LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Members of the Supervisory Committee and Board of Directors
Local Government Federal Credit Union and Subsidiaries
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Local Government Federal Credit Union and Subsidiaries (the Credit Union), which comprise the consolidated statements of financial condition as of June 30, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Credit Union as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
September 5, 2019

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 148,383,707	$ 135,622,007
Restricted Cash	558,336	4,000,000
Investment Securities:		
Available-for-Sale	58,235,765	66,943,087
Other Investments	2,616,500	2,066,100
Loans Held-for-Sale	12,408,907	4,290,948
Loans to Members, Net of Allowance for Loan Losses	1,852,446,126	1,680,052,204
Accrued Interest Receivable	6,886,047	4,601,618
Due from State Employees' Credit Union, Net	1,220,332	-
Premises and Equipment, Net	63,142,010	60,098,361
NCUSIF Deposit	17,781,228	16,655,176
Credit Union Owned Life Insurance	24,345,843	22,639,964
Split-Dollar Collateral Assignment Life Insurance	14,634,708	14,512,064
Other Assets	7,838,797	8,045,769
Total Assets	$ 2,210,498,306	$ 2,019,527,298
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 1,975,479,139	$ 1,797,699,456
Accrued Interest Payable	591,315	318,596
Due to State Employees' Credit Union, Net	-	7,847,082
Accrued Expenses and Other Liabilities	28,538,566	24,421,341
Total Liabilities	2,004,609,020	1,830,286,475
MEMBERS' EQUITY		
Regular Reserve	8,568,384	8,568,384
Undivided Earnings	199,087,262	185,031,314
Accumulated Other Comprehensive Loss	(1,766,360)	(4,358,875)
Total Members' Equity	205,889,286	189,240,823
Total Liabilities and Members' Equity	$ 2,210,498,306	$ 2,019,527,298

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Loans to Members	$ 98,438,660	$ 85,068,771
Investment Securities and Cash Equivalents	3,833,120	3,082,887
Total Interest Income	102,271,780	88,151,658
INTEREST EXPENSE		
Members' Share and Savings Accounts	18,606,408	10,689,779
Borrowed Funds	103,533	55,890
Total Interest Expense	18,709,941	10,745,669
Net Interest Income before Provision for Loan Losses	83,561,839	77,405,989
PROVISION FOR LOAN LOSSES	21,472,202	19,234,765
Net Interest Income after Provision for Loan Losses	62,089,637	58,171,224
NONINTEREST INCOME		
Service Charges and Fees	38,723,385	34,627,938
Gain on Insurance Proceeds	-	5,572,803
Other Noninterest Income	3,837,642	5,570,394
Total Noninterest Income	42,561,027	45,771,135
NONINTEREST EXPENSE		
Compensation and Benefits	26,796,920	22,270,536
Occupancy	1,928,386	2,194,030
Operations	55,706,578	52,949,061
Other Noninterest Expense	6,162,832	5,535,360
Total Noninterest Expense	90,594,716	82,948,987
Net Income	$ 14,055,948	$ 20,993,372

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
NET INCOME	$ 14,055,948	$ 20,993,372
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Holding Gain (Loss) on Investment Securities Available-for-Sale Arising During the Period	2,592,515	(1,583,282)
Total Other Comprehensive Income (Loss)	2,592,515	(1,583,282)
COMPREHENSIVE INCOME	$ 16,648,463	$ 19,410,090

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED JUNE 30, 2019 AND 2018

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCES - JUNE 30, 2017	$ 8,568,384	$ 164,037,942	$ (2,775,593)	$ 169,830,733
Net Income	-	20,993,372	-	20,993,372
Other Comprehensive Loss	-	-	(1,583,282)	(1,583,282)
BALANCES - JUNE 30, 2018	8,568,384	185,031,314	(4,358,875)	189,240,823
Net Income	-	14,055,948	-	14,055,948
Other Comprehensive Income	-	-	2,592,515	2,592,515
BALANCES - JUNE 30, 2019	$ 8,568,384	$ 199,087,262	$ (1,766,360)	$ 205,889,286

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 14,055,948	$ 20,993,372
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,997,425	2,635,493
Amortization of Premiums and Discounts, Net	632,087	776,775
Provision for Loan Losses	21,472,202	19,234,765
Loss on Impairment and Disposition of Premises and Equipment	-	3,044,515
Losses (Gains) on Foreclosed Assets	54,417	(680,940)
Gain on Insurance Proceeds	-	(5,572,803)
Effects of Changes in Operating Assets and Liabilities:		
Loans Held-for-Sale	(8,117,959)	(2,207,585)
Accrued Interest Receivable	(2,284,429)	(797,207)
Other Assets	(210,458)	5,722,059
Credit Union Owned Life Insurance	(620,608)	(594,502)
Split-Dollar Collateral Assignment Life Insurance	(122,644)	(1,035,401)
Due (from) to State Employees' Credit Union, Net	(9,067,414)	9,576,478
Accrued Interest Payable	272,719	(118,649)
Accrued Expenses and Other Liabilities	4,753,215	5,898,647
Net Cash Provided by Operating Activities	23,814,501	56,875,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities and Pay Downs of Investment Securities Available-for-Sale	10,667,750	13,552,979
Proceeds from Sale of FHLB Stock	1,275,000	-
Purchases of FHLB Stock	(1,325,400)	-
Net Change in Other Investments	(500,000)	(141,900)
Purchases of Credit Union Owned Life Insurance	(1,085,271)	-
Loans to Members, Net of Principal Collections	(195,844,446)	(205,168,176)
Increase in NCUSIF Deposit	(1,126,052)	(1,036,120)
Proceeds from Insurance Claims	-	5,572,803
Proceeds from Sale of Foreclosed Assets	1,705,345	2,098,658
Purchases of Premises and Equipment	(6,041,074)	(7,337,370)
Net Cash Used by Investing Activities	(192,274,148)	(192,459,126)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	177,779,683	100,631,586
Proceeds from Short-Term Borrowings	30,000,000	-
Repayments of Short-Term Borrowings	(30,000,000)	-
Net Cash Provided by Financing Activities	177,779,683	100,631,586
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	9,320,036	(34,952,523)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	139,622,007	174,574,530
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 148,942,043	$ 139,622,007
ADDITIONAL NONCASH AND CASH FLOW INFORMATION		
Cash Paid During the Year for Interest is as Follows:		
Interest on Members' Share and Savings Accounts	$ 18,333,689	$ 10,845,619
Interest on Borrowed Funds	$ 103,533	$ 55,890
Transfers from Loans to Members to Foreclosed Assets	$ 1,342,332	$ 1,763,573

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Local Government Federal Credit Union (the Credit Union or LGFCU) is a federally chartered credit union organized under the Federal Credit Union Act of 1934 and administratively responsible to the National Credit Union Administration (NCUA). The primary purpose is to promote thrift among, and create a source of credit for its members. The Credit Union's primary source of revenue is interest earned from providing loans to its members.

The Credit Union serves its members through the State Employees' Credit Union branch network. This network includes 267 offices in 179 North Carolina communities.

Membership

Participation in the Credit Union is limited to those individuals that qualify for membership as defined in the Credit Union's Charter and Bylaws. The primary field of membership consists of local government employees, elected and appointed officials, volunteers, and their families in North Carolina.

Variable Interest Entity

Civic Federal Credit Union (Civic) was chartered by the NCUA in December 2017. LGFCU was instrumental in the chartering of Civic by providing the financial support and management structure necessary to obtain a charter. LGFCU makes a determination at the start of each year whether Civic is considered a variable interest entity (VIE). Civic was determined to be a VIE of LGFCU for the years ended June 30, 2019 and 2018. Civic's financial statements are included in the consolidated financial statements of LGFCU. No significant net income was derived from Civic for the years ended June 30, 2019 and 2018. LGFCU will continue to support Civic financially as well as operationally, and will continue to evaluate Civic's VIE status. See further discussion regarding specific Civic transactions in Notes 11 and 12.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union, Civic, and wholly-owned Credit Union Service Organization (CUSO) subsidiaries, LGFCU Financial Partners, LLC (LGFCUFP), and LGFCU Trustee, LLC. LGFCUFP and LGFCU Trustee, LLC are engaged in providing business loans to local government entities as well as acting in the capacity of trustee under the deed of trust loans made by LGFCU and LGFCUFP. No significant net income is derived from the Credit Union's CUSOs.

All significant intercompany accounts and transactions have been eliminated during consolidation for both the Credit Union's wholly-owned CUSO subsidiaries and Civic.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Preparing Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 determination of the allowance for loan losses and the valuation of securities.

Financial Instruments with Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside within a limited geographical field of membership.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents include funds due from banks, corporate credit unions, and highly-liquid debt instruments with original 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.

Restricted Cash

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash.

As of June 30, 2019 and 2018, restricted cash totaling $558,336 and $4,000,000, respectively, represented monies that are held in escrow by the Quorum Center's Master Association. These funds are restricted under the North Carolina Condominium Act and are set aside specifically for the rebuild of the Credit Union's Quorum Center building. See Note 4.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Debt securities 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 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 impairment (OTTI) is recorded as a loss in noninterest income.

The Credit Union did not record any OTTI during the years ended June 30, 2019 and 2018.

Federal Home Loan Bank (FHLB) stock and certificates of deposit are stated at cost, and are subject to impairment.

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income. Realized gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans and are recorded in noninterest income. All sales are made without recourse and are sold without the mortgage servicing rights retained by the Credit Union.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members, Net of Allowance for Loan Losses

The Credit Union grants mortgage, member business, and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

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

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due loan 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 status or that are charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Credit Union does not charge fees on certain consumer loans. Fees are charged on mortgage loans; however, such fees are remitted to State Employees' Credit Union as compensation for originating the loans on behalf of the Credit Union. The Credit Union has not capitalized any loan origination costs or fees. 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, and the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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 and the impact of current internal and external influences on credit loss and the levels of nonperforming loans.

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. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment.

Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowance 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. 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 the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for member business and residential real estate loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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 loan 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: This portfolio consists of residential mortgage loans. 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 segments. 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.

Commercial: Typical industry commercial portfolios consist of member business loans secured by real estate generally possessing a higher inherent risk of loss than residential real estate portfolio segments. LGFCU provides loans for apparatus, equipment, real estate, and construction for North Carolina Fire, Rescue, and EMS Departments. Historically and currently, losses in this portfolio have been minimal.

The Credit Union assigns a risk rating to 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:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Credit Risk Grade 1 – Highest Quality: Assigned to credits which possess the lowest possible risk; the underlying borrower has established a borrowing relationship with LGFCU; and the loan(s) are 110% collateralized by deposits held by LGFCU.

Credit Risk Grade 2 – Good Quality: Credit is entirely acceptable and extended to the highest quality borrower and based on audited or reviewed financials as well as the following traits: a business entity in existence for a relatively long period, with many years of consecutive profits; strong equity position, good liquidity, excellent debt service ability, and unblemished past performance; relationships with reasonably strong borrowers supported by: a strong guarantor; and/or fully secured cash deposits held by LGFCU; other collateral with established value that is capable of being liquidated within a reasonable length of time where the maximum original loan-to-value is 80%.

Credit Risk Grade 3 – Acceptable: Credit is acceptable and extended to a borrower not as strong and established as in credit risk grade 2. Financial information must be at minimum compiled financial statements and/or tax returns prepared by an independent accountant and upon analysis must show: no apparent weaknesses, but statement analysis reveals leverage, liquidity, or debt service ability to be less than optimal; credit to a borrower is not strong enough to sustain any major setbacks (typically uncovered during sensitivity analysis) but supported by collateral with established value which is capable of being liquidated.

Credit Risk Grade 4 – Pass: The credit risk is acceptable; however, financial statements cannot be relied upon to objectively and accurately provide the Credit Union with a reliable financial position.

Credit Risk Grade 5 – Watch: A credit that is currently an acceptable risk; however, trends are developing that are not promising and should be reversed if the borrower is to continue normal operations in the long run as well as the following traits: performance has not met expectations; however, the credit has not deteriorated sufficiently to be criticized or classified; earnings/cash flow problems are likely within the next 12 months; management may have defined weaknesses; the industry may be cyclically vulnerable or relatively unimportant.

Credit Risk Grade 6 – Other Assets Especially Mentioned (OAEM): Borrower risk rating 6/OAEM is a specific loan classification which is assigned to a credit when the borrower or guarantor has deteriorated or is deteriorating to a level below borrower risk rating 5, but has not reached the level of weakness and/or adverse financial trends that characterize borrower risk rating 7.

Assets subject to Criticism

The following credit risk grades are assigned to loan assets which display risk profiles which are deemed higher than is normally acceptable. As a consequence, depending upon the factors specific to the affected credit, it may be necessary to establish a reserve to absorb any loss which may occur.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Credit Risk Grade 7 – Substandard: Loans so classified must have a clear and well-defined weakness which jeopardizes the repayment of the underlying obligation(s). Loans possessing this classification are strong candidates for nonaccrual.

Credit Risk Grade 8 – Doubtful: A loan subject to this classification has all of the weaknesses inherent in an asset classified substandard, with the added provision, that the weaknesses are pronounced to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable.

Credit Risk Grade 9 – Loss: Loans classified loss are considered uncollectible and of such little value that their continuance as active assets of the Credit Union is not warranted. Assets classified as loss must be charged off.

Each portfolio segment has applicable funding requirements based on the Credit Union's historical loss ratio as determined by the allowance methodology. Net charge-offs are used to calculate historical losses. The Credit Union utilizes a range of 12 to 60 months based on the most applicable charge-off period for the losses present at that date for each portfolio segment, with 60 months being the maximum look-back period. In addition, management considers the impact of current and relevant environmental factors and documents which factors have been used in the analysis and how these factors affect the loss measurements.

Transfers of Financial Assets

Transfers of financial assets 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 maturity.

Off-Consolidated 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets and Collateral in Process of Liquidation

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, 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 expense. As of June 30, 2019 and 2018, the amount of foreclosed assets and collateral in process of liquidation included in Other Assets totaled $1,598,623 and $2,084,221, respectively.

Premises and Equipment, Net

Land is carried at cost. Buildings, furniture and equipment, computers, and automobiles are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment, computers, and automobiles are depreciated using the straight-line method over the estimated useful lives of the assets.

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. See Note 4 – Premises and Equipment, Net for additional discussion.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

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.

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 2019 and 2018 the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was reported as of June 30, 2019 and 2018 within other noninterest income and totaled approximately $233,000 and $1,053,000, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, and is not available for the payment of interest and dividends.

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

Comprehensive Income

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

Income Taxes

As a federal instrumentality, both the Credit Union and Civic are exempt from federal and state income taxes. The income from the CUSOs, both organized as an LLC, flows through to the Credit Union, and therefore are not subject to federal and state income taxes.

Retirement 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 the applicable Internal Revenue Service (IRS) limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the plan were $1,950,822 and $1,695,402 for the years ended June 30, 2019 and 2018, respectively.

Credit Union Owned Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies on certain key executives. The policies are recorded at their cash surrender value (CSV) and increases or decreases in their CSV are included in other noninterest income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split-Dollar Collateral Assignment Life Insurance

The Credit Union has made nonrecourse loans to select executives to fund life insurance policy premiums. The executives own the policies death benefit and sole control over listed beneficiaries, but the Credit Union holds a first lien on the policies account as security for repayment of the advanced funds plus compounded interest at the long-term applicable federal rate.

According to policy provision, the executives can borrow from the cash surrender values to supplement retirement income. Policy borrowing is strictly limited so that it never puts the policy at risk of lapsing.

As early as possible after specified dates, the Credit Union is repaid the amount it advanced for policy premiums. At the executive's death, the death benefit proceeds are allocated to (i) repay the insurance carrier for the executive's retirement loans, (ii) pay the Credit Union any premium advances amount not recovered from the policy during the executive's life, (iii) pay the Credit Union the interest on its funding amount, and (iv) provide a death benefit for the executive's beneficiaries.

The total value of the loans was $14,634,708 and $14,512,064 at June 30, 2019 and 2018, respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $3,652,000 and $2,751,000 for the years ended June 30, 2019 and 2018, respectively, are expensed as incurred and included in operations expense on the consolidated statements of income.

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 re-measure 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 consolidated 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 consolidated statements 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 consolidated 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 is 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. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. This pronouncement is effective for the Credit Union for the years ending June 30, 2019 and 2018.

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 consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior period's consolidated financial statement to place them on a comparative basis with the current period. Net income previously reported was not affected by these reclassifications.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through September 5, 2019, the date the consolidated financial statements were available to be issued.

NOTE 2 INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2019				
Federal Agency Mortgage Backed Securities	$ 39,047,712	$ -	$ (1,102,432)	$ 37,945,280
Collateralized Mortgage Obligation Securities	20,954,413	-	(663,928)	20,290,485
Total	$ 60,002,125	$ -	$ (1,766,360)	$ 58,235,765

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Federal Agency Mortgage Backed Securities	$ 46,174,389	$ -	$ (2,612,643)	$ 43,561,746
Collateralized Mortgage Obligation Securities	25,127,573	-	(1,746,232)	23,381,341
Total	$ 71,301,962	$ -	$ (4,358,875)	$ 66,943,087

There were no sales of securities available-for-sale during the years ended June 30, 2019 and 2018.

The amortized cost and fair value of investment securities available-for-sale at June 30, 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.

NOTE 2 INVESTMENT SECURITIES (CONTINUED)

	Amortized Cost	Fair Value
Federal Agency Mortgage Backed Securities:		
Within Five to Ten Years	$ 13,612,270	$ 13,274,258
After Ten Years	25,435,442	24,671,022
Collateralized Mortgage Obligation Securities:		
After Ten Years	20,954,413	20,290,485
Total	$ 60,002,125	$ 58,235,765

Temporarily Impaired Investment Securities

Information pertaining to securities with gross unrealized losses at June 30, 2019 and 2018, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	2019			
	Continuous Unrealized Losses Existing			
	Less than 12 months		Greater than 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale:				
Federal Agency Mortgage Backed Securities	$ -	$ -	$ (1,102,432)	$ 37,945,280
Collateralized Mortgage Obligation Securities	-	-	(663,928)	20,290,485
Total	$ -	$ -	$ (1,766,360)	$ 58,235,765

	2018			
	Continuous Unrealized Losses Existing			
	Less Than 12 Months		Greater Than 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale:				
Federal Agency Mortgage Backed Securities	$ -	$ -	$ (2,612,643)	$ 43,561,746
Collateralized Mortgage Obligation Securities	-	-	(1,746,232)	23,381,341
Total	$ -	$ -	$ (4,358,875)	$ 66,943,087

NOTE 2 INVESTMENT SECURITIES (CONTINUED)

At June 30, 2019, 15 securities with unrealized losses depreciated 2.94% 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 and does not relate to credit risk. 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 at June 30 are summarized as follows:

	2019	2018
Certificates of Deposit	$ 750,000	$ 250,000
FHLB Stock	1,866,500	1,816,100
Total	$ 2,616,500	$ 2,066,100

Certificates of Deposit

The Credit Union has certificates of deposit in other financial institutions. This is stated at cost. The certificates of deposit mature within one year.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and, as such, is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES

The composition of loans to members, net of allowance for loan losses at June 30 is as follows:

	2019	2018
Commercial:		
Member Business	$ 119,906,844	$ 94,960,172
Residential Real Estate:		
First Mortgage	806,301,797	694,791,927
Home Equity Line	100,893,499	90,142,941
Total Residential Real Estate	907,195,296	784,934,868
Consumer:		
New Auto	151,384,252	139,760,170
Used Auto	359,640,460	382,843,892
Credit Card	94,096,530	91,486,816
Other	241,363,825	202,985,649
Total Consumer	846,485,067	817,076,527
Subtotal	1,873,587,207	1,696,971,567
Less Allowance for Loan Losses	(21,141,081)	(16,919,363)
Total	$ 1,852,446,126	$ 1,680,052,204

The Credit Union has $10,453,102 and $13,720,752 of mortgage loan commitments at June 30, 2019 and 2018, respectively, not included in residential real estate loan segment above.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2019 are as follows:

	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning Balance	$ 237,837	$ 833,918	$ 15,847,608	$ 16,919,363
Provision for Loan Losses	30,984	921,506	20,519,712	21,472,202
Recoveries	-	300	2,569,921	2,570,221
Charge-offs	-	(221,347)	(19,599,358)	(19,820,705)
Ending Balance	$ 268,821	$ 1,534,377	$ 19,337,883	$ 21,141,081
Ending Balance:				
Individually Evaluated for Impairment	$ 15,862	$ 347,001	$ 364,732	$ 727,595
Collectively Evaluated for Impairment	252,959	1,187,376	18,973,151	20,413,486
Total	$ 268,821	$ 1,534,377	$ 19,337,883	$ 21,141,081
Loans to members:				
Ending Balance:				
Individually Evaluated for Impairment	$ 17,162	$ 62,528,393	$ 717,472	$ 63,263,027
Collectively Evaluated for Impairment	119,889,682	844,666,903	845,767,595	1,810,324,180
Total	$ 119,906,844	$ 907,195,296	$ 846,485,067	$ 1,873,587,207

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2018 are as follows:

	Commercial	Resident Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning Balance	$ 280,218	$ 2,259,069	$ 11,743,740	$ 14,283,027
Provision (Credit) for Loan Losses	(42,381)	(1,150,991)	20,428,137	19,234,765
Recoveries	-	43,291	1,429,039	1,472,330
Charge-offs	-	(317,451)	(17,753,308)	(18,070,759)
Ending Balance	$ 237,837	$ 833,918	$ 15,847,608	$ 16,919,363
Ending Balance:				
Individually Evaluated for Impairment	$ 27,823	$ 462,966	$ 501,932	$ 992,721
Collectively Evaluated for Impairment	210,014	370,952	15,345,676	15,926,642
Total	$ 237,837	$ 833,918	$ 15,847,608	$ 16,919,363
Loans to members:				
Ending Balance:				
Individually Evaluated for Impairment	$ 29,123	$ 50,891,125	$ 922,842	$ 51,843,090
Collectively Evaluated for Impairment	94,931,049	734,043,743	816,153,685	1,645,128,477
Total	$ 94,960,172	$ 784,934,868	$ 817,076,527	$ 1,696,971,567

The following tables show the commercial loan portfolio segment allocated by managements internal risk ratings as of June 30:

Commercial Loan Risk Ratings	2019	2018
Pass (Risk Grade 1 - 4)	$ 119,127,239	$ 94,378,868
Watch	762,443	552,181
Other Assets Especially Mentioned	-	-
Substandard	-	-
Doubtful	17,162	29,123
Loss	-	-
Total	$ 119,906,844	$ 94,960,172

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Commercial, Residential Real Estate, and Consumer Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's loan portfolio, management tracks the loan's performance and when the loan becomes 90 days past due they are classified as nonperforming loans.

The following tables show the classes within the homogenous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

June 30, 2019	Payment Activity		
	Performing	Nonperforming	Total
Commercial:			
Member Business	$ 119,906,844	$ -	$ 119,906,844
Residential Real Estate:			
First Mortgage	798,591,393	7,710,404	806,301,797
Home Equity Line	100,491,043	402,456	100,893,499
Consumer:			
New Auto	150,432,398	951,854	151,384,252
Used Auto	356,675,107	2,965,353	359,640,460
Credit Card	93,615,942	480,588	94,096,530
Other	240,849,791	514,034	241,363,825
Total	$ 1,860,562,518	$ 13,024,689	$ 1,873,587,207

June 30, 2018	Payment Activity		
	Performing	Nonperforming	Total
Commercial:			
Member Business	$ 94,960,172	$ -	$ 94,960,172
Residential Real Estate:			
First Mortgage	687,764,064	7,027,863	694,791,927
Home Equity Line	90,017,168	125,773	90,142,941
Consumer:			
New Auto	139,095,882	664,288	139,760,170
Used Auto	380,006,798	2,837,094	382,843,892
Credit Card	90,290,388	1,196,428	91,486,816
Other	202,242,083	743,566	202,985,649
Total	$ 1,684,376,555	$ 12,595,012	$ 1,696,971,567

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show an aging analysis of the loan portfolio at June 30, by time past due:

2019	Current	Accruing Interest 30-59 Days Past Due	Accruing Interest 60-89 Days Past Due	Nonaccrual 90 Days or More Past Due	Total Loans to Members
Commercial:					
Member Business	$ 119,889,682	$ 17,162	$ -	$ -	$ 119,906,844
Residential Real Estate:					
First Mortgage	763,843,265	24,610,346	10,137,782	7,710,404	806,301,797
Home Equity Line	99,950,708	452,021	88,314	402,456	100,893,499
Consumer:					
New Auto	147,498,360	2,215,778	718,260	951,854	151,384,252
Used Auto	346,258,282	7,887,934	2,528,891	2,965,353	359,640,460
Credit Card	91,627,317	1,390,077	598,548	480,588	94,096,530
Other	237,081,864	2,554,215	1,213,712	514,034	241,363,825
Total	$ 1,806,149,478	$ 39,127,533	$ 15,285,507	$ 13,024,689	$ 1,873,587,207

2018	Current	Accruing Interest 30-59 Days Past Due	Accruing Interest 60-89 Days Past Due	Nonaccrual 90 Days or More Past Due	Total Loans to Members
Commercial:					
Member Business	$ 94,931,049	$ -	$ 29,123	$ -	$ 94,960,172
Residential Real Estate:					
First Mortgage	663,810,020	18,113,341	5,840,703	7,027,863	694,791,927
Home Equity Line	89,695,461	225,361	96,346	125,773	90,142,941
Consumer:					
New Auto	136,900,286	1,791,666	403,930	664,288	139,760,170
Used Auto	370,051,708	7,097,961	2,857,129	2,837,094	382,843,892
Credit Card	82,664,923	6,175,585	1,449,880	1,196,428	91,486,816
Other	199,373,174	2,018,446	850,463	743,566	202,985,649
Total	$ 1,637,426,621	$ 35,422,360	$ 11,527,574	$ 12,595,012	$ 1,696,971,567

The Credit Union had no loans that were greater than 90 days past due for which the loans were accruing interest at June 30, 2019 and 2018, respectively.

Interest income foregone on nonaccrual loans was deemed immaterial by management for the years ended June 30, 2019 and 2018.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information concerning impaired loans by loan class as of June 30, 2019 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Specific Reserve Recorded:			
Residential Real Estate:			
First Mortgage	$ 33,527,510	$ -	$ 27,357,823
Consumer:			
New Auto	$ 11,442	$ -	$ 5,721
Used Auto	5,382	-	5,715
Total Consumer	$ 16,824	$ -	$ 11,436
Total	$ 33,544,334	$ -	$ 27,369,258
With Specific Reserve Recorded:			
Commercial:			
Member Business	$ 17,162	$ 15,862	$ 23,143
Residential Real Estate:			
First Mortgage	$ 29,000,883	$ 347,001	$ 29,351,937
Consumer:			
New Auto	$ 124,651	$ 65,157	$ 166,025
Used Auto	567,164	291,848	638,281
Other	8,833	7,727	4,416.50
Total Consumer	$ 700,648	$ 364,732	$ 808,722
Total	$ 29,718,693	$ 727,595	$ 30,183,801
Commercial	$ 17,162	$ 15,862	$ 23,143
Residential Real Estate	62,528,393	347,001	56,709,759
Consumer	717,472	364,732	820,157
Total Loans Individually Evaluated for Impairment	$ 63,263,027	$ 727,595	$ 57,553,059

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information concerning impaired loans by loan class as of June 30, 2018 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Specific Resere Recorded:			
Residential Real Estate:			
First Mortgage	$ 21,188,135	$ -	$ 20,328,842
Consumer:			
Used Auto	$ 6,047	$ -	$ 3,024
Total	$ 21,194,182	$ -	$ 20,331,866
With Specific Reserve Recorded:			
Commercial:			
Member Business	$ 29,123	$ 27,823	$ 14,562
Residential Real Estate:			
First Mortgage	$ 29,702,990	$ 462,966	$ 30,422,215
Consumer:			
New Auto	$ 207,398	$ 117,828	$ 103,699
Used Auto	709,397	384,104	354,699
Total Consumer	$ 916,795	$ 501,932	$ 458,398
Total	$ 30,648,908	$ 992,721	$ 30,895,175
Commercial	$ 29,123	$ 27,823	$ 14,562
Residential Real Estate	50,891,125	462,966	50,751,057
Consumer	922,842	501,932	461,422
Total Loans Individually Evaluated for Impairment	$ 51,843,090	$ 992,721	$ 51,227,041

Interest collected on impaired loans for the years ended June 30, 2019 and 2018 was not deemed significant as interest is not accrued on nonaccrual loans or other loans past-due 90 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.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

A summary of TDRs by class that were granted during the year and those that were granted, and subsequently defaulted (became 90 days or more delinquent) during the years ended June 30, 2019 and 2018, are as follows. The aggregate amount of charge-offs as a result of restructuring are not significant. A summary of loan modifications by class during the years ended June 30 are as follows:

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
During the Year Ended June 30, 2019	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
First Mortgage	212	$ 24,217,329	57	$ 6,242,367
Home Equity Line	18	495,945	1	23,458
New Auto	101	2,041,914	4	74,571
Used Auto	418	4,406,197	22	222,416
Other	236	1,947,532	8	98,161
Total	985	$ 33,108,917	92	$ 6,660,973

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
During the Year Ended June 30, 2018	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
First Mortgage	71	$ 7,830,443	7	$ 498,645
Home Equity Line	17	615,687	-	-
New Auto	97	1,946,203	1	14,690
Used Auto	369	3,981,187	19	212,610
Other	178	1,342,665	1	18,092
Total	732	$ 15,716,185	28	$ 744,037

The following table shows the types of modifications made during the years ended June 30, 2019 and 2018:

	During the Year Ended June 30, 2019				
	Interest Rate Adjustment	Extended Maturities	Partial Payment	Refinance	Total
First Mortgage	$ 724,926	$ 19,808,113	$ 1,100,011	$ 2,584,279	$ 24,217,329
Home Equity Line	-	495,945	-	-	495,945
New Auto	-	2,041,914	-	-	2,041,914
Used Auto	-	4,406,197	-	-	4,406,197
Other	-	1,947,532	-	-	1,947,532
Total	$ 724,926	$ 28,699,701	$ 1,100,011	$ 2,584,279	$ 33,108,917

	During the Year Ended June 30, 2018				
	Interest Rate Adjustment	Extended Maturities	Partial Payment	Refinance	Total
First Mortgage	$ 571,166	$ 4,189,507	$ 578,475	$ 2,491,295	$ 7,830,443
Home Equity Line	-	615,687	-	-	615,687
New Auto	-	1,946,203	-	-	1,946,203
Used Auto	-	3,981,187	-	-	3,981,187
Other	-	1,342,665	-	-	1,342,665
Total	$ 571,166	$ 12,075,249	$ 578,475	$ 2,491,295	$ 15,716,185

NOTE 4 PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at June 30 is as follows:

	2019	2018
Land	$ 2,445,660	$ 2,364,437
Building	57,240,036	57,126,208
Furniture and Equipment	3,211,240	3,191,397
Computer Equipment	7,683,768	4,117,305
Automobiles	551,738	551,738
Construction in Process	4,467,721	2,208,004
Total	75,600,163	69,559,089
Less: Accumulated Depreciation and Amortization	(12,458,153)	(9,460,728)
Total	$ 63,142,010	$ 60,098,361

As of June 30, 2019, the Quorum Center building had a carrying value of $11,638,000, acquired value of $16,336,000 less accumulated depreciation of $4,525,000 and an impairment loss recognized in 2018 of $173,000.

As of June 30, 2018, the credit union received funds from insurance claims that were recorded as a gain due to amounts previously taken as a loss in fiscal year 2017 as a result of a fire in the Quorum Center building.

NOTE 5 LEASE COMMITMENTS

Tenants were unable to occupy the Quorum Center building space during the years ended June 30, 2019 and 2018 while renovations were being made. However, subsequent to June 30, 2019 year end, tenants were able to move back into the Quorum Center building under the existing non-cancelable operating leases expiring in various years until fiscal year 2024. Future minimum lease income receivable under these leases as of June 30 are as follows:

2020	$ 198,606
2021	169,469
2022	82,059
2023	82,059
2024	13,676
Total	$ 545,869

Rental income was $14,577 and $13,367 for the years ended June 30, 2019 and 2018, respectively. This is included in other noninterest income in the consolidated statements of income. Management submitted insurance claims and received funds of approximately $0 and $478,000 during years ended June 30, 2019 and 2018, respectively, for lost rental income due to the fire at the Quorum Center Building.

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

A summary of members' share and savings accounts by type at June 30 are as follows:

	2019	2018
Regular Share Accounts	$ 496,930,463	$ 476,496,599
Share Draft Accounts	391,554,664	348,491,992
Money Market Accounts	618,639,992	527,156,744
IRA Share Accounts	192,029,907	178,652,908
Share Term Certificates	276,324,113	266,901,213
Total Members' Share and Savings Accounts	$ 1,975,479,139	$ 1,797,699,456

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $24,203,000 and $19,822,000 at June 30, 2019 and 2018, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled approximately $319,000 and $264,000 at June 30, 2019 and 2018, respectively.

Scheduled maturities of share term certificates for years ending June 30 are as follows:

Year Ending June 30,	Amount
2020	$ 138,496,462
2021	51,516,079
2022	25,023,293
2023	15,006,544
2024	46,281,735
Total	$ 276,324,113

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government.

NOTE 7 BORROWED FUNDS

At June 30, 2019 and 2018, the Credit Union had available lines of credit of approximately $547,046,000 and $503,565,000 with the FHLB and $347,849,000 and $352,228,000 with the Federal Reserve Bank of Richmond (FRB), respectively. The FHLB line is collateralized by mortgage loans and the FRB line is collateralized by auto loans. The interest rates applied on any borrowing are determined on the date of borrowing. The lines have no expiration dates, but are subject to review and change by the issuing institutions. There were no balances outstanding on these lines at June 30, 2019 and 2018.

NOTE 7 BORROWED FUNDS (CONTINUED)

On October 2, 2017, the Credit Union obtained a secondary capital loan totaling $2 million from the National Federation of Community Development Credit Unions (the Federation) for the purpose of making loans to promote community development. The funds are committed to the Secondary Capital account for a period of seven (7) years. The secondary capital is a form of subordinated debt and is included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. At June 30, 2019 and 2018, the Credit Union applied $2,000,000 of subordinated debt towards the net worth calculation.

Interest is payable quarterly in arrears on January 1, April 1, July 1, and October 1 of each year at a rate of 3.75% per annum. Principal payments will be paid, pending approval from the NCUA, on the anniversary of the disbursement of the loan as follows:

Year Ending June 30,	Amount
2020	$ 400,000
2021	400,000
2022	400,000
2023	400,000
2024	400,000
Total	$ 2,000,000

NOTE 8 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 consolidated 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 consolidated financial statements.

At June 30, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
Commitments to Grant Loans:		
Commercial	$ 7,678,371	$ 6,600,637
Home-Equity Lines of Credit	66,671,338	63,122,654
Credit Cards	115,104,707	109,935,463
Other Unfunded Commitments	41,558,745	37,871,728
Total	$ 231,013,161	$ 217,530,482

NOTE 8 OFF-STATEMENT OF FINANCIAL CONDITION ACTIVITIES (CONTINUED)

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. Since 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.

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

NOTE 9 CONTINGENCIES AND COMMITMENTS

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

The Credit Union entered into several contracts representing purchase commitments. At June 30, 2018, purchase commitments related to the purchase of a core processing system were estimated to be $3,515,000. There were no remaining commitments at June 30, 2019.

At June 30, 2019, the Credit Union estimates the completion of rebuild construction of the Quorum Center will total approximately $1,497,000. Of this amount, approximately $558,000 will be paid out of the Quorum Center Master Association funds, which are held by three different brokers and not directly by the Credit Union. See Restricted Cash in Note 1.

NOTE 10 REGULATORY NET WORTH

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-consolidated 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.

NOTE 10 REGULATORY NET WORTH (CONTINUED)

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 as of June 30, 2019, the most recent quarterly regulatory filing date, was 4.96%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of June 30, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of June 30, 2019, the most recent call reporting period, the NCUA categorized the Credit Union initially as “well capitalized” under the regulatory frame work for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

The consolidated actual capital amounts and ratios as of June 30 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Net Worth	$ 207,655,646	9.39%	$ 132,629,898	6.00%	$ 154,734,881	7.00%
Risk-Based Net Worth Requirement	109,640,716	4.96%	N/A	N/A	N/A	N/A
2018						
Net Worth	$ 193,599,698	9.59%	$ 121,171,638	6.00%	$ 141,366,911	7.00%
Risk-Based Net Worth Requirement	103,399,798	5.12%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 4.96% is less than the net worth ratio of 9.39%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of the current and three preceding quarter-end balances option, as permitted by regulation. For purposes of the net worth calculation, net worth includes all undivided earnings, regular reserves, net worth from an acquisition and subordinated debt obtained from the Federation.

NOTE 11 RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to members of the Board of Directors, supervisory committee members, and executive officers. Included in Loans to Members, Net of Allowance for Loan Losses and Split-Dollar Collateral Assignment Life Insurance at June 30, 2019 and 2018, are loans to the Credit Union's Board of Directors, committee members, and senior executive staff of approximately $16,183,000 and $16,231,000, respectively. The aggregate principal advances and principal repayments are not significant.

Members' Shares and Savings Accounts (deposits) from the Credit Union's board of directors, supervisory committee members, and executive officers held by the Credit Union at June 30, 2019 and 2018 are approximately $2,563,000 and $2,099,000, respectively.

The Credit Union provided financial support of $200,000 and $5,000,000 during the years ended June 30, 2019 and 2018, respectively, to Civic and treated the support as capital gifts. The capital gifts were given to Civic with no expectation that the funds would be returned. Therefore, the transactions were treated as expenses to the Credit Union and as equity to Civic. These transactions are eliminated in consolidation.

LGFCU and Civic currently have common oversight and management. While there are two independent board members for each credit union, the remaining Civic board members are also LGFCU board members. LGFCU will cover expenses on behalf of Civic in return for a service fee outlined in the Support Services Agreement. Had Civic incurred these expenses on a stand-alone basis, the operational support expenses during the fiscal year would have been approximately $7.5 million and $6.9 million during the years ended June 30, 2019 and 2018, respectively. The agreement states that LGFCU will provide substantially all of Civics support services, including property and equipment, system infrastructure and human capital in return for a rate of 25% of the gross revenue of Civic. Operational support expenses incurred by LGFCU on behalf of Civic are included in the Credit Union's consolidated financial statements. LGFCU received approximately $247,000 in services fees from Civic during the year ended June 30, 2019. These fees were eliminated in consolidation. No service fees were received during the year ended June 30, 2018 given that Civic was not yet operational and did not have any gross revenue.

NOTE 12 VARIABLE INTEREST ENTITY

If an enterprise is the primary beneficiary of a VIE, GAAP requires the assets, liabilities, equity and results of operations of the VIE to be included in the consolidated financial statements of the Credit Union. The Credit Union has determined that Civic is a VIE.

Summarized financial information for Civic is as follows:

	2019	2018
Total Assets	$ 19,324,089	$ 5,104,261
Total Liabilities	13,950,045	104,261
Total Members' Equity	$ 5,374,044	$ 5,000,000
Total Revenue	$ 449,918	$ -
Total Expense	275,874	-
Net Income	$ 174,044	$ -

NOTE 13 RELIANCE ON OTHER PARTIES

The Credit Union has an agreement with State Employees' Credit Union of North Carolina (SECU) under which SECU provides substantially all of the Credit Union's operating services including member services, branch facilities, and data processing services. SECU is compensated for such services at a rate of 25% of the gross revenue of the Credit Union, which is paid on a monthly basis. During 2019 and 2018, the Credit Union incurred service fees of $35,229,000 and $31,130,000, respectively, for services rendered under the agreement with SECU, which is included in operations expense on the Consolidated Statements of Income. At June 30, 2019 and 2018, the payable to SECU for service fees under this agreement were approximately $3,040,000 and 2,202,000, respectively.

SECU charges the Credit Union a $0.50 processing charge for the usage of SECU automated teller machines (ATM). Total ATM fees paid to SECU were $2,455,000 and $2,421,000 for fiscal years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the payable to SECU for services rendered under this agreement was approximately $24,000 and $10,000, respectively.

SECU settles daily member transactions on behalf of the Credit Union. The Credit Union records this activity as a net receivable or payable for amounts settled but not received or paid. The Credit Union had a net receivable from SECU of approximately $4,284,000 at June 30, 2019 and a net payable to SECU of approximately $5,635,000 at June 30, 2018.

NOTE 14 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 and liabilities measured at fair value on a recurring basis as of June 30:

	Balance as of June 30,	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2019					
Federal Agency Mortgage Backed Securities	$ 37,945,280	$ -	$ 37,945,280	$ -	$ 37,945,280
Collateralized Mortgage Obligation Securities	20,290,485	-	20,290,485	-	20,290,485
Total	$ 58,235,765	$ -	$ 58,235,765	$ -	$ 58,235,765
2018					
Federal Agency Mortgage Backed Securities	$ 43,561,746	$ -	$ 43,561,746	$ -	$ 43,561,746
Collateralized Mortgage Obligation Securities	23,381,341	-	23,381,341	-	23,381,341
Total	$ 66,943,087	$ -	$ 66,943,087	$ -	$ 66,943,087

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.

NOTE 14 FAIR VALUE (CONTINUED)

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 June 30, 2019 and 2018 consisted of the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
June 30, 2019				
Impaired Loans	$ -	$ -	$ 28,991,098	$ (727,595)
Foreclosed Assets	-	-	1,245,883	(349,946)
Total Nonrecurring	$ -	$ -	$ 30,236,981	$ (1,077,541)
June 30, 2018				
Impaired Loans	$ -	$ -	$ 29,656,187	$ (992,721)
Foreclosed Assets	-	-	1,663,312	(895,450)
Total Nonrecurring	$ -	$ -	$ 31,319,499	$ (1,888,171)

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 amounts on impaired loans represent specific valuation allowance 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.

NOTE 14 FAIR VALUE (CONTINUED)

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

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:

	June 30, 2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 28,991,098	Appraisals Discounted Expected Cash Flows	Appraisal Adjustment or Discount Rates	Collateral Discount of 8% or 2.75% to 8.25% Discount Rate
Foreclosed Assets	1,245,883	Appraisal	Appraisal Adjustment	16%

	June 30, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 29,656,187	Appraisals Discounted Expected Cash Flows	Appraisal Adjustment or Discount Rates	Collateral Discount of 8% or 2.75% to 8.25% Discount Rate
Foreclosed Assets	1,663,312	Appraisal	Appraisal Adjustment	16%