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Telhio Credit Union

Annual Financial Reports
December 31, 2018

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CPAs for Credit Unions

Independent Auditor's Report

To the Board of Directors of
Telhio Credit Union

Report on the Financial Statements

We have audited the accompanying statements of financial condition of Telhio Credit Union as of December 31, 2018 and 2017 and the related statements of income and comprehensive income, 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.

Auditor's 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 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 controls 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 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 Telhio Credit Union as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lillie & Company LLC

Sunbury, Ohio
February 15, 2019

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Telhio Credit Union
Statements of Financial Condition
December 31, 2018 and 2017

ASSETS

	2018	2017
Cash and cash equivalents (Notes 1 & 6)	$ 61,340,341	$ 28,921,126
Investments (Notes 1 & 2)		
Available for sale	19,448,544	29,833,466
Held to Maturity	1,536,000	6,066,000
Other investments	5,548,828	5,934,348
Loans to members - less allowance for loan losses (Notes 1, 3, 8 & 10)	707,972,240	699,815,877
Mortgage loans held for sale (Note 1)	1,424,548	2,871,953
Property and equipment - net (Notes 1 & 4)	23,460,874	26,096,174
Other assets		
Accrued interest receivable - loans	3,058,309	2,625,521
Accrued interest receivable - investments	43,212	74,989
Other real estate owned (Note 1)	5,717	292,035
Mortgage servicing rights (Note 1)	675,272	570,234
Prepaid expenses	2,397,610	2,015,408
Other assets	1,302,043	2,224,993
Share insurance deposits (Note 1)	7,098,302	7,115,274
Total other assets	14,580,465	14,918,454
Total assets	$ 835,311,840	$ 814,457,398

LIABILITIES AND MEMBERS' EQUITY

	2018	2017
Share accounts (Notes 1, 5 & 8)	$ 712,677,458	$ 704,266,161
Borrowings (Note 7)	38,703,552	34,208,581
Accounts payable and accrued liabilities	5,543,488	6,542,641
Total liabilities	756,924,498	745,017,383
Members' equity - substantially restricted (Notes 1 & 12)		
Statutory reserve	9,228,409	9,228,409
Undivided earnings	57,697,936	48,593,622
Equity acquired through merger	11,847,537	11,847,537
Accumulated other comprehensive income	(386,540)	(229,553)
Total members' equity	78,387,342	69,440,015
Total liabilities and members' equity	$ 835,311,840	$ 814,457,398

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Income and Comprehensive Income
For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest income		
Interest on loans (Notes 1 & 3)	$ 31,819,957	$ 29,285,441
Interest on investments	1,251,032	1,253,126
Total interest income	33,070,989	30,538,567
Dividend and interest expense		
Dividends on share accounts (Notes 1 & 5)	4,940,878	4,010,333
Interest expense on borrowings (Note 7)	716,817	383,129
Total dividend and interest expense	5,657,695	4,393,462
Net interest income	27,413,294	26,145,105
Provision for loan losses (Notes 1 & 3)	2,693,788	2,649,819
Net interest income after provision for loan losses	24,719,506	23,495,286
Non-interest income (Note 11)	16,187,237	12,447,161
Non-interest expense (Note 11)	31,802,429	33,752,766
Net income	**9,104,314**	**2,189,681**
Change in unrealized loss on investments	(156,987)	(77,175)
Comprehensive income	**$ 8,947,327**	**$ 2,112,506**

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Members' Equity
For the Years Ended December 31, 2018 and 2017

	Statutory Reserve	Undivided Earnings	Equity Acquired through Merger	Accumulated Other Comprehensive Income	Total
Balance – December 31, 2016	**$ 9,228,409**	**$ 46,403,941**	**$ 11,847,537**	**$ (152,378)**	**$ 67,327,509**
Net income - for the year ended December 31, 2017	0	2,189,681	0	0	2,189,681
Change in market value of investments - 2017	0	0	0	(77,175)	(77,175)
Balance – December 31, 2017	**$ 9,228,409**	**$ 48,593,622**	**$ 11,847,537**	**$ (229,553)**	**$ 69,440,015**
Net income - for the year ended December 31, 2018	0	9,104,314	0	0	9,104,314
Change in market value of investments - 2018	0	0	0	(156,987)	(156,987)
Balance – December 31, 2018	**$ 9,228,409**	**$ 57,697,936**	**$ 11,847,537**	**$ (386,540)**	**$ 78,387,342**

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Cash Flow
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income	$ 9,104,314	$ 2,189,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,139,447	1,675,306
Amortization/accretion of discount/premium on investments	128,664	172,474
Provision for loan loss	2,693,788	2,649,819
Amortization of premium on share certificates acquired in merger	(41,719)	(250,315)
Net accretion of unamortized discount of purchased loans	(197,014)	325,804
Amortization of premium on investments acquired in merger	22,380	66,824
Amortization of core deposit intangible	148,735	148,735
Net amortization of deferred loan fees	1,160,305	2,644,582
Accretion of deferred revenue	(134,595)	(79,225)
Write off of obsolete fixed assets	0	96,575
Gain on sale of VISA Class B stock	(3,190,632)	0
Gain on sale of mortgages held for sale	(636,393)	(518,353)
Gain on the sale of SBA loans	(141,694)	(265,139)
Loss (gain) on disposal of property	403,851	(2,350)
Increase in servicing asset-net of amortization	(105,038)	(269,980)
Increase in deferred revenue	0	830,000
Loss (gain) on sale of other real estate owned	(148)	43,383
Proceeds from sale of mortgages held for sale	35,393,822	41,302,704
Mortgages originated and held for sale	(33,310,024)	(42,857,803)
Proceeds from the sale of SBA loan guarantees	2,655,620	4,117,703
SBA loans originated and held for sale	(2,513,926)	(3,852,564)
Change in interest receivable	(401,011)	(291,300)
Change in prepaid expenses	(382,202)	(201,100)
Change in accrued and other liabilities	481,784	(2,689,392)
Total adjustments	4,174,000	2,796,388
Net cash provided by operating activities	13,278,314	4,986,069
Cash flows from investing activities		
Proceeds from available for sale investments	10,099,271	9,152,287
Proceeds from held to maturity investments	4,530,000	3,060,000
Purchase of held to maturity investments	0	(2,298,000)
Maturities of other investments – net of purchases	363,140	1,611,177
Purchase of fixed assets	(471,095)	(3,343,436)
Proceeds from the sale of VISA Class B stock	3,190,632	0
Proceeds from sale of fixed assets	563,096	25,126
Purchase of other real estate owned	(5,717)	(314,074)
Proceeds from the sale of other real estate owned	292,183	415,146
Loans made to members – net of repayments	(7,921,597)	(46,746,221)
Increase in participation loans-net of repayment	(3,891,845)	(2,536,674)
Change in insurance deposit	16,972	(233,468)
Change in other assets	774,215	1,116,398
Net cash provided (used) by investing activities	7,539,255	(40,091,739)

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Cash Flow (continued)
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from financing activities		
Proceeds from borrowings	69,000,000	15,000,000
Repayments of borrowings	(64,505,029)	(6,505,029)
Net increase in members shares	8,453,016	1,814,969
Net change in escrow balances	(1,346,341)	199,408
Net cash provided by financing activities	11,601,646	10,509,348
Net increase (decrease) in cash and cash equivalents	32,419,215	(24,596,322)
Cash and cash equivalents		
Beginning of year	28,921,126	53,517,448
End of year	$ 61,340,341	$ 28,921,126
Supplemental cash flow information		
Dividend paid on shares and interest paid on borrowed funds	**$ 5,603,246**	**$ 4,602,253**

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of significant accounting policies

Basis of Presentation - The Credit Union is a state chartered credit union, tax-exempt under Section 501 of the Internal Revenue Code.

Recent Accounting Pronouncements – In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the "ASU").

Included in the ASU is an exemption for entities that are not public business entities to omit disclosure of the fair value of financial instruments carried at amortized cost. The ASU also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value.

The guidance in the ASU is generally effective for years beginning after December 15, 2018 for entities that are not public business entities. However, entities that are not public business entities can early adopt the provisions of the ASC permitting the omission of fair value disclosures for financial instruments at amortized cost. The Credit Union has elected to early adopt these disclosure requirements. Accordingly, the Credit Union has removed the disclosures related to the fair value of these financial instruments.

Investments - The investment securities portfolio was comprised of securities classified as **available for sale** and **held to maturity**. This results in **available for sale** investment securities being carried at market value. **Held to maturity** investments are carried at cost, adjusted for amortization of premiums and accretion of discounts. In addition, the Credit Union holds non-negotiable certificates of deposit, Corporate capital shares and certain other investments. They are accounted for at cost, adjusted for amortization of premiums and accretion of discounts and categorized as **other investments**. The unrealized gain or loss on **available for sale** investments is carried as a separate component of members' equity. Declines in the fair value of **available for sale** securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

The Credit Union does not maintain a trading portfolio.

Fair Value Measurements **–** Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Credit Union determines the fair values of its financial instruments based on a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This framework describes three levels of inputs that may be used to measure fair value. Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are generally valued using quoted prices for similar assets. Level 3 financial instruments are valued using unobservable inputs representing management's assumptions of how market participants would price the assets or liabilities.

Restrictions on Investments – The Credit Union is required to maintain balances with a corporate credit union as membership shares. The balance of the membership shares account is based upon .90 percent of the Credit Union's year-end total asset balance and is adjusted annually. These membership shares represent perpetual contributed capital (PCC). PCC is a perpetual capital instrument. It is not subject to share insurance coverage. The dividends are not guaranteed and are noncumulative. PCC is available to cover losses that exceed retained earnings and previous forms of Capital contributions. PCC is redeemable by the Credit Union only if certain conditions and restrictions are met.

Federal Home Loan Bank (FHLB) Stock – The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. 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 Stock - The Credit Union received notice of the restructuring of VISA Inc. As part of the restructuring, 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 owned 22,682 shares as of December 31, 2017. These shares were sold during 2018, receiving proceeds of approximately $3,190,632. As there had been no readily available fair market value of the stock, it had not been reflected in the Credit Union's financial statements. As such, the full amount of proceeds was recognized as a gain.

Loans to Members and Allowance for Loan Losses - Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Loan fees and certain direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

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 expenses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Subsequent recoveries, if any, are credited to the allowance. The allowance is evaluated on a regular basis by management and is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrower's ability to pay.

The allowance for loan losses is management's estimate of probable credit losses inherent in the loan portfolio, at the balance sheet date. The Credit Union's allowance for loan losses process involves procedures to appropriately consider the unique risk characteristics of its business and consumer loan portfolio segments. For each portfolio segment, impairment is measure collectively for groups of smaller loans with similar characteristics and individually for larger impaired loans

Business Portfolio Segment Allowance for Loan Losses Methodology

Generally, business loans are assessed for estimated losses by grading each loan using various risk factors as identified through periodic reviews. The Credit Union applies historic grade-specific loss factors to the aggregation of each funded risk category. In the development of statistically derived loan grade factors, historical losses are observed over a relevant period for each loan grade. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data or other risks identified from current economic conditions and credit quality trends. The business allowance for loan losses also includes an amount for the estimated losses on individually evaluated impaired loans.

Consumer Portfolio Segment Allowance for Loan Losses Methodology

For consumer loans not identified as impaired, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent loss at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics, such as residential real estate mortgages and credit cards. As appropriate, to achieve greater accuracy, further stratification of selected portfolios may occur such as by year of origination, geographic location and other predictive characteristics. The consumer allowance for loan losses model primarily uses historic delinquency and default experience, loss severity, home price trends, unemployment trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment. The consumer allowance also includes an amount for the estimated losses on individually evaluated impaired loans.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

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

<u>Mortgage Loans Held for Sale</u> – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold servicing released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

<u>Mortgage and SBA Servicing Rights</u> – The cost of acquiring the rights to service mortgage and SBA loans is capitalized and amortized in proportion to, and over the period of, estimated net servicing income. The following summarizes the activity in this account:

	2018	2017
Beginning balance	$ 570,234	$ 300,254
New Loans	91,059	216,471
Valuation adjustment-net of amortization	13,979	53,509
Ending balance	$ 675,272	$ 570,234

The balance of mortgage loans being serviced by the Credit Union for the benefit of the Federal Home Loan Bank totaled $47,796,823 and $43,006,584 at December 31, 2018 and 2017. The balance of SBA loans being serviced was $5,966,090 and $3,986,941 at December 31, 2018 and 2017, respectively.

The credit union allocates servicing assets from a calculation by an outside party. It is based on an analysis of the servicing portfolio. Risks in these servicing balances are present if related balances become impaired through loan loss or reduction in fair value. The related assets will then be reversed to expense. All servicing income is recorded to other non-interest income.

<u>Property and Equipment</u> - Property and equipment are stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets.

Valuation of Long-Lived Assets - Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Other Real Estate Owned - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuations allowance are included in net expenses from foreclosed assets.

Statutory Reserve - Federal Insurance Regulations require reserves for losses to be established by appropriations of undivided earnings. The reserves are not related to amounts of losses actually anticipated and the appropriations have not been charged against income.

Comprehensive Income – Comprehensive income or loss consists of net income or loss and other comprehensive income or loss that includes unrealized gains and losses on securities available for sale.

Cash and Cash Equivalents - Cash and cash equivalents include money market accounts, Federal funds or any highly liquid debt-instruments purchased with a maturity of three months or less.

From time to time, the Credit Union maintains deposit balances in financial institutions exceeding insured balances by the Federal Deposit Insurance Corporation or other insuring body up to $250,000 in aggregate. At December 31, 2018 there were deposits with Huntington National Bank totaling $8,071,032, Fifth Third Bank totaling $458,148, the Federal Home Loan Bank totaling $1,403,464 and Corporate One Federal Credit Union totaling $4,117,053.

Share Insurance Deposits - The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured Credit Union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. In addition, the Credit Union has a deposit with Excess Share Insurance Corporation (ESI). The deposit is required by this insurer related to share insurance coverage above the base insured amount up to $500,000.

NCUSIF Premiums – The Credit Union is required to pay an annual insurance premium equal to one twelfth of one percent of its total insured shares, unless it is waived or reduced by the NCUA board. Additionally, the NCUA can assess a premium as necessary to maintain the NCUSIF at its normal operating level. The NCUA board waived the 2018 and 2017 assessments.

Concentration of Credit Risk - The Credit Union's business activity is primarily with members who live, work or worship in central and southwest Ohio. This creates a concentration of credit risk from members with loans from the Credit Union, since they are primarily located within the same geographical area.

Income Taxes – The Credit Union is exempt by statute from federal and state income taxes except for certain charges such as non-member ATM fees which have been deemed by the Internal Revenue Service (IRS), in technical advice memorandums released in March 2007, to be unrelated to the specific entity’s exempt purpose. As presented in the technical advice memorandums, the net taxable income from these charges is subject to income taxes under the Unrelated Business Income Tax (UBIT) regulations.

Tax returns were filed timely for the 2017 calendar year and will be filed by the applicable extended due date for the 2018 calendar year. An estimated liability has not been recognized in the financial statements because the taxes due are not expected to have a material effect on the Credit Union's financial condition or results of operations.

Advertising Costs - It is the policy of the Credit Union to expense all advertising costs as incurred. The total advertising cost is insignificant.

Share Accounts – Share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

Use of Estimates - The preparation of financial statement in conformity with generally accepted accounting principles 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.

Reclassifications - Certain items have been reclassified in the December 31, 2017 financial statements to be consistent with the December 31, 2018 presentation. There was no effect on net income as a result of these reclassifications.

Subsequent Events – In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through February 15, 2019, the date the financial statements were available to be issued.

Note 2 - Investments

The amortized cost and fair values of investment securities at December 31, 2018 and 2017 were:

Available for Sale - 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$ 4,253,500	$ 0	$ (18,463)	$ 4,235,037
Mortgage backed securities	11,249,684	4,255	(350,540)	10,903,399
Collateralized mortgage obligations	4,331,900	4,054	(25,846)	4,310,108
Total	**$ 19,835,084**	**$ 8,309**	**$ (394,849)**	**$ 19,448,544**

Available for Sale - 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government sponsored enterprises	$ 10,007,877	$ 0	$ (28,684)	$ 9,979,193
Mortgage backed securities	14,301,394	11,297	(219,383)	14,093,308
Collateralized mortgage obligations	5,753,748	18,094	(10,877)	5,760,965
Total	**$ 30,063,019**	**$ 29,391**	**$ (258,944)**	**$ 29,833,466**

Held to Maturity - 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit-negotiable	$ 1,536,000	$ 0	$ (18,357)	$ 1,517,643
Total	**$ 1,536,000**	**$ 0**	**$ (18,357)**	**$ 1,517,643**

Held to Maturity - 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit-negotiable	$ 6,066,000	$ 1,213	$ (9,912)	$ 6,057,301
Total	**$ 6,066,000**	**$ 1,213**	**$ (9,912)**	**$ 6,057,301**

Other Investments - 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 1,488,000	$ 0	$ 0	$ 1,488,000
FHLB capital stock (restricted)	2,199,400	0	0	2,199,400
Corporate One –PCC	1,050,255	0	0	1,050,255
PSCU member stock	121,421	0	0	121,421
Cooperative Business Solutions	689,752	0	0	689,752
Total	**$ 5,548,828**	**$ 0**	**$ 0**	**$ 5,548,828**

Other Investments - 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 2,154,380	$ 0	$ 0	$ 2,154,380
FHLB capital stock (restricted)	2,177,100	0	0	2,177,100
Corporate One –PCC	1,050,255	0	0	1,050,255
PSCU member stock	131,330	0	0	131,330
Cooperative Business Solutions	421,283	0	0	421,283
Total	**$ 5,934,348**	**$ 0**	**$ 0**	**$ 5,934,348**

The investments in government sponsored enterprises (GSEs) are private corporations that hold government charters. These bonds are not backed by the full faith and credit of the U.S. Government.

The amortized cost and estimated fair value of investment securities at December 31, 2018 by expected 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		**Held to Maturity**		**Other Investments**	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$ 6,006,427	$ 5,943,423	$ 296,000	$ 294,550	$ 548,000	$ 548,000
Due in 1-5 years	13,828,657	13,505,121	1,240,000	1,223,093	940,000	940,000
Due in 5-10 years	0	0	0	0	0	0
Due after 10 years	0	0	0	0	0	0
No specific maturity	0	0	0	0	4,060,828	4,060,828
Total	$ 19,835,084	$ 19,448,544	$ 1,536,000	$ 1,517,643	$ 5,548,828	$ 5,548,828

The gross unrealized losses on investment securities that have been in loss positions less than 12 months and longer than 12 months at December 31, 2018 are summarized as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
GSEs	$ 0	$ 0	$ 4,235,037	$ (18,463)	$ 4,235,037	$ (18,463)
MBS	347,664	(2,042)	10,371,616	(348,498)	10,719,280	(350,540)
CMO's	2,037,138	(11,180)	595,835	(14,666)	2,632,973	(25,846)
Total	**$ 2,384,802**	**$ (13,222)**	**$ 15,202,488**	**$ (381,627)**	**$ 17,587,290**	**$ (394 849)**
Held to Maturity						
Negotiable CDs	$ 147,985	$ (15)	$ 1,369,658	$ (18,342)	$ 1,517,643	$ (18,357)
Total	**$ 147,985**	**$ (15)**	**$ 1,369,658**	**$ (18,342)**	**$ 1,517,643**	**$ (18,357)**
Total	$ 2,532,787	$ (13,237)	$ 16,572,146	$ (399,969)	$ 19,104,933	$ (413,206)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2018				
Available for sale securities	$ 19,448,544	$ 0	$ 19,488,544	$ 0
2017				
Available for sale securities	$ 29,833,466	$ 0	$ 29,833,466	$ 0

Note 3 - Loans to members

The loans to members at December 31, 2018 and 2017 consist of the following:

	2018	2017
Business		
Real estate	$ 52,122,682	$ 46,940,546
Real estate – participation	17,668,475	13,757,013
Secured	5,212,855	4,554,970
SBA	8,250,800	6,919,084
Unsecured	89,651	113,150
Unsecured – participation	8,457	12,959
Line of credit – participation	64,699	61,428
Other secured-participation	94,986	113,370
Total business	$ 83,512,605	$ 72,472,520
Consumer		
First mortgage	$ 238,047,264	$ 240,699,793
Indirect auto	198,036,154	198,076,950
Direct auto	71,581,916	79,784,051
Second mortgage	68,432,968	58,576,328
Unsecured	27,765,929	30,370,093
Other secured	24,580,938	22,478,740
Total consumer	$ 628,445,169	$ 629,985,955
Total loans	711,957,774	702,458,475
Unamortized discounts on purchased loans net of premiums	(2,349,875)	(2,467,220)
Net origination fees	2,107,131	3,267,436
Allowance for loan losses	(3,742,790)	(3,442,814)
Total loans - net	**$ 707,972,240**	**$ 699,815,877**

The interest rates on the loans range from 1.00% to 20.99% at December 31, 2018.

Loans on which the accrual of interest has been discontinued amounted to $2,954,775 and $2,321,170 at December 31, 2018 and 2017.

The Credit Union has loaned a total of $10,209,305 to certain key management employees related to the purchase of life insurance policies. The Credit Union is the beneficiary of these policies. The cash value of the policies is pledged as collateral to secure the loans. The loans are included with other secured loans above.

The Credit Union has purchased commercial participation loans originated by various other credit unions to other businesses and individuals. All of these loan participations were purchased without recourse and are secured by real property. The originating credit unions perform all servicing functions on these loans.

Activity in the allowance for loan losses and recorded investment in loans, by portfolio segment, as of and for the years ended December 31, 2018 and 2017 is as follows:

	2018		
	Business	Consumer	Total
Allowance for loan losses			
Beginning balance	$ 724,711	$ 2,718,103	$ 3,442,814
Charge-offs	(14,108)	(3,315,947)	(3,330,055)
Recoveries	2,172	934,071	936,243
Provision	275,075	2,418,713	2,693,788
Ending balance	$ 987,850	$ 2,754,940	$ 3,742,790
Ending balance, individually evaluated for impairment	$ 987,850	$ 210,541	$ 1,198,391
Ending balance, collectively evaluated for impairment	$ 0	$ 2,544,399	$ 2,544,399
Loan balances			
Ending balance	$ 83,512,605	$ 628,445,169	$ 711,957,774
Outstanding balance of acquired loans not in ALLL	$ 5,203,628	$ 67,028,864	$ 72,232,492
Ending balance, individually evaluated for impairment	$ 78,308,977	$ 1,348,020	$ 79,656,997
Ending balance, collectively evaluated for impairment	$ 0	$ 560,068,285	$ 560,068,285

	2017		
	Business	Consumer	Total
Allowance for loan losses			
Beginning balance	$ 1,123,000	$ 2,596,094	$ 3,719,094
Charge-offs	(661,956)	(3,447,834)	(4,109,790)
Recoveries	202,991	980,700	1,183,691
Provision	60,676	2,589,143	2,649,819
Ending balance	$ 724,711	$ 2,718,103	$ 3,442,814
Ending balance, individually evaluated for impairment	$ 724,711	$ 217,552	$ 942,263
Ending balance, collectively evaluated for impairment	$ 0	$ 2,500,551	$ 2,500,551
Loan balances			
Ending balance	$ 72,472,520	$ 629,985,955	$ 702,458,475
Outstanding balance of acquired loans not in ALLL	$ 6,581,956	$ 52,446,906	$ 59,028,862
Ending balance, individually evaluated for impairment	$ 65,809,564	$ 1,529,847	$ 67,339,411
Ending balance, collectively evaluated for impairment	$ 0	$ 576,009,202	$ 576,009,202

The Credit Union monitors past due status for the purpose of managing credit risk for business loans. The following table provides past due information for each class of business loans as of December 31, 2018 and 2017:

	2018 Business Loans				
	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
Real estate	$ 52,122,682	$ 0	$ 0	$ 0	$ 52,122,682
Real estate – part.	16,086,426	1,521,311	0	60,738	17,668,475
Secured	5,212,855	0	0	0	5,212,855
SBA	8,193,130	0	0	57,670	8,250,800
Unsecured	89,651	0	0	0	89,651
Unsecured – part.	8,457	0	0	0	8,457
Line of credit – part.	64,699	0	0	0	64,699
Other secured-part.	94,986	0	0	0	94,986
Total loans	**$ 81,872,886**	**$ 1,521,311**	**$ 0**	**$ 118,408**	**$ 83,512,605**

	2017 Business Loans				
	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
Real estate	$ 46,940,546	$ 0	$ 0	$ 0	$ 46,940,546
Real estate – part.	13,601,781	92,539	0	62,693	13,757,013
Secured	4,554,970	0	0	0	4,554,970
SBA	6,890,450	0	0	28,634	6,919,084
Unsecured	113,150	0	0	0	113,150
Unsecured – part.	12,959	0	0	0	12,959
Line of credit – part.	61,428	0	0	0	61,428
Other secured-part.	113,370	0	0	0	113,370
Total loans	**$ 72,288,654**	**$ 92,539**	**$ 0**	**$ 91,327**	**$ 72,472,520**

The Credit Union has several classes of consumer loans which carry distinct credit risks. Loan delinquency, FICO credit scores and loan-to-value (LTV) ratios for loan classes are common credit quality indicators that the Credit Union monitors and utilizes in the evaluation of the adequacy of the allowance for loan losses for the consumer portfolio segment.

A significant variable in the loss estimation of the consumer allowance for loan losses are delinquency levels. The follow table presents the outstanding balances from each class within the consumer portfolio by delinquency status as of December 31, 2018 and 2017:

2018
Consumer Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
First mortgage	$ 235,812,619	$ 957,049	$ 110,169	$ 1,167,427	$ 238,047,264
Second mortgage	67,997,023	189,412	19,794	226,739	68,432,968
Indirect auto	195,370,514	1,291,039	357,136	1,017,465	198,036,154
Direct auto	71,510,129	28,416	17,131	26,240	71,581,916
Unsecured	27,121,979	211,987	111,997	319,966	27,765,929
Other secured	24,046,801	226,459	229,148	78,530	24,580,938
Total loans	**$ 621,859,065**	**$ 2,904,362**	**$ 845,375**	**$ 2,836,367**	**$ 628,445,169**

2017
Consumer Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
First mortgage	$ 237,782,599	$ 1,633,192	$ 423,793	$ 860,209	$ 240,699,793
Second mortgage	58,170,524	205,132	41,489	159,183	58,576,328
Indirect auto	195,485,786	1,659,940	334,218	597,006	198,076,950
Direct auto	79,003,159	490,661	134,372	155,859	79,784,051
Unsecured	29,593,977	313,261	198,815	264,040	30,370,093
Other secured	22,223,252	53,911	8,031	193,546	22,478,740
Total loans	**$ 622,259,297**	**$ 4,356,097**	**$ 1,140,718**	**$ 2,229,843**	**$ 629,985,955**

A summary of loans, presented by class, that were modified as troubled debt restructurings and those restructurings for which there was a payment default subsequent to restructuring, but within twelve months of the restructuring, are as follows as of December 31, 2018 and 2017:

2018

	Troubled Debt Restructurings			Troubled Debt Restructurings which Subsequently Defaulted		
	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance	Allowance Impact
Business						
Real estate	0	$ 0	$ 0	0	$ 0	$ 0
Secured	0	0	0	0	0	0
SBA	0	0	0	0	0	0
Consumer						
First mortgage	7	943,037	113,407	0	0	0
Second mortgage	0	0	0	0	0	0
Indirect auto	43	362,514	10,785	0	0	0
Direct auto	47	364,265	18,456	0	0	0
Unsecured	19	135,787	67,894	0	0	0
Other Unsecured	0	0	0	0	0	0
Total						
Business	0	0	0	0	0	0
Consumer	116	1,805,603	210,542	0	0	0
Total loans	**116**	**$ 1,805,603**	**$ 210,542**	**0**	**$ 0**	**$ 0**

2017

	Troubled Debt Restructurings			Troubled Debt Restructurings which Subsequently Defaulted		
	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance	Allowance Impact
Business						
Real estate	0	$ 0	$ 0	0	$ 0	$ 0
Secured	0	0	0	0	0	0
SBA	0	0	0	0	0	0
Consumer						
First mortgage	3	600,720	91,664	0	0	0
Second mortgage	4	248,182	28,182	0	0	0
Indirect auto	33	310,570	16,621	0	0	0
Direct auto	36	239,703	15,748	0	0	0
Unsecured	19	130,672	65,336	0	0	0
Other Unsecured	0	0	0	0	0	0
Total						
Business	0	0	0	0	0	0
Consumer	95	1,529,847	217,552	0	0	0
Total loans	**95**	**$ 1,529,847**	**$ 217,552**	**0**	**$ 0**	**$ 0**

Note 4 - Property and equipment

Property and equipment at December 31, 2018 and 2017 consists of the following:

	2018	2017
Land	$ 7,108,630	$ 7,367,516
Building and improvements	19,056,209	20,003,785
Furniture and fixtures	15,981,330	15,697,361
Construction in progress	62,251	0
Total	42,208,420	43,068,662
Less accumulated depreciation	(18,747,546)	(16,972,488)
Total property - net	**$ 23,460,874**	**$ 26,096,174**

During the year ended December 31, 2018 the Credit Union sold property formerly used as a branch location. Net proceeds from the sale were $563,096, resulting in a loss of $405,351.

Note 5 - Share accounts

Share accounts as of December 31, 2018 and 2017 are as follows:

	2018	2017
Shares – certificates	$ 206,835,493	$ 197,567,932
Money market	197,550,511	202,117,960
Shares – regular	157,882,922	165,802,343
Share draft	123,670,433	120,778,141
IRA shares	14,742,067	17,837,701
Non member certificates	11,839,549	0
Club accounts	156,483	162,084
Total	**$ 712,677,458**	**$ 704,266,161**

A summary of share certificates by maturity as of December 31, 2018 is as follows:

2019	$ 95,344,493
2020	59,523,513
2021	38,874,218
2022	15,461,470
2023	9,380,615
2024	90,733
Total	**$ 218,675,042**

All remaining share accounts have no contractual maturity.

Dividend expense on share accounts is summarized as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Share certificates	$ 3,501,455	$ 2,795,809
Money market	1,130,839	876,622
Regular shares	192,034	295,611
Non member certificates	87,155	0
Individual retirement accounts	16,213	27,194
Share drafts	12,968	14,939
Club	214	158
Total	**$ 4,940,878**	**$ 4,010,333**

There were share accounts which exceeded the insured limit of $500,000 by an aggregate amount of $10,656,217 as of December 31, 2018.

Note 6 - Cash and cash equivalents

For purposes of the statement of financial condition classification and the statement of cash flows, the Credit Union considers all highly liquid debt instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents. The composition of these investments is as follows:

	2018	2017
Cash on hand	$ 6,013,274	$ 6,000,628
Deposits in financial institutions – interest bearing	49,393,615	9,200,293
Deposits in financial institutions – non-interest bearing	5,933,452	13,720,205
Total cash and cash equivalents	**$ 61,340,341**	**$ 28,921,126**

Note 7 - Borrowings

The Credit Union had received FHLB advances totaling $38,703,552 and $34,208,581 at December 31, 2018 and 2017, consisting of fixed rate borrowings with an interest rate ranging from 1.06% to 3% and maturities extending until July 1, 2023.

FHLB advances are collateralized by all shares of FHLB stock owned by the Credit Union and $116,701,131 of eligible first mortgage loans under a blanket arrangement at year end 2018.

The Credit Union also can borrow an additional $40,000,000 through the FHLB Cash Management Advance program. There were no advances under this program at December 31, 2018.

Required principal repayments under these borrowing arrangements are as follows:

2019	$ 15,000,000
2020	3,465,457
2021	0
2022	0
2023	20,238,095
Total	**$ 38,703,552**

At December 31, 2018, the Credit Union had a line of credit of $20,000,000 with Huntington Bank. Two separate lines of credit with Corporate One totaling $7,000,000 were cancelled during 2018. There were no amounts drawn on these accounts at December 31, 2018 or 2017.

The Credit Union also participates in the Borrower-in-Custody program through the Federal Reserve Bank. The Credit Union has pledged the auto loan portfolio totaling $232,655,281 at December 31, 2018 and may borrow up to 75% of this outstanding balance.

Interest expense on these arrangements totaled $716,817 and $383,129 for the years ended December 31, 2018 and 2017, respectively.

Note 8 - Related party transactions

The official family of the Credit Union includes employees, board members, audit committee and credit committee members. The official family loan and share totals are as follows:

	2018	2017
Loans	$ 15,279,170	$ 15,329,285
Shares	$ 2,279,138	$ 2,124,916

Note 9 - Employee benefit plan

Employee 401(k) and Profit Sharing Plan

The Credit Union offers a 401(k) and profit sharing plan to all eligible employees. Eligible employees may contribute a percentage of their compensation subject to a maximum statutory limitation. The Credit Union also provides a matching contribution on behalf of participants who make elective compensation deferrals. Employee and employer contributions are always 100% vested. The expenses under this plan totaled $470,944 and $411,175 for the years ended December 31, 2018 and 2017.

Note 10 - Commitments and contingent liabilities

The Credit Union is periodically a party to various 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.

Loan Commitments

The Credit Union has extended lines of credit to members which have not been entirely drawn at December 31, 2018 and 2017 . The available credit to members that has not been reflected in the financial statements is as follows:

	Available Credit	
	2018	2017
Home equity line of credit	$ 28,147,580	$ 26,287,580
Signature line of credit	6,730,266	7,181,190
Business line of credit	4,028,571	4,412,579
Overdraft line of credit	1,154,472	1,023,070
Total	**$ 40,060,889**	**$ 38,904,419**

Note 11 - Other non-interest income and expense

Other non-interest income and expense amounts for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Non-interest income		
Fees and charges	$ 7,525,068	$ 7,206,136
Debit card and credit card income	2,952,219	3,170,873
Gain on sale of mortgages	636,393	518,353
Gain on sale of SBA loans	141,694	265,139
MSR loan servicing	101,048	194,383
Commission income	86,133	118,339
Gain on sale of other real estate owned	148	0
Gain on sale of property	0	2,351
Gain on sale of VISA stock	3,190,632	0
Miscellaneous income	1,553,902	971,587
Total non-interest income	**$ 16,187,237**	**$ 12,447,161**
Non-interest expenses		
Compensation and benefits	$ 15,979,342	$ 17,143,970
Office operations	3,845,987	3,880,072
Occupancy	3,736,781	3,193,901
Card processing and bank charge	2,397,187	3,050,836
Loan servicing	2,039,575	2,482,490
Promotional	1,478,831	1,681,543
Professional fees	936,706	975,468
Director and employee training	312,930	291,753
Insurance expense	169,298	178,851
Travel and education	142,220	169,643
Loss on sale of property	403,851	0
Loss on sale of other real estate owned	0	43,383
Other	359,721	660,856
Total non-interest expense	**$ 31,802,429**	**$ 33,752,766**

Note 12 - Regulatory capital

The Credit Union is subject to regulatory net worth requirements administered by the NCUA. Failure to meet minimum net worth 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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under Generally Accepted Accounting Principles. 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 ratios (set forth below) of net worth to assets (as defined in the regulations). Credit Unions are also required to calculate a Risk Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. Management believes, as of December 31, 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

The Credit Union's net worth is categorized 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 as follows:

	Actual		To Be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**
December 31, 2018	$ 78,773,882	9.43%	$ 58,471,829	7.00%
December 31, 2017	$ 69,669,568	8.55%	$ 57,012,018	7.00%

Note 13 - Leases

The Credit Union leases branch locations in Fairfield Township, West Chester and Oxford, OH. Each of these leases was obtained in the acquisition of Chaco Credit Union. The Fairfield Township lease was entered into on October 7, 2004 and has subsequently been renewed several times, the last of which occurred effective June 1, 2014 for a five-year term ending May 31, 2019. Minimum rent for the term is $4,141 per month and the Credit Union pays an ATM transaction fee of $500 per month, per ATM.

The Wester Chester lease was entered into on May 4, 2010 for a five-year term and was subsequently extended for an additional five years ending May 31, 2020. The lease provides the Credit Union with the option to extend the lease for five additional five year terms. Minimum rent for the current term is $5,113 per month. The Credit Union is also responsible for paying its proportionate share of the cost of common expenses incurred by the Lessor for the building, property and common areas that benefit the Credit Union. The Credit Union's prorated share of common area expenses total $2,394 per month.

The initial Oxford lease was entered into on July 6, 2012 and commenced on July 1, 2012. The initial five year term expired June 30, 2017. The lease provides for the option to renew the lease for two additional five year terms. The minimum rent for the initial five-year term is $1,122.92 per month. The Credit Union has already exercised its option not to renew the lease at the conclusion of the initial five-year term.

Rent expense was $163,866 and $105,368 for the years ended December 31, 2018 and 2017, respectively. Future commitments under the lease agreements totaled $288,100 at December 31, 2018.