,000 for the years ended December 31, 2018 and 2017.

During the 2017 audit year, the Credit Union entered into a contract for the construction and renovation of branches. As of December 31, 2017, the current estimated cost of the construction was approximately $10,221,000. As of December 31, 2017, the Credit Union has incurred approximately $1,717,000 of charges related to the project. 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.

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	$ 102,594,211	$ 101,849,872
Home equity	49,469,536	47,480,681
Other consumer	18,895,042	19,368,852
Overdraft protection	14,865,182	31,012,643
Commercial	1,729,036	1,655,645
Construction	820,987	765,400
Total	$ 188,373,994	$ 202,133,093

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.

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 Northeast Ohio. 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.

NOTE 8: 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 $28,000 and $26,000 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	$ 18,000
2020	7,000
Total	$ 25,000

NOTE 9: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2018 and 2017, the Credit Union had a line-of-credit with Corporate One Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was $10,000,000 as of December 31, 2018 and 2017. There were no outstanding borrowings as of these dates.

Federal Reserve Bank Line-of-Credit
As of December 31, 2018 and 2017, the Credit Union had an line-of-credit with Federal Reserve Bank. The terms of the agreement require the pledging of qualified auto loans as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was approximately $197,300,000 and $154,856,000 as of December 31, 2018 and 2017, respectively. There were no outstanding borrowings as of these dates.

Federal Home Loan Bank
As a member of the Federal Home Loan Bank (FHLB), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral for advances. Qualified collateral, as defined in the FHLB Statement of Credit Policy, is free and clear of liens, pledges, and encumbrances. The Federal Home Loan Bank advances are collateralized by the FHLB stock owned by the Credit Union and a blanket lien against the Credit Union's qualified mortgage loan portfolio. Maximum borrowing capacity from the FHLB totaled approximately $506,099,000 and $481,549,000 as of December 31, 2018 and 2017 respectively. As of December 31, 2018 and 2017, the outstanding balances, maturities, and interest rates of these loans were as follows:

Description	Maturity Date	Interest Rate	December 31, 2018	December 31, 2017
Loan No. 13	03/23/18	1.32%	$ -	$ 8,000,000
Loan No. 14	08/28/20	1.68%	2,730,000	2,730,000
Loan No. 19	12/01/28	3.65%	1,200,000	-
Loan No. 20	12/01/23	3.49%	1,855,000	-
			$ 5,785,000	$ 10,730,000

Scheduled maturities of borrowed funds at December 31, 2018, are as follows:

Year Ending December 31,	Amount
2019	$ -
2020	2,730,000
2021	-
2022	-
2023	1,855,000
2024 and after	1,200,000
Total	$ 5,785,000

NOTE 10: CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under 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. Furthermore, credit unions over $50,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. The minimum risk-based net worth ratio to be considered complex under the regulatory framework is 6.00%. If the Credit Union falls under the "complex" category, an additional Risk-Based Net Worth (RBNW) requirement may be imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

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

	Risk Based Net Worth Ratio	
	December 31, 2018	**December 31, 2017**
Risk Based Net Worth Ratio	6.24%	6.16%
Credit Union considered complex?	Yes	Yes

	General Capital Requirements			
	December 31, 2018		**December 31, 2017**	
	Amount	**Requirement /Ratio**	**Amount**	**Requirement /Ratio**
Amount needed to be classified as "well capitalized"	$ 70,475,953	7.00%	$ 68,294,403	7.00%
Regulatory net worth	$ 152,387,417	15.12%	$ 140,960,187	14.44%

NOTE 11: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Audit or Supervisory Committee members and executive officers. The aggregate loans to related parties as of December 31, 2018 and 2017, were approximately $1,304,000 and $1,700,000, respectively. Shares from related parties as of December 31, 2018 and 2017, amounted to approximately $877,000 and $1,044,000, respectively.

NOTE 12: FAIR VALUE MEASUREMENTS

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 - Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 29,351,196	$ -	$ 29,351,196	$ -

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 80,015,939	$ 23,494,132	$ 56,521,807	$ -

Nonrecurring Basis

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

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	$ 180,240	$ -	$ 180,240	$ -

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	$ 244,618	$ -	$ 244,618	$ -

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. Collateral may be real estate, vehicles and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Credit Union. 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.

NOTE 13: MERGER

Effective October 1, 2017, the Credit Union completed the merger of Credit Union One, Inc., the acquiree in this business combination. Credit Union One, Inc. was a state chartered credit union located in North Jackson, Ohio, founded as a cooperative association for the purposes of promoting thrift among, and creating a source of credit for its members. The reason for the merger is to further promote thrift among its members consistent with purpose when founded. The merger is a business combination of two mutual entities accounted for in accordance with the provisions of acquisition method accounting. The application of acquisition method accounting requires that the acquiree credit union's assets and liabilities be recorded at fair value. The difference between the fair value of assets and liabilities obtained during the merger are reflected in either a bargain purchase gain or goodwill. In addition, the acquirer in a combination of mutual entities recognizes the acquiree's net assets as a direct addition to equity in its statement of financial position, not as an addition to retained earnings. Based on the asset size of Credit Union One, Inc. amortized cost is equivalent to its fair market value and is reflected in the attached audited financial statements. In addition, merged equity as a result of the merger approximated $1,754,000.

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