PREMIER COMMUNITY CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2019 AND 2018

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YEARS ENDED MARCH 31, 2019 AND 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Premier Community Credit Union
Stockton, California

We have audited the accompanying financial statements of Premier Community Credit Union, which comprise the statements of financial condition as of March 31, 2019 and 2018 and the related statements of income, comprehensive income (loss), changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Premier Community Credit Union as of March 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
June 24, 2019

PREMIER COMMUNITY CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 14,235,534	$ 17,741,733
Deposits in Other Financial Institutions	15,222,000	15,961,000
Securities – Available-for-Sale	40,554,394	40,502,726
Other Investments	614,530	598,402
Loans, Net	75,283,093	66,374,290
Accrued Interest Receivable	422,626	349,641
Premises and Equipment, Net	4,328,144	4,471,470
Share Insurance Deposits	1,417,921	1,351,285
Other Assets	3,440,354	3,363,446
Total Assets	$ 155,518,596	$ 150,713,993
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 138,933,382	$ 135,746,666
Accrued Expenses and Other Liabilities	2,317,231	1,869,421
Total Liabilities	141,250,613	137,616,087
MEMBERS' EQUITY		
Regular Reserves	1,825,000	1,825,000
Undivided Earnings	13,094,819	12,447,252
Accumulated Other Comprehensive Loss	(651,836)	(1,174,346)
Total Members' Equity	14,267,983	13,097,906
Total Liabilities and Members' Equity	$ 155,518,596	$ 150,713,993

See accompanying Notes to Financial Statements.

PREMIER COMMUNITY CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Loans	$ 3,231,293	$ 2,947,165
Securities and Interest-Bearing Deposits	1,514,605	1,237,930
Total Interest Income	4,745,898	4,185,095
INTEREST EXPENSE		
Members' Share and Savings Accounts	207,400	192,979
Borrowed Funds	378	88
Total Interest Expense	207,778	193,067
NET INTEREST INCOME	4,538,120	3,992,028
Provision for Loan Losses	340,454	280,333
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,197,666	3,711,695
NONINTEREST INCOME		
Service Charges and Fees	1,814,607	1,916,231
Other Noninterest Income	260,703	371,205
Net Gain on Sale of Securities Available-for-Sale	-	1,323
Total Noninterest Income	2,075,310	2,288,759
NONINTEREST EXPENSE		
Employee Compensation and Benefits	2,870,969	2,752,270
Office Occupancy	405,898	425,547
Office Operations	1,594,141	1,430,800
Other Operating Expenses	754,401	742,080
Total Noninterest Expense	5,625,409	5,350,697
NET INCOME	$ 647,567	$ 649,757

See accompanying Notes to Financial Statements.

PREMIER COMMUNITY CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
NET INCOME	$ 647,567	$ 649,757
OTHER COMPREHENSIVE INCOME (LOSS)		
AVAILABLE-FOR-SALE SECURITIES		
Unrealized Holding Gain (Loss) Arising During the Period	522,510	(720,953)
Reclassification for Realized Gains Included in Net Income During the Period	-	(1,323)
Total Other Comprehensive Income (Loss)	522,510	(722,276)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 1,170,077	$ (72,519)

See accompanying Notes to Financial Statements.

PREMIER COMMUNITY CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED MARCH 31, 2019 AND 2018

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCES AT MARCH 31, 2017	$ 1,825,000	$ 11,797,495	$ (452,070)	$ 13,170,425
Net Income	-	649,757	-	649,757
Other Comprehensive Loss	-	-	(722,276)	(722,276)
BALANCES AT MARCH 31, 2018	1,825,000	12,447,252	(1,174,346)	13,097,906
Net Income	-	647,567	-	647,567
Other Comprehensive Income	-	-	522,510	522,510
BALANCES AT MARCH 31, 2019	$ 1,825,000	$ 13,094,819	$ (651,836)	$ 14,267,983

See accompanying Notes to Financial Statements.

PREMIER COMMUNITY CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 647,567	$ 649,757
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	356,535	341,232
Amortization of Security Premiums/Discounts, Net	245,585	237,050
Provision for Loan Losses	340,454	280,333
Amortization of Net Loan Origination Costs	108,330	79,923
Gain on Sale of Available-for-Sale Investments	-	(1,323)
Changes in:		
Accrued Interest Receivable	(72,985)	(43,761)
Other Assets	(76,908)	(103,207)
Accrued Expenses and Other Liabilities	447,810	218,786
Net Cash Provided by Operating Activities	1,996,388	1,658,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Securities:		
Available-for-Sale	(7,146,288)	(12,199,314)
Proceeds from Maturities and Paydowns of Securities:		
Available-for-Sale	7,371,545	13,751,471
Proceeds from Sales of Securities Available-for-Sale	-	1,001,323
Net Decrease in Deposits in Other Financial Institutions	739,000	1,263,000
Net Increase in Other Investments	(16,128)	(13,978)
Loan Originations Net of Principal Collected on Loans to Members	(9,357,587)	(9,227,699)
Increase in Share Insurance Deposits	(66,636)	(67,007)
Expenditures for Premises and Equipment	(213,209)	(249,143)
Net Cash Used by Investing Activities	(8,689,303)	(5,741,347)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	3,186,716	6,198,094
Advances on Borrowed Funds	14,894,876	33,517,835
Repayments on Borrowed Funds	(14,894,876)	(33,517,835)
Net Cash Used by Financing Activities	3,186,716	6,198,094
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,506,199)	2,115,537
Cash and Cash Equivalents – Beginning of Year	17,741,733	15,626,196
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 14,235,534	$ 17,741,733
SUPPLEMENTARY DISCLOSURE OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Interest Paid	$ 378	$ 88
Member Share and Savings Interest Paid	$ 207,400	$ 192,979

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Premier Community Credit Union is a state-chartered cooperative association organized under the State of California Credit Union Act for the purpose of promoting thrift among and creating a source of credit for its members.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and bylaws. This generally consists of people whom are employed in the field of education, or who live and work in San Joaquin County, California.

Uses of Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of investment securities and the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside within a geographical field of membership located primarily in San Joaquin County, California.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for consumer – automobile and residential real estate – first mortgage loans.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements 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.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Deposits in Other Financial Institutions

Deposits in other financial institutions include certificates of deposit. These are stated at cost. The certificates of deposit all mature within five years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Debt and equity securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost, that are other than temporary, result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

The Credit Union did not have any investment securities classified as held-to-maturity at March 31, 2019 and 2018.

The Credit Union did not record any other than temporary impairment during the years ended March 31, 2019 and 2018.

Other Investments

Other investments are classified separately and are stated at cost, subject to impairment.

Loans, Net

The Credit Union grants consumer, mortgage, and commercial loans to members and purchases loan participations. A substantial portion of the loan portfolio is represented by mortgage and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate values 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, adjusted for an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

The accrual of interest on a loan is discontinued at the time the loan is 60 days delinquent unless the credit is well secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual 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 nonaccrual or charged off are 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 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 methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

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

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

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. Specific allowances for loan losses are established for large impaired loans on an individual basis. A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The specific allowances established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (12 months). These factors are developed and applied to the portfolio in terms of loan type.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower’s financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers’ capacity to repay their obligations may be deteriorating.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower’s ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segment. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers’ capacity to repay their obligations may be deteriorating.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The portfolio segments that are risk rated and its risk characteristics are described as follows:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate and construction/ development projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Other: Commercial other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

High Quality: Loans classified in the High Quality range have no existing or known potential weaknesses deserving of management's close attention (risk ratings 1-3).

Acceptable Quality: Loans classified as Acceptable Quality have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Acceptable Quality loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification (risk ratings 4-6).

Watch: Loans classified as Watch are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Watch have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow, or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected (risk rating 7).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The portfolio segment that is risk rated and its risk characteristics are described as follows:

Classified (Substandard and Doubtful): A Classified loan has all the weaknesses inherent in those classified as Watch, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable (risk ratings 8-9).

Loss: Loans classified as Loss are considered uncollectible and anticipated to be charged-off (risk rating 10).

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Off-Statement of Financial Condition Credit Related Financial Instruments

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

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure or repossession, establishing a new cost basis, and included in other assets on the statements of financial condition. Subsequent to foreclosure or repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expenses. Gains and losses from sales of foreclosed and repossessed assets are included in other noninterest income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment, Net

Land is carried at cost. Building, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, 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 or estimated useful life, whichever is shorter.

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit and Share Insurance Premium Assessments

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 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

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

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF. During the years ended March 31, 2019 and 2018, the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution reported within Other Noninterest Income totaled $1,350 and $94,159 for the years ended March 31, 2019 and 2018, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASI Deposit

The deposit maintained in the American Share Insurance Fund (ASI) is to provide members' shares an additional $250,000 in insurance per account. 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 ASI Board.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss), also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

Reclassifications from accumulated other comprehensive loss for securities – available-for-sale are reported as net gain on sale of securities available-for-sale on the statements of income.

Income Taxes

The Credit Union is exempt, under Internal Revenue Code 501(c)(14), from federal and state income taxes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Credit Union has filed tax returns for the 2017 calendar year and is in process of filing the 2018 return for activities is has deemed taxable.

The taxing authorities have the ability to assess taxes, penalties, and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities potentially deemed to be unrelated to the Credit Union's exempt purpose is not expected to have a material effect on the Credit Union's financial position or results of operations.

The Credit Union evaluated its tax positions and determined no uncertain tax positions exist as of March 31, 2019 and 2018.

The Credit Union's 2015 through 2017 tax years are open for examination by federal and state taxing authorities.

Retirement Plans

401(k) Plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to 75% of the participant's annual compensation. The Credit Union may make discretionary matching contributions as approved by the Board of Directors. The Credit Union contributed approximately $53,000 and $44,000 for the years ended March 31, 2019 and 2018, respectively.

Company Owned Life Insurance Plan – The Credit Union has a company owned life insurance policies (COLI) for certain key management employees. The COLI provides certain death benefits to beneficiaries of executive employees in an amount equal to 10% of the death benefit on the employee's date of death. The Credit Union has purchased COLI through a broker, CUNA Mutual Insurance Company, on the lives of participating employees. The insurance premiums paid for investments were held in Pacific Life and John Hancock. The total plan investment of $2,459,450 and $2,412,881 are included in Other Assets on the statements of financial condition as of March 31, 2019 and 2018, respectively, and are reported at their cash surrender value.

Advertising Costs

Advertising and promotion costs which totaled approximately $113,000 and $104,000 for the years ended March 31, 2019 and 2018, respectively, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

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.

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 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 an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected 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.

New Accounting Pronouncements

In May 2014, the FASB approved ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expended disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgements and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the amended revenue recognition guidance on the Credit Union's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. Management is currently evaluating the impact of ASU 2016-02 on the financial statements.

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The guidance requires an entity to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management believes that this standard will not have a material impact on the Credit Union's financial statements.

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The main objective of the ASUs are to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASUs are effective for the Credit Union for the fiscal year beginning after December 15, 2021, including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. Management is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the financial statements.

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through June 24, 2019, the date the financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Available-for-Sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
March 31, 2019				
U.S. Government and Federal Agency Securities	$ 2,000,000	$ -	$ (40,940)	$ 1,959,060
Federal Agency Mortgage-Backed Securities	19,781,396	44,070	(334,608)	19,490,858
Collateralized Mortgage Obligation Securities	14,661,538	13,296	(299,530)	14,375,304
Mutual Funds	1,804,662	-	(43,548)	1,761,114
Negotiable Certificates of Deposit	2,958,634	14,534	(5,110)	2,968,058
Total	$ 41,206,230	$ 71,900	$ (723,736)	$ 40,554,394

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
March 31, 2018				
U.S. Government and Federal Agency Securities	$ 2,000,000	$ -	$ (74,490)	$ 1,925,510
Federal Agency Mortgage-Backed Securities	18,780,190	124	(548,674)	18,231,640
Collateralized Mortgage Obligation Securities	16,873,659	-	(481,226)	16,392,433
Mutual Funds	1,804,662	-	(54,578)	1,750,084
Negotiable Certificates of Deposit	2,218,561	-	(15,502)	2,203,059
Total	$ 41,677,072	$ 124	$ (1,174,470)	$ 40,502,726

There were no sales of securities available-for-sale during the year ended March 31, 2019. Sales of securities available-for-sale resulted in gross gains of $1,323 during the year ended March 31, 2018.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Available-for-Sale (Continued)

The amortized cost and fair value of securities at March 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities and Negotiable Certificates of Deposit		
Less Than One Year	$ 493,000	$ 494,681
One to Five Years	3,465,634	3,459,877
Five to Ten Years	1,000,000	972,560
Subtotal	4,958,634	4,927,118
Federal Agency Mortgage-Backed Securities	19,781,396	19,490,858
Collateralized Mortgage Obligation Securities	14,661,538	14,375,304
Mutual Funds	1,804,662	1,761,114
Total	$ 41,206,230	$ 40,554,394

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2019				
U.S. Government and Federal Agency Securities	$ -	$ -	$ (40,940)	$ 1,959,060
Federal Agency Mortgage-Backed Securities	(641)	860,291	(333,967)	14,324,258
Collateralized Mortgage Obligation Securities	-	-	(299,530)	13,642,026
Mutual Funds	-	-	(43,548)	1,761,114
Negotiable Certificates of Deposits	-	-	(5,110)	493,890
Total	$ (641)	$ 860,291	$ (723,095)	$ 32,180,348
March 31, 2018				
U.S. Government and Federal Agency Securities	$ -	$ -	$ (74,490)	$ 1,925,510
Federal Agency Mortgage-Backed Securities	(33,795)	4,036,347	(514,879)	14,163,685
Collateralized Mortgage Obligation Securities	(133,570)	6,194,610	(347,656)	10,197,823
Mutual Funds	-	-	(54,578)	1,750,084
Negotiable Certificates of Deposits	-	-	(15,502)	2,203,059
Total	$ (167,365)	$ 10,230,957	$ (1,007,105)	$ 30,240,161

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

At March 31, 2019, the 53 securities with unrealized losses have depreciated 2.14% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows at March 31:

	2019	2018
Contributed Capital Shares	$ 263,472	$ 263,462
Central Liquidity Stock and Reserve	351,058	334,940
Total	$ 614,530	$ 598,402

Contributed Capital Shares

The Credit Union maintains a perpetual contributed capital account with Catalyst Corporate Federal Credit Union (Catalyst) and a nonperpetual capital share account with Corporate America Credit Union. These capital accounts are uninsured and are either permanent or require a multi-year advance notice before withdrawal. These uninsured deposits are part of the corporate credit unions' regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

Central Liquidity Stock and Reserve

These investments represent stock and fund reserve balances held at the Central Liquidity Facility (CLF), which allows the Credit Union access to an additional line of credit.

NOTE 3 LOANS, NET

The composition of loans at March 31 is as follows:

	2019	2018
Commercial:		
Real Estate	$ 3,319,345	$ 5,116,657
Other	693,211	882,262
Subtotal	4,012,556	5,998,919
Consumer:		
Automobile	46,145,272	34,461,650
Credit Cards	3,082,929	3,160,955
Other	4,308,448	4,654,868
Subtotal	53,536,649	42,277,473
Residential Real Estate:		
First Mortgages	15,165,563	15,844,916
HELOC and Other	3,464,251	3,158,460
Subtotal	18,629,814	19,003,376
Total Loans	76,179,019	67,279,768
Net Deferred Loan Origination Costs (Fees)	25,344	(35,247)
Allowance for Loan Losses	(921,270)	(870,231)
Loans, Net	$ 75,283,093	$ 66,374,290

The Credit Union has purchased loan participations originated by various other financial institutions, which are secured by commercial property, manufactured homes, and auto loans to members of other credit unions. Some of these loan participations were purchased without recourse and a portion with limited recourse. The originating credit union performs all loan servicing functions on these loans. The total loan participations included in the commercial – real estate and consumer – automobile and other loan segments above totaled $26,105,969 and $21,010,943 at March 31, 2019 and 2018, respectively.

The Credit Union offers nontraditional mortgage loans to its members, which includes hybrid and variable interest only mortgages. Hybrid loans consisted of loans that were fixed for an initial period of three, five, or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest-only loans allow the borrower to pay only interest for a specified number of years. Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. Nontraditional mortgage loans, which are included in the residential real estate – first mortgage loan caption above, totaled approximately $2,686,000 and $6,467,000 at March 31, 2019 and 2018, respectively.

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows:

March 31, 2019	Commercial	Consumer	Residential Real Estate	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 270,769	$ 423,230	$ 176,232	$ 870,231
Provision (Credit) for Loan Losses	(59,987)	403,916	(3,475)	340,454
Loans Charged-Off	-	(321,494)	-	(321,494)
Recoveries of Loans Previously Charged-Off	-	32,079	-	32,079
Balance at End of Year	$ 210,782	$ 537,731	$ 172,757	$ 921,270
Ending Balance: Individually Evaluated for Impairment	$ 167,630	$ 22,866	$ -	$ 190,496
Ending Balance: Collectively Evaluated for Impairment	43,152	514,865	172,757	730,774
Total Allowance for Loan Losses	$ 210,782	$ 537,731	$ 172,757	$ 921,270
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 721,096	$ 99,921	$ 2,236,840	$ 3,057,857
Ending Balance: Collectively Evaluated for Impairment	3,291,460	53,436,728	16,392,974	73,121,162
Total Loans	$ 4,012,556	$ 53,536,649	$ 18,629,814	$ 76,179,019
March 31, 2018				
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 233,433	$ 330,385	$ 205,040	$ 768,858
Provision for Loan Losses	37,336	272,063	(29,066)	280,333
Loans Charged-Off	-	(205,843)	-	(205,843)
Recoveries of Loans Previously Charged-Off	-	26,625	258	26,883
Balance at End of Year	$ 270,769	$ 423,230	$ 176,232	$ 870,231
Ending Balance: Individually Evaluated for Impairment	$ 225,419	$ 21,675	$ 3,449	$ 250,543
Ending Balance: Collectively Evaluated for Impairment	45,350	401,555	172,783	619,688
Total Allowance for Loan Losses	$ 270,769	$ 423,230	$ 176,232	$ 870,231
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 837,598	$ 119,927	$ 1,669,844	$ 2,627,369
Ending Balance: Collectively Evaluated for Impairment	5,161,321	42,157,546	17,333,532	64,652,399
Total Loans	$ 5,998,919	$ 42,277,473	$ 19,003,376	$ 67,279,768

NOTE 3 LOANS, NET (CONTINUED)

The following tables show the commercial loan portfolio segments allocated management's internal risk ratings:

	Commercial Credit Risk Profile by Risk Rating		
	Commercial Real Estate	Other	Total
March 31, 2019			
Risk Rating:			
High Quality	$ 2,827,552	$ 50,000	$ 2,877,552
Acceptable Quality	-	148,765	148,765
Watch	-	-	-
Classified	491,793	494,446	986,239
Loss	-	-	-
Total	$ 3,319,345	$ 693,211	$ 4,012,556
March 31, 2018			
Risk Rating:			
High Quality	$ 4,376,108	$ -	$ 4,376,108
Acceptable Quality	499,511	358,232	857,743
Watch	-	-	-
Classified	241,038	524,030	765,068
Loss	-	-	-
Total	$ 5,116,657	$ 882,262	$ 5,998,919

The following tables show the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 60 days delinquent and still accruing interest.

	Consumer Credit Risk Profile by Payment Activity			
	Automobile	Credit Cards	Other	Total
March 31, 2019				
Payment Activity:				
Performing	$ 45,993,183	$ 3,064,685	$ 4,288,581	$ 53,346,449
Nonperforming	152,089	18,244	19,867	190,200
Total	$ 46,145,272	$ 3,082,929	$ 4,308,448	$ 53,536,649

	Residential Real Estate Credit Risk Profile by Payment Activity		
	First Mortgages	HELOC and Other	Total
Payment Activity:			
Performing	$ 15,165,563	$ 3,464,251	$ 18,629,814
Nonperforming	-	-	-
Total	$ 15,165,563	$ 3,464,251	$ 18,629,814

NOTE 3 LOANS, NET (CONTINUED)

	Consumer Credit Risk Profile by Payment Activity			
	Automobile	Credit Cards	Other	Total
March 31, 2018				
Payment Activity:				
Performing	$ 34,285,506	$ 3,133,905	$ 4,637,918	$ 42,057,329
Nonperforming	176,144	27,050	16,950	220,144
Total	$ 34,461,650	$ 3,160,955	$ 4,654,868	$ 42,277,473

	Residential Real Estate Credit Risk Profile by Payment Activity		
	First Mortgages	HELOC and Other	Total
Payment Activity:			
Performing	$ 15,740,805	$ 3,158,460	$ 18,899,265
Nonperforming	104,111	-	104,111
Total	$ 15,844,916	$ 3,158,460	$ 19,003,376

The following tables show an aging analysis of the loan portfolio classes by the time past due:

	Accruing Interest			Nonaccrual	
	Current	31-59 Days Past Due	60 Days or More Past Due	60 Days or More Past Due	Total Loans
March 31, 2019					
Commercial Real Estate	$ 3,319,345	$ -	$ -	$ -	$ 3,319,345
Commercial Other	693,211	-	-	-	693,211
Automobile	45,875,358	117,825	-	152,089	46,145,272
Credit Cards	3,047,477	17,208	-	18,244	3,082,929
Other	4,284,143	4,438	-	19,867	4,308,448
First Mortgage	15,062,933	102,630	-	-	15,165,563
HELOC and Other	3,464,251	-	-	-	3,464,251
Total	$ 75,746,718	$ 242,101	$ -	$ 190,200	$ 76,179,019

	Accruing Interest			Nonaccrual	
	Current	31-59 Days Past Due	60 Days or More Past Due	60 Days or More Past Due	Total Loans
March 31, 2018					
Commercial Real Estate	$ 4,875,619	$ -	$ -	$ 241,038	$ 5,116,657
Commercial Other	882,262	-	-	-	882,262
Automobile	34,024,771	260,735	-	176,144	34,461,650
Credit Cards	3,123,242	10,663	-	27,050	3,160,955
Other	4,634,521	3,397	-	16,950	4,654,868
First Mortgage	15,656,259	84,546	-	104,111	15,844,916
HELOC and Other	3,158,460	-	-	-	3,158,460
Total	$ 66,355,134	$ 359,341	$ -	$ 565,293	$ 67,279,768

NOTE 3 LOANS, NET (CONTINUED)

Interest income foregone on nonaccrual loans was immaterial for the years ended March 31, 2019 and 2018.

The following tables present information related to impaired loans:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
March 31, 2019				
With No Related Allowance:				
First Mortgages	$ 1,781,197	$ 1,781,197	$ -	$ 1,612,342
HELOC and Other	455,643	455,643	-	298,727
Automobile	61,721	61,721	-	64,768
Total	$ 2,298,561	$ 2,298,561	$ -	$ 1,975,837
With An Allowance Recorded:				
Commercial Real Estate	$ 226,650	$ 226,650	$ 89,679	$ 233,844
Commercial Other	494,446	494,446	77,951	545,503
First Mortgages	-	-	-	42,273
Automobile	38,200	38,200	22,866	45,157
Total	$ 759,296	$ 759,296	$ 190,496	$ 866,777
Total Impaired Loans:				
Commercial	$ 721,096	$ 721,096	$ 167,630	$ 779,347
Residential Real Estate	2,236,840	2,236,840	-	1,953,342
Consumer	99,921	99,921	22,866	109,925
Total	$ 3,057,857	$ 3,057,857	$ 190,496	$ 2,842,614
March 31, 2018				
With No Related Allowance:				
First Mortgages	$ 1,443,487	$ 1,443,487	$ -	$ 1,538,360
HELOC and Other	141,811	141,811	-	88,929
Automobile	67,814	67,814	-	33,907
Total	$ 209,625	$ 209,625	$ -	$ 1,661,196
With An Allowance Recorded:				
Commercial Real Estate	$ 241,038	$ 241,038	$ 104,067	$ 243,371
Commercial Other	596,560	596,560	121,352	298,280
First Mortgages	84,546	84,546	3,449	86,806
Automobile	52,113	52,113	21,675	65,494
Total	$ 974,257	$ 974,257	$ 250,543	$ 693,951
Total Impaired Loans:				
Commercial	$ 837,598	$ 837,598	$ 225,419	$ 541,651
Residential Real Estate	1,669,844	1,669,844	3,449	1,714,095
Consumer	119,927	119,927	21,675	99,401
Total	$ 2,627,369	$ 2,627,369	$ 250,543	$ 2,355,147

NOTE 3 LOANS, NET (CONTINUED)

Interest collected on impaired loans for the years ended March 31, 2019 and 2018 was not significant as interest is not accrued on nonaccrual loans past-due 60 days or more. The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

There were no material loans modified in troubled debt restructurings for the years ended March 31, 2019 and 2018.

NOTE 4 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment are summarized as follows at March 31:

	2019	2018
Land	$ 1,536,088	$ 1,536,088
Building	4,758,235	4,727,901
Furniture and Equipment	2,370,237	2,187,362
Leasehold Improvements	263,961	263,961
Subtotal	8,928,521	8,715,312
Less: Accumulated Depreciation and Amortization	(4,600,377)	(4,243,842)
Total	$ 4,328,144	$ 4,471,470

Lease Commitments

The Credit Union is obligated under a noncancelable operating lease for office space in California. Net rent expense under operating leases, included in office occupancy expenses, was approximately $22,000 and $27,000 for the years ended March 31, 2019 and 2018, respectively. Future minimum lease payments under this lease are as follows:

Year Ending March 31,	Amount
2020	$ 21,780
2021	7,260
Total	$ 29,040

NOTE 4 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lessor Agreements

The Credit Union began leasing a building to a tenant in 2015 under a noncancelable operating lease expiring in 11 years. The lease contains renewal options at the fair rental value at the time of renewal. Rental income, included in other noninterest income, was approximately $35,000 and $33,000 for the years ended March 31, 2019 and 2018, respectively. Future minimum lease payments receivable under this lease are as follows:

Year Ending March 31,	Amount
2020	$ 25,488
2021	26,784
2022	26,784
2023	26,784
2024	26,784
Thereafter	31,248
Total	$ 163,872

Premises and equipment owned by the Credit Union and held or leasing at March 31 are summarized as follows:

	2019	2018
Net Book Value of Land, Buildings, and Improvements	$ 492,238	$ 505,459

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS

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

	2019	2018
Regular Shares	$ 66,606,465	$ 62,125,297
Share Drafts	34,543,359	32,838,747
Money Market	18,591,922	20,294,128
IRA Deposits	1,998,211	2,281,842
Other Deposits	6,773,546	6,153,238
Share and IRA Certificates	10,419,879	12,053,414
Total	$ 138,933,382	$ 135,746,666

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $-0- and $500,000 at March 31, 2019 and 2018, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $35,819 and $48,943 at March 31, 2019 and 2018, respectively.

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of March 31, 2019, scheduled maturities of share and IRA certificates are as follows:

Year Ending March 31,	Amount
2020	$ 5,097,747
2021	1,857,862
2022	2,158,819
2023	951,191
2024	354,260
Total	$ 10,419,879

Member accounts are insured to at least $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 6 BORROWED FUNDS

The Credit Union maintains two lines of credit (LOC) with Catalyst as described below:

March 31, 2019	Performance Line	Advantage Line	Total
Total Available	$ 5,600,000	$ 1,400,000	$ 7,000,000
Borrowed	-	-	-
Remaining Available	$ 5,600,000	$ 1,400,000	$ 7,000,000
Term	LOC	LOC	
March 31, 2018			
Total Available	$ 5,600,000	$ 1,400,000	$ 7,000,000
Borrowed	-	-	-
Remaining Available	$ 5,600,000	$ 1,400,000	$ 7,000,000
Term	LOC	LOC	

These lines are collateralized by substantially all of the Credit Union's assets. The lines have no expiration date, but are subject to review and change by the issuing institution.

The Credit Union is a member of the NCUA Central Liquidity Facility, which was formed to assist member credit unions in meeting their short-term liquidity needs. The Credit Union can request any amount of funding it needs, up to its legal borrowing limit.

NOTE 7 REGULATORY NET WORTH 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-statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications 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 ratios (set forth in the table below) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the credit union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio using the quarter end assets as of March 31, 2019, the most recent quarterly regulatory filing date, was 5.47%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of March 31, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of March 31, 2019, the most recent call-reporting period, the NCUA categorized the Credit Union initially 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 institutions category.

The Credit Union's actual capital amounts and ratios are also presented in the table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2019						
Net Worth	$ 14,919,819	9.65%	$ 9,331,116	6.00%	$ 10,886,302	7.00%
Risk-Based Net Worth Requirement	$ 8,506,867	5.47%	N/A	N/A	N/A	N/A
March 31, 2018						
Net Worth	$ 14,272,252	9.65%	$ 9,042,840	6.00%	$ 10,549,980	7.00%
Risk-Based Net Worth Requirement	$ 8,726,340	5.79%	N/A	N/A	N/A	N/A

Because RBNWR at March 31, 2019, is less than the regulatory net worth ratio, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 8 RELATED PARTY TRANSACTIONS

Included in Loans, Net at March 31, 2019 and 2018 are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of approximately $140,000 and $159,000, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at March 31, 2019 and 2018 are approximately $533,000 and $175,000, respectively.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Statement of Financial Condition Activities

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

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

The following financial instruments were outstanding whose contract amounts represent credit risk at March 31:

	2019	2018
Commitments to Grant Collateralized Loans		
Home Equity Lines of Credit	$ 374,251	$ 480,975
Unfunded Unsecured Commitments Under Lines of Credit		
Courtesy Pay Lines	1,945,369	2,511,138
Lines of Credit	2,451,361	2,065,693
Credit Cards	5,882,170	6,080,539
Total Commitments	$ 10,653,151	$ 11,138,345

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Statement of Financial Condition Activities (Continued)

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Legal Contingencies

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

NOTE 10 FAIR VALUE

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 – Summary of Significant Accounting Policies. The following tables present the balances of the assets measured at fair value on a recurring basis as of:

March 31, 2019	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 1,959,060	$ -	$ 1,959,060
Federal Agency Mortgage-Backed Securities	-	19,490,858	-	19,490,858
Collateralized Mortgage Obligation Securities	-	14,375,304	-	14,375,304
Mutual Funds	1,761,114	-	-	1,761,114
Negotiable Certificates of Deposit	-	2,968,058	-	2,968,058
Total Assets	$ 1,761,114	$ 38,793,280	$ -	$ 40,554,394

March 31, 2018	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 1,925,510	$ -	$ 1,925,510
Federal Agency Mortgage-Backed Securities	-	18,231,640	-	18,231,640
Collateralized Mortgage Obligation Securities	-	16,392,433	-	16,392,433
Mutual Funds	1,750,084	-	-	1,750,084
Negotiable Certificates of Deposit	-	2,203,059	-	2,203,059
Total Assets	$ 1,750,084	$ 38,752,642	$ -	$ 40,502,726

NOTE 10 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets 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.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended March 31, 2019 and 2018 consisted of the following:

	Carrying Value at March 31, 2019			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 568,800	$ 190,496

	Carrying Value at March 31, 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 723,714	$ 250,543

NOTE 10 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value at March 31:

	2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 568,800	Evaluation of Collateral	Estimation of Value	Not Meaningful

	2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 723,714	Evaluation of Collateral	Estimation of Value	Not Meaningful

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment losses on impaired loans represent specific valuation allowances and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.