

ELKO FEDERAL CREDIT UNION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017



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**ELKO FEDERAL CREDIT UNION
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Elko Federal Credit Union
Elko, Nevada

We have audited the accompanying financial statements of Elko Federal Credit Union, which comprise the statements of financial condition as of December 31, 2018 and 2017, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Supervisory Committee and the Board of Directors
Elko Federal Credit Union

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elko Federal 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 conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
April 25, 2019

**ELKO FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 28,065,953	\$ 36,241,796
Securities - Held-to-Maturity	23,845,254	25,714,217
Other Investments	7,510,905	10,093,905
Loans, Net	96,893,298	78,825,417
Accrued Interest Receivable	405,317	337,950
Premises and Equipment, Net	4,013,721	2,750,729
Life Insurance Policy	2,308,091	-
NCUSIF (National Credit Union Share Insurance Fund) Deposit	1,424,998	1,359,065
Other Assets	523,680	301,241
	\$ 164,991,217	\$ 155,624,320
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	\$ 145,982,866	\$ 138,684,669
Accrued Expenses and Other Liabilities	226,870	241,791
Total Liabilities	146,209,736	138,926,460
MEMBERS' EQUITY		
Regular Reserves	1,649,106	1,649,106
Undivided Earnings	500,000	500,000
Other Reserves	16,632,375	14,548,754
Total Members' Equity	18,781,481	16,697,860
Total Liabilities and Members' Equity	\$ 164,991,217	\$ 155,624,320

See accompanying Notes to Financial Statements.

**ELKO FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
INTEREST INCOME		
Loans	\$ 4,485,885	\$ 3,583,581
Securities, Interest Bearing Deposits, and Cash Equivalents	1,249,265	1,055,042
Total Interest Income	5,735,150	4,638,623
INTEREST EXPENSE		
Members' Share and Savings Accounts	375,218	340,574
NET INTEREST INCOME	5,359,932	4,298,049
PROVISION (CREDIT) FOR LOAN LOSSES	72,842	(110,873)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,287,090	4,408,922
NONINTEREST INCOME		
Service Charges and Fees	1,650,767	1,500,318
Other Noninterest Income	360,438	189,615
Other Nonoperating Income	-	52,000
Total Noninterest Income	2,011,205	1,741,933
NONINTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	2,501,367	2,183,538
Occupancy	221,878	212,432
Operations	2,072,463	1,795,283
Professional and Outside Services	418,966	533,623
Total Noninterest Expense	5,214,674	4,724,876
NET INCOME	\$ 2,083,621	\$ 1,425,979

See accompanying Notes to Financial Statements.

**ELKO FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>Regular Reserves</u>	<u>Undivided Earnings</u>	<u>Other Reserves</u>	<u>Total</u>
BALANCE - DECEMBER 31, 2016	\$ 1,649,106	\$ 500,000	\$ 13,122,775	\$ 15,271,881
Net Income	-	1,425,979	-	1,425,979
Transfers, Net	-	(1,425,979)	1,425,979	-
BALANCE - DECEMBER 31, 2017	1,649,106	500,000	14,548,754	16,697,860
Net Income	-	2,083,621	-	2,083,621
Transfers, Net	-	(2,083,621)	2,083,621	-
BALANCE - DECEMBER 31, 2018	<u>\$ 1,649,106</u>	<u>\$ 500,000</u>	<u>\$ 16,632,375</u>	<u>18,781,481</u>

See accompanying Notes to Financial Statements.

**ELKO FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 2,083,621	\$ 1,425,979
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	194,754	211,382
Amortization (Accretion) of Security Premiums and Discounts, Net	108,450	118,717
Provision (Credit) for Loan Losses	72,842	(110,873)
Amortization of Net Loan Origination Costs	126,130	91,784
Changes in:		
Accrued Interest Receivable	(67,367)	(54,145)
Increase in Cash Surrender Value of Life Insurance Policy	(28,394)	-
Other Assets	(222,439)	(94,054)
Accrued Expenses and Other Liabilities	(14,921)	59,801
Net Cash Provided by Operating Activities	2,252,676	1,648,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Securities Held-to-Maturity	(1,954,165)	(5,203,853)
Proceeds from Repayments or Maturities of Securities		
Held-to-Maturity	3,714,678	4,705,501
Proceeds from Maturities of Other Investments	8,117,000	8,917,000
Purchases of Other Investments	(5,534,000)	(8,569,000)
Loan Originations Net of Principal Collected on Loans	(18,266,853)	(25,902,214)
Increase in NCUSIF Deposit	(65,933)	(74,134)
Purchase of Life Insurance Policy	(2,279,697)	-
Expenditures for Premises and Equipment	(1,457,746)	(133,467)
Net Cash Used by Investing Activities	(17,726,716)	(26,260,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	7,298,197	1,192,964
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,175,843)	(23,418,612)
Cash and Cash Equivalents - Beginning of Year	36,241,796	59,660,408
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 28,065,953	\$ 36,241,796
SUPPLEMENTAL DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Member Share and Savings Accounts Cash Paid For Interest	\$ 375,218	\$ 340,574
Transfers of Other Investments to Securities Held-for-Sale	\$ -	\$ 250,000

See accompanying Notes to Financial Statements.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Elko Federal Credit Union (the Credit Union) is a federally chartered cooperative association headquartered in Elko, Nevada, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among, and creating a source of credit for its members.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of those who live, work, worship, or attend school in, and businesses and other legal entities in Elko, Eureka, Humboldt, Lander, and White Pine Counties, Nevada, and selected employee groups within the region. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them, and their spouses may be members.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The material estimate that is particularly susceptible to significant change in the near term includes the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical field of membership. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk.

The Credit Union has a concentration of funds on deposit at Catalyst Corporate Federal Credit Union (Catalyst) of approximately \$22,672,000 and \$31,087,000 at December 31, 2018 and 2017, respectively.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less.

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

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Debt securities are classified as held-to-maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income. 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. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

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

The Credit Union did not hold any securities classified as available-for-sale for the years ended December 31, 2018 and 2017.

The Credit Union did not record any other than temporary impairment during the years ended December 31, 2018 and 2017.

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in impairment.

Loans, Net

The Credit Union grants consumer, residential real estate, and member business loans to members and purchases loan participations. A substantial portion of the loan portfolio is represented by consumer and residential real estate loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions 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, and net deferred loan origination costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the straight line method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

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

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

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience. 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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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

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

The Credit Union did not enter into any new troubled debt restructurings during the years ended December 31, 2018 and 2017.

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

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

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than member business real estate loan 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.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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

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

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

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

High Quality

Risk Rating 1: Highest Quality

These loans have the highest quality and lowest amount of inherent risk. These businesses have a history of strong financial performance and exhibit signs of creditworthiness. The businesses' management team members have 10 or more years of experience, and these businesses are ranked at or higher than the upper quartile in industry comparisons. The financial information provided by these borrowers is of the highest quality (i.e. audited or reviewed for larger companies.) All loans secured by cash and government securities with comfortable margins are included in this risk rating.

Risk Rating 2: Superior Quality

These loans have many of the same qualities as those classified within the Highest Quality category but with slightly lower ratings, characteristics, financial performance or loan to value. The collateral can be liquidated in a short period of time or can be marketed under current market conditions. The businesses' management team members have 7+ years of experience, and these businesses rate in the upper quartile in industry comparisons. The financial information provided by these borrowers is of very good quality (i.e. CPA prepared for larger borrowers.) Loans secured by high quality

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

High Quality (Continued)

Risk Rating 2: Superior Quality (Continued)

corporate stocks and bonds with adequate margins and monitoring may be risk rated in this category.

Risk Rating 3: Excellent Quality

These loans have many excellent qualities that are considered by management to be strong and reliable sources of primary and secondary repayment. Businesses in this category are very stable and proven in the market place. The loans in this category do, however, have slightly lower ratings, characteristics, financial performance or loan to value than those in the Superior Quality category. The businesses' management team members have 6+ years of experience, and the businesses have been in operation for 6+ years. The collateral is readily marketable with good margins in an active market. Business rate at or very near to the upper quartile in industry comparisons. The financial information provided by these borrowers is of good quality (i.e. CPA prepared for larger borrowers.)

Acceptable Quality

Risk Rating 4: Good Quality

These loans have an established history of many good qualities that are considered by management to be sound sources of primary and secondary repayment. The loans in this category do, however, have slightly lower ratings, characteristics, financial performance or loan to value than those in the Excellent Quality category. Collateral is readily marketable, stable in value with slight market risks, and has margins that slightly exceed policy requirements. The businesses' management team members have 5+ years of experience; however, 3+ years of experience is acceptable for SBA loans. These businesses have been in operation for 5+ years and rank in the upper end of the middle quartile in industry comparisons. Financial statements are of good quality and are professionally prepared.

Risk Rating 5: Acceptable Quality

These loans have satisfactory credit aspects with sound secondary repayment sources to support any credit issues and carry slightly lower ratings, characteristics, financial performance or loan to value than those in the Good Quality category. The collateral is fully marketable subject to inherent market risks for its type. These businesses have been established for 4+ years or have a management team with comparable or greater experience. However, two years of management experience and business history is acceptable for an SBA loan. These businesses rank in the middle quartile in industry comparisons. The financial information for these loans has been prepared by the borrower internally by qualified staff or externally reviewed to be proven reliable.

Risk Rating 6: Minimum Acceptable Quality

These loans meet all minimum credit criteria. They have a viable primary source of repayment but could be subject to some volatility. Some original elements of risk or developing events remain mitigated by structure, performance, and/or monitoring. These

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Acceptable Quality (Continued)

Risk Rating 6: Minimum Acceptable Quality (Continued)

loans may possess slightly lower ratings, characteristics, financial performance or loan to value than those in the Acceptable Quality category. These businesses have less financial performance history and their management team members are generally less experienced with 3 or fewer years of experience. Collateral is less marketable with few buyers. These businesses rank in the lower quartile in industry comparisons. Financial information is borrower prepared, not extensive but deemed accurate. Most loans with a high reliance on projections to achieve repayment would fall in this category.

Watch

Risk Rating 7: Watch

These loans have potential weaknesses that deserve management's close attention. These loans are for the most part current but show some sign(s) of deterioration. These loans usually remain in this category for up to one year as they either improve to pass status or decline to classified status. In some cases there may be notable improvement or stabilization in financial performance during this period; however, current fiscal year-end results will not support an upgrade to a pass credit. Consideration may be given to extending the watch period for an additional year subject to ongoing monitoring for improvement or decline. Generally, watch credits will have one or more of the following weaknesses: The business has been open less than 3 years and the management team members are new or have limited to no prior experience; Collateral value has declined and the loan to value exceeds the policy maximum; the most recent year-end statement shows a loss; the debt service coverage ratio is less than 1:25:1 (1:1 for SBA); the debt to tangible net worth exceeds 5:1 (6:1 for SBA) and the quick ratio is less than 1:1; or the company shows a trend of book overdrafts. The industry risk is high and the business ranks below its peer group in all categories in industry comparison. The business credit score is 54 or below or payable aging exceed acceptable levels. The guarantors' FICO drops below 660 or recent late payments show a negative trend. Loans will not usually be upgraded from the watch category based on interim statements but only after year-end statements have been analyzed.

Classified

Risk Rating 8: Substandard

These loans are inadequately protected by the current net worth and repayment capacity of the obligor or the collateral pledged, if any. Loans classified as Substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified as substandard.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Classified (Continued)

Risk Rating 9: Doubtful

These loans have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: proposed merger, acquisition, or liquidation actions; capital injection; perfecting liens on collateral; and refinancing plans.

Risk Rating 10: Loss

These loans are considered uncollectible; therefore, continuing to report these balances as loans has little value and is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future.

Transfers of Financial Assets and Participating Interests

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

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

Off-Statement of Financial Condition Credit Related Financial Instruments

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

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed and Repossessed Assets

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 net expenses. The Credit Union has no foreclosed or repossessed assets as of December 31, 2018 and 2017.

Premises and Equipment, Net

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

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.

Life Insurance Policy

During 2018, the Credit Union purchased a key person life insurance policy from Minnesota Life Insurance Company. The life insurance policy is reported at the lower of its fair value or cash surrender value (CSV), net of any surrender charges. Increases or decreases in the CSV of the life insurance policy are recorded as Interest Income on Securities and are used to fund the deferred compensation plan. Income of \$28,394 was recorded for the year ended December 31, 2018.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

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. At its February 15, 2018 open meeting, the NCUA board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was included within Other Noninterest Income and totaled approximately \$93,000.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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. The statutory regular reserve is not available for the payment of interest.

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

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

Retirement Plans

401(k) plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable 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 approximately \$68,000 and \$45,000 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan [Section 457(f)] – During 2018, The Credit Union entered into a nonqualified deferred compensation plan for a member of management. Under the terms of the plan, the earnings on a related life insurance policy are credited to a benefit accrual account. The participant is entitled to the balance of the benefit accrual account as of each vesting date. The outstanding balance of the benefit accrual account, which is recorded in Accrued Expenses and Other Liabilities on the Statements of Financial Condition, was \$28,394 as of December 31, 2018. Total deferred compensation expense, recorded within Employee Compensation and Benefits Expense, was \$28,394 for the year ended December 31, 2018.

Advertising Costs

Advertising and promotion costs which totaled approximately \$125,000 and \$119,000 for the years ending December 31, 2018 and 2017, respectively, are expensed as incurred.

ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

In May 2014, the FASB approved ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded 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 judgments 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. The Credit Union is

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

evaluating the impact of the amended revenue recognition guidance on the Credit Union's financial statements.

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

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

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through April 25, 2019, the date the financial statements were available to be issued.

Reclassification of 2017 Data

Data in the 2017 financial statements has been reclassified to conform to the presentation of the 2018 financial statements. This reclassification did not result in any change to net income or members' equity.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Held-to-Maturity

The amortized cost and fair value of securities held-to-maturity are as follows:

	Amortized Cost (Carrying Value)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2018</u>				
U.S. Government and Federal Agency Securities	\$ 5,500,000	\$ -	\$ (137,140)	\$ 5,362,860
Federal Agency Mortgage-Backed Securities	14,490,842	-	(400,263)	14,090,579
Collateralized Mortgage Obligation Securities	3,604,412	-	(113,975)	3,490,437
Negotiable Certificates of Deposit	250,000	-	(5,930)	244,070
Total	<u>\$ 23,845,254</u>	<u>\$ -</u>	<u>\$ (657,308)</u>	<u>\$ 23,187,946</u>
<u>December 31, 2017</u>				
U.S. Government and Federal Agency Securities	\$ 5,500,000	\$ -	\$ (86,630)	\$ 5,413,370
Federal Agency Mortgage-Backed Securities	15,387,488	8,768	(213,460)	15,182,796
Collateralized Mortgage Obligation Securities	4,576,729	-	(124,553)	4,452,176
Negotiable Certificates of Deposit	250,000	5	-	250,005
Total	<u>\$ 25,714,217</u>	<u>\$ 8,773</u>	<u>\$ (424,643)</u>	<u>\$ 25,298,347</u>

The amortized cost and fair value of securities, at December 31, 2018, 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.

	<u>Held-to-Maturity</u>	
	Amortized Cost (Carrying Value)	Fair Value
U.S. Government and Federal Agency Securities, and Negotiable Certificates of Deposit:		
One to Five Years	\$ 1,000,000	\$ 983,280
Five to Ten Years	4,750,000	4,623,650
	<u>5,750,000</u>	<u>5,606,930</u>
Federal Agency Mortgage Backed Securities and Collateralized Mortgage Obligation Securities	18,095,254	17,581,016
Total	<u>\$ 23,845,254</u>	<u>\$ 23,187,946</u>

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>December 31, 2018</u>				
U.S. Government and Federal Agency Securities	\$ -	\$ -	\$ (137,140)	\$ 5,362,860
Federal Agency Mortgage-Backed Securities	(27,687)	2,779,940	(372,576)	11,310,639
Collateralized Mortgage Obligation Securities	-	-	(113,975)	3,490,437
Negotiable Certificates of Deposit	(5,930)	244,070	-	-
Total Held-to-Maturity	\$ (33,617)	\$ 3,024,010	\$ (623,691)	\$ 20,163,936

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>December 31, 2017</u>				
U.S. Government and Federal Agency Securities	\$ (1,290)	\$ 498,710	\$ (85,340)	\$ 4,914,660
Federal Agency Mortgage-Backed Securities	(37,868)	4,654,991	(175,592)	9,240,778
Collateralized Mortgage Obligation Securities	(17,260)	1,007,740	(107,293)	3,444,436
Total Held-to-Maturity	\$ (56,418)	\$ 6,161,441	\$ (368,225)	\$ 17,599,874

At December 31, 2018, the 51 securities with unrealized losses have depreciated 2.76% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the intent and ability to hold securities until maturity, 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.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Other Investments

Other investments are summarized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Perpetual Contributed Capital Account	\$ 228,905	\$ 228,905
Certificates of Deposit at Other Financial Institutions	7,282,000	9,865,000
Total	<u>\$ 7,510,905</u>	<u>\$ 10,093,905</u>

Perpetual Contributed Capital Account

The Credit Union maintains a perpetual contributed capital account with Catalyst that is uninsured and part of Catalyst's regulatory capital. This is subject to impairment or loss in the event Catalyst is required to merge, placed into conservatorship, incurs significant losses, or is liquidated.

Certificates of Deposit at Other Financial Institutions

These accounts are stated at cost and generally have original maturities within two years.

NOTE 3 LOANS, NET

The composition of loans is as follows at December 31:

	<u>2018</u>	<u>2017</u>
Consumer:		
Auto	\$ 37,155,649	\$ 26,476,516
Other Secured	21,202,945	19,550,263
Other Unsecured	3,943,286	3,660,870
Subtotal	<u>62,301,880</u>	<u>49,687,649</u>
Residential Real Estate:		
First Mortgage	18,219,292	13,408,505
Second Mortgage	7,367,257	5,525,919
Subtotal	<u>25,586,549</u>	<u>18,934,424</u>
Member Business:		
Real Estate	8,190,737	9,874,351
Other	1,065,814	651,788
Subtotal	<u>9,256,551</u>	<u>10,526,139</u>
Gross Loans	97,144,980	79,148,212
Net Deferred Loan Origination Costs	245,137	169,710
Allowance for Loan Losses	(496,819)	(492,505)
Total	<u>\$ 96,893,298</u>	<u>\$ 78,825,417</u>

The Credit Union has purchased loan participations originated by other credit unions, which are secured by commercial real estate, to members of other credit unions. These loan participations were purchased without recourse and the originating credit unions perform all loan servicing functions on these loans. The total loan participations, included in the member business real estate segment, totaled \$1,690,834 and \$1,216,455 at December 31, 2018 and 2017, respectively.

ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union offers nontraditional mortgage loans to its members. These loans include balloon mortgages. Balloon mortgage loans consist of loans that are fixed for an initial period of 10, 12, and 15 years. After this period, the mortgages are due and callable. At that time, the member has the option to pay the balloon payment or refinance the loan at current rates. These types of loans may result in a lack of principal amortization or even negative amortization if the minimum payment is less than the interest accruing on the loan.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the residential real estate – first mortgage and member business – real estate loan captions above, totaled approximately \$17,136,000 and \$14,425,000 at December 31, 2018 and 2017, respectively.

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

December 31, 2018

	Consumer	Residential Real Estate	Member Business	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	\$ 308,064	\$ 94,672	\$ 89,769	\$ 492,505
Provision (Credit) for Loan Losses	139,074	(8,861)	(57,371)	72,842
Loans Charged-Off	(104,482)	-	-	(104,482)
Recoveries of Loans				
Previously Charged-Off	35,954	-	-	35,954
Balance - End of Year	<u>\$ 378,610</u>	<u>\$ 85,811</u>	<u>\$ 32,398</u>	<u>\$ 496,819</u>
Ending Balance: Individually Evaluated for Impairment	<u>\$ 57,038</u>	<u>\$ -</u>	<u>\$ 13,035</u>	<u>\$ 70,073</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 321,572</u>	<u>\$ 85,811</u>	<u>\$ 19,363</u>	<u>\$ 426,746</u>
Total Allowance for Loan Losses	<u>\$ 378,610</u>	<u>\$ 85,811</u>	<u>\$ 32,398</u>	<u>\$ 496,819</u>
Loans:				
Ending Balance: Individually Evaluated for Impairment	<u>\$ 204,894</u>	<u>\$ 88,068</u>	<u>\$ 33,035</u>	<u>\$ 325,997</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 62,096,986</u>	<u>\$ 25,498,481</u>	<u>\$ 9,223,516</u>	<u>\$ 96,818,983</u>
Total Loans	<u>\$ 62,301,880</u>	<u>\$ 25,586,549</u>	<u>\$ 9,256,551</u>	<u>\$ 97,144,980</u>

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 LOANS, NET (CONTINUED)

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

<u>December 31, 2017</u>	Consumer	Residential Real Estate	Member Business	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	\$ 641,592	\$ 26,961	\$ -	\$ 668,553
Provision (Credit) for Loan Losses	(268,353)	67,711	89,769	(110,873)
Loans Charged-Off	(76,582)	-	-	(76,582)
Recoveries of Loans				
Previously Charged-Off	11,407	-	-	11,407
Balance - End of Year	<u>\$ 308,064</u>	<u>\$ 94,672</u>	<u>\$ 89,769</u>	<u>\$ 492,505</u>
Ending Balance: Individually Evaluated for Impairment	<u>\$ 32,153</u>	<u>\$ -</u>	<u>\$ 37,138</u>	<u>\$ 69,291</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 275,911</u>	<u>\$ 94,672</u>	<u>\$ 52,631</u>	<u>\$ 423,214</u>
Total Allowance for Loan Losses	<u>\$ 308,064</u>	<u>\$ 94,672</u>	<u>\$ 89,769</u>	<u>\$ 492,505</u>
Loans:				
Ending Balance: Individually Evaluated for Impairment	<u>\$ 153,737</u>	<u>\$ -</u>	<u>\$ 515,084</u>	<u>\$ 668,821</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 49,533,912</u>	<u>\$ 18,934,424</u>	<u>\$ 10,011,055</u>	<u>\$ 78,479,391</u>
Total Loans	<u>\$ 49,687,649</u>	<u>\$ 18,934,424</u>	<u>\$ 10,526,139</u>	<u>\$ 79,148,212</u>

The following tables show the member business loan portfolio segment allocated by management's internal risk ratings:

<u>December 31, 2018</u>	<u>Member Business Credit Risk Profile by Risk Rating</u>		
Risk Rating:	Real Estate	Other	Total
High Quality	\$ 1,274,300	\$ 471,306	\$ 1,745,606
Acceptable Quality	6,858,141	594,508	7,452,649
Watch	58,296	-	58,296
Classified	-	-	-
Total	<u>\$ 8,190,737</u>	<u>\$ 1,065,814</u>	<u>\$ 9,256,551</u>
<u>December 31, 2017</u>	Real Estate	Other	Total
High Quality	\$ 3,094,107	\$ 252,628	\$ 3,346,735
Acceptable Quality	6,205,800	399,160	6,604,960
Watch	59,360	-	59,360
Classified	515,084	-	515,084
Total	<u>\$ 9,874,351</u>	<u>\$ 651,788</u>	<u>\$ 10,526,139</u>

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 LOANS, NET (CONTINUED)

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

		Consumer and Residential Real Estate Credit Risk Profile by Payment Activity			
		Auto	Other Secured	Other Unsecured	Total
<u>December 31, 2018</u>					
Payment Activity					
Performing		\$ 37,095,314	\$ 21,198,370	\$ 3,934,966	\$ 62,228,650
Nonperforming		60,335	4,575	8,320	73,230
Total		<u>\$ 37,155,649</u>	<u>\$ 21,202,945</u>	<u>\$ 3,943,286</u>	<u>\$ 62,301,880</u>
		First Mortgage	Second Mortgage	Total	
Payment Activity					
Performing		\$ 18,131,224	\$ 7,367,257	\$ 25,498,481	
Nonperforming		88,068	-	88,068	
Total		<u>\$ 18,219,292</u>	<u>\$ 7,367,257</u>	<u>\$ 25,586,549</u>	
		Consumer and Residential Real Estate Credit Risk Profile by Payment Activity			
		Auto	Other Secured	Other Unsecured	Total
<u>December 31, 2017</u>					
Payment Activity					
Performing		\$ 26,424,086	\$ 19,514,611	\$ 3,655,588	\$ 49,594,285
Nonperforming		52,430	35,652	5,282	93,364
Total		<u>\$ 26,476,516</u>	<u>\$ 19,550,263</u>	<u>\$ 3,660,870</u>	<u>\$ 49,687,649</u>
		First Mortgage	Second Mortgage	Total	
Payment Activity					
Performing		\$ 13,408,505	\$ 5,525,919	\$ 18,934,424	
Nonperforming		-	-	-	
Total		<u>\$ 13,408,505</u>	<u>\$ 5,525,919</u>	<u>\$ 18,934,424</u>	

ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 LOANS, NET (CONTINUED)

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

	Accruing Interest			Nonaccrual 91 Days or More Past Due	Total Loans
	Current	30-59 Days Past Due	60-90 Days or More Past Due		
<u>December 31, 2018</u>					
Consumer:					
Auto	\$ 36,845,310	\$ 242,548	\$ 7,456	\$ 60,335	\$ 37,155,649
Other Secured	20,976,710	163,319	58,341	4,575	21,202,945
Other Unsecured	3,875,135	53,156	6,675	8,320	3,943,286
Residential Real Estate:					
First Mortgage	18,131,224	-	-	88,068	18,219,292
Second Mortgage	7,367,257	-	-	-	7,367,257
Member Business:					
Real Estate	8,190,737	-	-	-	8,190,737
Other	1,032,779	-	-	33,035	1,065,814
Total	<u>\$ 96,419,152</u>	<u>\$ 459,023</u>	<u>\$ 72,472</u>	<u>\$ 194,333</u>	<u>\$ 97,144,980</u>
<u>December 31, 2017</u>					
Consumer:					
Auto	\$ 26,234,892	\$ 189,194	\$ -	\$ 52,430	\$ 26,476,516
Other Secured	19,324,479	163,319	26,813	35,652	19,550,263
Other Unsecured	3,631,465	19,867	4,256	5,282	3,660,870
Residential Real Estate:					
First Mortgage	12,825,015	583,490	-	-	13,408,505
Second Mortgage	5,525,919	-	-	-	5,525,919
Member Business:					
Real Estate	9,359,267	-	-	515,084	9,874,351
Other	651,788	-	-	-	651,788
Total	<u>\$ 77,552,825</u>	<u>\$ 955,870</u>	<u>\$ 31,069</u>	<u>\$ 608,448</u>	<u>\$ 79,148,212</u>

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans:

<u>December 31, 2018</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
With No Related Allowance:				
Auto	\$ 70,918	\$ 70,918	\$ -	\$ 44,090
Other Secured	15,263	15,263	-	15,039
First Mortgage	88,068	88,068	-	44,034
Subtotal	<u>174,249</u>	<u>174,249</u>	<u>-</u>	<u>103,163</u>
With An Allowance Recorded:				
Auto	61,904	61,904	23,904	89,141
Other Secured	33,638	33,638	10,138	16,819
Other Unsecured	23,171	23,171	22,996	14,227
Member Business Real Estate	-	-	-	257,542
Member Business Other	33,035	33,035	13,035	16,518
Subtotal	<u>151,748</u>	<u>151,748</u>	<u>70,073</u>	<u>394,246</u>
Total Impaired Loans:				
Consumer	204,894	204,894	57,038	179,316
Residential Real Estate	88,068	88,068	-	44,034
Member Business	33,035	33,035	13,035	274,060
Total	<u>\$ 325,997</u>	<u>\$ 325,997</u>	<u>\$ 70,073</u>	<u>\$ 497,409</u>
<u>December 31, 2017</u>				
With No Related Allowance:				
Auto	\$ 17,262	\$ 17,262	\$ -	\$ 46,672
Other Secured	14,815	14,815	-	7,408
Subtotal	<u>32,077</u>	<u>32,077</u>	<u>-</u>	<u>54,080</u>
With An Allowance Recorded:				
Auto	116,377	116,377	26,920	81,448
Other Unsecured	5,283	5,283	5,233	2,642
Member Business Real Estate	515,084	515,084	37,138	257,542
Subtotal	<u>636,744</u>	<u>636,744</u>	<u>69,291</u>	<u>341,632</u>
Total Impaired Loans:				
Consumer	153,737	153,737	32,153	138,170
Member Business	515,084	515,084	37,138	257,542
Total	<u>\$ 668,821</u>	<u>\$ 668,821</u>	<u>\$ 69,291</u>	<u>\$ 395,712</u>

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2018 and 2017.

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.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment is summarized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,027,630	\$ 287,326
Buildings	2,989,562	2,989,562
Furniture and Equipment	1,828,421	1,741,195
Construction in Progress	586,348	20,435
Total	<u>6,431,961</u>	<u>5,038,518</u>
Less: Accumulated Depreciation and Amortization	<u>(2,418,240)</u>	<u>(2,287,789)</u>
Total	<u><u>\$ 4,013,721</u></u>	<u><u>\$ 2,750,729</u></u>

Lease Commitments

The Credit Union is obligated under a noncancelable operating lease for office space in Nevada. The lease contains a renewal option for a period of three years at the fair rental value at the time of renewal. Net rent expense under operating leases, included in Occupancy Expenses, was approximately \$23,000 for the years ended December 31, 2018 and 2017.

The required minimum rental payments under the terms of this noncancelable lease at December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 23,400
2020	19,500
Total	<u><u>\$ 42,900</u></u>

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS

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

	<u>2018</u>	<u>2017</u>
Share Savings	\$ 90,412,670	\$ 84,579,952
Share Drafts	31,406,974	28,477,598
IRA Deposits	11,813,766	11,815,448
Other Deposits	58,164	76,081
Share and IRA Certificates	12,291,292	13,735,590
Total	<u><u>\$ 145,982,866</u></u>	<u><u>\$ 138,684,669</u></u>

The aggregate amounts of certificates of deposit in denominations of \$250,000 or more were approximately \$1,920,000 and \$2,436,000 at December 31, 2018 and 2017, respectively.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

Overdrawn share accounts reclassified to unsecured loans to members totaled \$32,965 and \$29,440 at December 31, 2018 and 2017, respectively.

As of December 31, 2018, scheduled maturities of share and IRA certificates are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 11,292,580
2020	723,077
2021	275,635
Total	<u>\$ 12,291,292</u>

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

NOTE 6 BORROWED FUNDS

At December 31, 2018 and 2017, the Credit Union had an available line of credit of \$2,500,000 with Catalyst. The interest rates applied on any borrowing are determined on that borrowing date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2018 and 2017.

During 2018, the Credit Union entered into an agreement with the Federal Reserve Bank of San Francisco under which the Credit Union may borrow funds. Borrowings, if requested, would require a security interest in Credit Union property. At December 31, 2018, there was no outstanding balance under this agreement and no property of the Credit Union had been pledged.

NOTE 7 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7 REGULATORY NET WORTH REQUIREMENTS (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 December 31, 2018, the most recent quarterly regulatory filing date, was 5.26%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent call reporting period, the NCUA categorized the Credit Union initially as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

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

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2018</u>						
Net Worth	\$ 18,781,481	11.38%	\$ 9,899,473	6.00%	\$ 11,549,385	7.00%
Risk-Based Net Worth Requirement	\$ 8,678,538	5.26%	N/A	N/A	N/A	N/A
<u>December 31, 2017</u>						
Net Worth	\$ 16,697,860	10.73%	\$ 9,337,459	6.00%	\$ 10,893,702	7.00%
Risk-Based Net Worth Requirement	\$ 7,967,965	5.12%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2018, 5.26%, is less than the regulatory net worth ratio of 11.38%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 RELATED-PARTY TRANSACTIONS

Included in Loans, Net at December 31, 2018 and 2017, are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of approximately \$1,338,000 and \$1,679,000, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at December 31, 2018 and 2017 are approximately \$1,025,000 and \$813,000, respectively.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Statement of Financial Condition Activities

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

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

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

	December 31,	
	2018	2017
Commitments to Extend Credit:		
Home Equity Lines of Credit	\$ 5,346,842	\$ 4,182,194
Residential Construction	699,765	1,829,591
Member Business	941,097	814,788
Unfunded Unsecured Commitments Under:		
Open-End Loans	376,064	371,094
Overdraft Protection	34,693	37,968
Lines of Credit	376,241	423,468
Total	\$ 7,774,702	\$ 7,659,103

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

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Statement of Financial Condition Activities (Continued)

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

Legal Contingencies

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

NOTE 10 FAIR VALUE

Recurring Basis

The Credit Union has no assets or liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017.

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 December 31 consisted of the following:

Fair Value at December 31, 2018				
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	\$ -	\$ -	\$ 81,675	\$ 70,073
Fair Value at December 31, 2017				
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	\$ -	\$ -	\$ 567,453	\$ 69,291

**ELKO FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 10 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

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

	Fair Value at December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
		Evaluation of Collateral	Estimation of Value	
Impaired Loans	\$ 81,675			Not Meaningful
	Fair Value at December 31, 2017			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
		Evaluation of Collateral	Estimation of Value	
Impaired Loans	\$ 567,453			Not Meaningful

Impaired Loans

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

Impairment 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.

