Glendale Area Schools Credit Union

INDEPENDENT AUDITOR'S REPORT ON AUDITED FINANCIAL STATEMENTS

September 30, 2018 and 2017

Serving credit unions since 1967

RICHARDS & ASSOCIATES
Certified Public Accountants

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GLENDALE AREA SCHOOLS CREDIT UNION

FINANCIAL REPORT CONTENTS
September 30, 2018 and 2017

AUDITED FINANCIAL STATEMENTS

ACCOMPANYING INFORMATION

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Board of Directors and Supervisory Committee
Glendale Area Schools Credit Union
Glendale, California

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Glendale Area Schools Credit Union, which comprise the statements of financial condition as of September 30, 2018 and 2017, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT *- continued*

Auditor's Responsibility *- continued*

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glendale Area Schools Credit Union as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RICHARDS & ASSOCIATES
Certified Public Accountants

Michael E. Richards, CPA

Yorba Linda, California
January 11, 2019

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
September 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Note 2)	$ 32,171,595	$ 59,637,457
Investments (Note 3)	203,914,879	215,812,291
Loans receivable, net of allowance for loan losses (Note 4)	103,903,259	65,922,106
Property & equipment (Note 5)	1,357,963	1,353,482
Accrued interest receivable	977,199	914,099
Share insurance deposit	3,879,559	3,805,530
Prepaid expenses and other assets	6,348,158	1,733,640
TOTAL ASSETS	$ 352,552,612	$ 349,178,605
LIABILITIES AND EQUITY		
Liabilities:		
Members' share and savings accounts (Note 6)	$ 301,174,190	$ 299,105,755
Accounts payable and other liabilities	1,259,314	1,048,101
TOTAL LIABILITIES	302,433,504	300,153,856
Commitments and contingent liabilities (Note 8)		
Members' equity, substantially restricted		
Appropriated (regular reserve)	3,092,376	3,092,376
Unappropriated (undivided earnings)	49,144,348	46,262,407
	52,236,724	49,354,783
Accumulated other comprehensive income	(2,117,616)	(330,034)
TOTAL MEMBERS’ EQUITY	50,119,108	49,024,749
TOTAL LIABILITIES AND MEMBERS’ EQUITY	$ 352,552,612	$ 349,178,605

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF INCOME

Years ended September 30, 2018 and 2017

	2018	2017
INTEREST INCOME		
Loans	$ 3,446,974	$ 3,076,637
Investments	5,543,329	4,755,059
TOTAL INTEREST INCOME	8,990,303	7,831,696
INTEREST EXPENSE		
Members' share and savings accounts	1,922,780	1,579,541
Borrowed funds	642,949	550,182
TOTAL INTEREST EXPENSE	2,565,729	2,129,723
NET INTEREST INCOME	6,424,574	5,701,973
PROVISION FOR LOAN LOSSES	627,000	192,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,797,574	5,509,973
NON-INTEREST INCOME		
Service charges and other income	840,927	851,857
Rental income	70,328	69,622
TOTAL NON-INTEREST INCOME	911,255	921,479
NON-INTEREST EXPENSE		
General and administrative expenses		
Compensation and benefits	1,836,242	1,850,753
Office operations	623,012	571,475
Other expenses	1,343,160	1,058,270
Loss on non-operating activities	24,474	21,875
TOTAL NON-INTEREST EXPENSES	3,826,888	3,502,373
NET INCOME	$ 2,881,941	$ 2,929,079

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
Years ended September 30, 2018 and 2017

	2018	2017
NET INCOME	$ 2,881,941	$ 2,929,079
Net change in unrealized loss on available-for-sale securities	(1,787,582)	(330,034)
TOTAL COMPREHENSIVE INCOME	$ 1,094,359	$ 2,599,045

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

STATEMENTS OF MEMBERS' EQUITY
Years ended September 30, 2018 and 2017

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, September 30, 2016	$ 2,763,168	$ 43,662,536	$ -	$ 46,425,704
Comprehensive income:				
Net income		2,929,079		2,929,079
Other comprehensive loss			(330,034)	(330,034)
Total comprehensive income (loss)	-	2,929,079	(330,034)	2,599,045
Transfers, net	329,208	(329,208)	-	-
Balances, September 30, 2017	3,092,376	46,262,407	(330,034)	49,024,749
Comprehensive income:				
Net income		2,881,941		2,881,941
Other comprehensive loss			(1,787,582)	(1,787,582)
Total comprehensive income (loss)	-	2,881,941	(1,787,582)	1,094,359
Balances, September 30, 2018	$ 3,092,376	$ 49,144,348	$ (2,117,616)	$ 50,119,108

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF CASH FLOWS

Years ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,881,941	$ 2,929,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	627,000	192,000
Depreciation and amortization	156,818	154,796
Premium amortization net of discount accretion	1,855,245	1,490,815
Stock dividends added to investments	(1,763)	(505)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(63,100)	(305,432)
Increase in prepaid expenses and other assets	(4,614,518)	(122,810)
Increase (decrease) in accounts payable and other liabilities	211,213	(396,830)
Total adjustments	(1,829,105)	1,012,034
Net cash provided by operating activities	1,052,836	3,941,113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans granted, net of principal collection	(38,608,153)	18,014,811
Net decrease in foreclosed and repossessed assets	-	7,597
Sale or maturing of securities	42,215,012	32,157,705
Net decrease (increase) in stock at Federal Home Loan Bank of San Francisco	1,006,500	(3,267,000)
Acquisition of securities	(34,965,164)	(128,791,301)
(Increase) decrease in share insurance deposit	(74,029)	204,195
Purchase of property and equipment, net of disposals	(161,299)	(122,486)
Net cash used in investing activities	(30,587,133)	(81,796,479)

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF CASH FLOWS - *continued*

Years ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	$ 2,068,435	$ 5,509,203
Net cash provided by financing activities	2,068,435	5,509,203
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,465,862)	(72,346,163)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	59,637,457	131,983,620
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 32,171,595	$ 59,637,457
SUPPLEMENTAL DISCLOSURES:		
Cash received during the year from interest on loans and investments	$ 10,780,685	$ 9,016,574
Cash paid during the year for dividends	$ 1,922,780	$ 1,579,541

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

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Glendale Area Schools Credit Union (Credit Union) is organized under the California state credit union laws. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws.

Nature of business: The Credit Union provides a variety of financial services to its members, most of whom are employees or former employees, students or former students and their parents, and Parent Teacher Associations (PTA) and its officers in public, private, and parochial schools within the greater Glendale Unified School District and the greater La Canada Unified School District, employees or former employees, students or former students of Glendale Community College and Occidental College, members of Verdugo Woodlands PTA in Glendale, California, employees or former employees of Verdugo Hills Hospital, Montrose business employees, members or former members of Crescenta Valley Chamber of Commerce, employees or former employees of Glendale Postal, and their qualifying family members. The Credit Union's primary source of revenue is interest from loans and investments.

Use of estimates: The preparation of financial statements, in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and fair value of financial instruments.

Subsequent events: The Credit Union has evaluated subsequent events through January 11, 2019, which is the date the financial statements were available to be issued.

Cash and cash equivalents: For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and investments with original maturity of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments: Negotiable securities are classified in accordance with the Credit Union's asset/liability management and investment policies. The following is a description of the classification and accounting procedures used for investments:

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments – continued:

Available-for sale: Investments that are not purchased principally to be sold in the near term nor with the positive intent and ability to hold until maturity as well as those without a defined maturity and could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors are classified as available-for-sale. These securities are marked to market, with unrealized gains or losses not affecting earnings but shown as a separate component of the equity portion of the balance sheet. Unrealized gains and losses on available-for-sale securities are recognized as direct increases or decreases in other comprehensive income.

Held-to-maturity: Investments that are purchased with the positive intent and ability to hold until maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Purchase premiums and discounts are recognized in interest income over the term of the securities. Declines in the fair value of available-for-sale and held-to-maturity securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, Management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio. Other investments are classified separately, stated at cost and subject to OTTI evaluation.

Loans to members: The Credit Union originates mortgage loans for its own portfolio. The Credit Union originated approximately $3,355,000 and $2,460,000 of first mortgage loans for its members in the years ended September 30, 2018 and 2017, respectively.

Loans receivable: Loans receivable are stated at unpaid principal balance, net of any unearned income, such as deferred fees or costs, and unamortized premiums or discounts less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method for consumer loans and home equity loans and the day count convention method for first mortgage real estate loans on principal amounts outstanding. When principal or interest is delinquent for ninety days or more, the Credit Union evaluates the loan for nonaccrual status.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loans receivable – continued: After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for loan losses: The allowance for loan losses reflects Management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each month. To determine the total allowance for loan losses, Management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the auto secured portfolio; (ii) the real estate portfolio; and (iii) the consumer secured and unsecured portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of Management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing Management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Allowance for loan losses – continued: Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by Senior Management of the loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Loan charge-offs: For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- Management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is one hundred eighty days past due unless both well secured and in the process of collection.

The Credit Union's charge-off policies by segment of the loan portfolio are as follows:

- *Real estate loans* – The Credit Union generally writes down to the net realizable value when the loan is one hundred eighty days past due.
- *Auto loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.
- *Unsecured loans* – The Credit Union generally charges off when the loan is one hundred eighty days past due.
- *Credit cards loans* – The Credit Union generally fully charges off when the loan is one hundred eighty days past due.
- *Other secured loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Troubled debt restructurings: In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, if applicable, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Credit Union develops a separate allowance for loans that are identified as impaired through a TDR. As soon as the Credit Union determines that a loan under TDR is current and performing under the restructured payment, and after review, the Credit Union believes the status will continue, the loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

Property and equipment: Land is carried at cost. Other fixed assets are carried at cost, less accumulated depreciation and amortization. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

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

Share insurance deposit: Each member's share and savings account is insured up to $250,000 by a private insurance company, the American Share Insurance (ASI). There is no limitation to the number of accounts a member can have under ASI's coverage. ASI requires the maintenance of a deposit by each insured credit union in an amount equal to 1% to 1.3% of a credit union's total shares, depending upon the credit union's rating with state regulators.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Members' share and savings accounts: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union in the event of liquidation. Interest on share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on 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 reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income taxes: The Credit Union is exempt, by statute, from federal and state income taxes under the provisions of the Internal Revenue Code. However, the Credit Union may be subject to unrelated business income tax as further discussed in Note 8.

Off-balance-sheet 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.

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) that includes unrealized gains and losses on securities available-for-sale.

Retirement plan: The Credit Union has a contributory 401(k) retirement plan for all employees who have met both tenure and minimum age requirements specified in the plan.

Presentation of comparative financial statements: To more clearly illustrate the financial condition of the Credit Union and the results of its operations, the current year financial information is presented along with the previous year. Financial information presented for the previous year may be classified differently than originally disclosed. These reclassifications, which do not affect the auditor's report on those financial statements, were made for purposes of comparison.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents, including investments with original maturity of three months or less, are as follows:

	September 30, 2018	September 30, 2017
Cash on hand	$ 901,500	$ 1,229,762
Cash on deposit	31,270,095	58,407,695
	$ 32,171,595	$ 59,637,457

NOTE 3: INVESTMENTS

The carrying and estimated fair values of investments are as follows:

NEGOTIABLE SECURITIES

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 80,533,740	$ 911	$ 2,118,527	$ 78,416,124
Capital stock, Federal Home Loan Bank	2,260,500	-	-	2,260,500
Capital stock, credit union service organization	73,990	-	-	73,990
	$ 82,868,230	$ 911	$ 2,118,527	$ 80,750,614

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 14,999,003	$ 189,098	$ 375,613	$ 14,812,488
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	108,165,262	261,467	3,881,791	104,544,938
	$123,164,265	$ 450,565	$ 4,257,404	$ 119,357,426

Included with mortgage backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $102,421,712 and fair market value of $99,175,613 as of September 30, 2018.

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 59,301,407	$ 1,656	$ 331,690	$ 58,971,373
Capital stock, Federal Home Loan Bank	3,267,000	-	-	3,267,000
Capital stock, credit union service organization	72,227	-	-	72,227
	$ 62,640,634	$ 1,656	$ 331,690	$ 62,310,600
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 18,996,516	$ 332,819	$ 69,497	$ 19,259,838
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	134,505,175	725,478	1,235,702	133,994,951
	$153,501,691	$ 1,058,297	$ 1,305,199	$ 153,254,789

Included with mortgage backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $89,683,307 and fair market value of $88,626,948 as of September 30, 2017.

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Investments in Credit Union Service Organizations are not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value.

Information pertaining to securities with gross unrealized losses as of September 30, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	September 30, 2018			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Available-for-sale:				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 68,617,353	$ 546,095	$ 1,572,432	$ 2,118,527
	$ 68,617,353	$ 546,095	$ 1,572,432	$ 2,118,527
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 12,624,368	$ -	$ 375,613	$ 375,613
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	92,839,168	791,377	3,090,414	3,881,791
	$ 105,463,536	$ 791,377	$ 3,466,027	$ 4,257,404

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

	September 30, 2017			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Available-for-sale:				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 53,985,913	$ 331,690	-	$ 331,690
	$ 53,985,913	$ 331,690	-	$ 331,690
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 16,928,144	$ 69,497	-	$ 69,497
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	92,629,055	1,235,702	-	1,235,702
	$ 109,557,199	$ 1,305,199	-	$ 1,305,199

The accounting standards provide a framework for measuring fair value and further defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Credit Union determines the fair values of its financial instruments based on the fair value hierarchy established in generally accepted accounting principles (GAAP), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

This framework describes three levels of inputs that may be used to measure fair value. Financial instruments are considered level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Financial instruments are considered level 2 when they are generally valued using quoted prices for similar assets. The fair value of available-for-sale and held-to-maturity securities is based on quoted market prices or market prices for similar assets. Financial instruments are considered level 3 when valuation is calculated by the use of pricing models and/or discounted cash flow methodologies or valuation requires significant management judgment or estimation. The Credit Union does not use level 3 pricing.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given, among other things, to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. The reason for the temporary loss is that market interest rates are higher than when these securities were originally purchased. The Credit Union reviews all of its securities for impairment periodically. The Credit Union has determined that there was no other-than-temporary impairment associated with these securities as of September 30, 2018.

A summary of investments by contractual maturity is 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.

	September 30,	
	2018	2017
Within one year	$ -	$ 3,999,225
One to five years	12,999,981	6,000,000
Over five years	1,999,022	8,997,291
Investments with principal repayments	188,699,002	193,806,582
Subtotal	203,698,005	212,803,098
Investments without a defined maturity	2,334,490	3,339,227
	$206,032,495	$216,142,325

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 3: INVESTMENTS – *continued*

Accrued interest receivable on investments amounted to $674,790 and $738,016 as of September 30, 2018 and 2017, respectively.

NOTE 4: LOANS RECEIVABLE

The composition of loans receivable is as follows:

	September 30, 2018	September 30, 2017
Solar loans	$ 46,458,675	$ -
Automobile	24,602,276	35,830,444
Real estate	21,702,064	18,045,010
Credit cards	4,880,816	5,146,228
Other loans	3,970,433	4,053,863
Home equity lines of credit	2,488,322	2,286,923
Student loans	-	14,498
	104,102,586	65,376,966
Premium on loans	473,121	901,388
Loan origination costs, net of fees	14,593	46,931
Allowance for loan losses	(687,041)	(403,179)
	$103,903,259	$ 65,922,106

Accrued interest receivable on loans amounted to $302,409 and $176,083 as of September 30, 2018 and 2017, respectively.

Participation loans purchased consist of solar and automobile secured loans. The lead lender is responsible for the administration of these loans, including the collection of payments, record keeping, and collection procedures, if necessary. The Credit Union holds a fractional security interest in the underlying collateral. The solar secured participation loan balance totaled to $46,458,675 as of September 30, 2018. The automobile secured participation loan balance totaled to $16,323,083 and $26,867,429, respectively, as of September 30, 2018 and 2017.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses: The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: auto, real estate, and consumer secured and unsecured portfolios. The Credit Union also sub-segments two of these segments into classes based on the associated risks within those segments. Auto loans are divided into the following two categories: (a) direct auto loans and (b) indirect auto loans. Consumer secured and unsecured loans are divided into the following three categories: (a) credit card, (b) solar participation loans, and (c) other secured and unsecured loans. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions that the Credit Union uses to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following are the factors that the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

<u>Auto loans</u>: Auto loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2018, the historical loss time frame used was for the past thirteen to twenty-four months for direct auto loans and the past twelve months for indirect auto loans.

Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2018, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.

<u>Real estate loans</u>: These loans are not assessed at an underlying class level. A historical loss percentage is applied to the segment. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2018, the historical loss time frame used was for the past twelve months.

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Real estate loans - *continued*: The Credit Union estimates an additional component of the allowance for loan losses for the non-impaired real estate segment through the application of loss factors to loans grouped by their individual credit risk rating categories. These ratings reflect the estimated default probability and quality of underlying collateral. The loss factors used are statistically derived through the observation of losses incurred for loans within each internal credit risk rating over a specified period of time.

In addition, based on the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to the loan balances. For the year ending September 30, 2018, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.

Consumer unsecured and secured portfolio: Secured and unsecured consumer loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other qualitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2018, the historical loss time frame used was for the past twelve months for solar participation loans and credit card loans and the past thirteen to twenty-four months for other secured and unsecured loans.

Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2018, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.

The Credit Union's estimation process: The Credit Union estimates loan losses under multiple economic scenarios to establish a range of potential outcomes for each criterion the Credit Union applies to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

A significant portion of the Credit Union's consumer loans is secured by collateral. The Credit Union determines loss multipliers based on the loan-to-value (LTV) percentage. There is a direct relationship between the LTV percentage and the loss multiplier. The higher the LTV percentage, the higher the risk for the Credit Union not receiving all contractual amounts of the loan.

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

The Credit Union's estimation process - *continued*: Reflected in the portions of the allowance previously described, is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of Management's judgment of risks inherent in the portfolio, economic uncertainties, historical loss experience, and other subjective factors, including industry trends, calculated to better reflect the Credit Union's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Loans by Segment: The total allowance reflects Management's estimate of loan losses inherent in the loan portfolio as of September 30, 2018 and 2017. The Credit Union considers the allowance for loan losses of $687,041 and $403,179 adequate to cover loan losses inherent in the loan portfolio as of September 30, 2018 and 2017, respectively. The following tables present by portfolio segment, the changes in the allowance for loan losses and the loans receivable.

	Allowance for Loan Losses and Receivable in Loans For the Year Ended September 30, 2018		
	Real Estate	Non-Real Estate	Total
Allowance for Loan Losses:			
Beginning balance	$ -	$ 403,179	$ 403,179
Charge-offs	-	(485,907)	(485,907)
Recoveries	-	142,769	142,769
Provision for loan losses	98,745	528,255	627,000
Ending balance	$ 98,745	$ 588,296	$ 687,041
Ending balance:			
• individually evaluated for impairment	-	84,927	84,927
• collectively evaluated for impairment	98,745	503,369	602,114
	$ 98,745	$ 588,296	$ 687,041
Loans Receivable:			
Ending balance:			
• individually evaluated for impairment	-	143,721	143,721
• collectively evaluated for impairment	24,190,386	79,768,479	103,958,865
	$ 24,190,386	$ 79,912,200	$104,102,586

NOTE 4: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Loans by Segment - *continued*:

	Allowance for Loan Losses and Receivable in Loans For the Year Ended September 30, 2017		
	Real Estate	Non-Real Estate	Total
Allowance for Loan Losses:			
Beginning balance	$ -	$ 531,356	$ 531,356
Charge-offs	-	(414,786)	(414,786)
Recoveries	-	94,609	94,609
Provision for loan losses	-	192,000	192,000
Ending balance	$ -	$ 403,179	$ 403,179
Ending balance:			
• individually evaluated for impairment	-	105,209	105,209
• collectively evaluated for impairment	-	297,970	297,970
	$ -	$ 403,179	$ 403,179
Loans Receivable:			
Ending balance:			
• individually evaluated for impairment	-	248,549	248,549
• collectively evaluated for impairment	20,331,933	44,796,484	65,128,417
	$ 20,331,933	$ 45,045,033	$ 65,376,966

Changes in accounting methodology: For the year ended September 30, 2018, there were no significant changes in the accounting methodology for the allowance for loan losses.

Credit quality information: The use of creditworthiness categories to grade loans permits Management's use of migration analysis to estimate a portion of credit risk. The Credit Union's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed periodically, at which time Management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan performance. Loans that trend upward toward higher levels generally have a lower risk factor associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to these related loan balances.

NOTE 4: LOANS RECEIVABLE - *continued*

Credit quality information - continued: The Credit Union's internal risk ratings based on FICO scores are as follows:

720 and above – Member poses little to no additional risk.
676 to 719 – Member poses a nominal risk of loss.
637 to 675 – Composed of the Credit Union's average member profile. The additional risk-based migration analysis of this part of the portfolio is based on whether the migration of the portfolio is remaining constant or moving higher or lower.
608 to 636 – Members are experiencing some degree of stress. Additional risk factors are based on migration analysis of this portfolio.
563 to 607 – Members are showing above average risk. Additional risk factors are based on migration analysis of this portfolio.
562 and below – Members are consider as high risk. Additional risk factors are based on migration analysis of this portfolio.

Payment activity is reviewed by Management periodically to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than ninety days.

Nonperforming loans would also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs would be classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period. There were no non-performing real estate loans as of September 30, 2018.

Age analysis of past due loans receivable by class: Following are tables which include an aging analysis of past due loans receivable as of September 30, 2018 and 2017. Also included are loans that are ninety days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or (c) loans exempt under regulatory rules from being classified as nonaccrual.

NOTE 4: LOANS RECEIVABLE - *continued*

Age analysis of past due loans receivable by class - continued:

Credit Quality Information
Age Analysis of Past Due Loans Receivable by Class
As of September 30, 2018

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	$ -	$ -	$ -	$ 24,190,386	$ 24,190,386
Consumer	410,727	126,213	536,940	74,494,444	75,031,384
Credit cards	15,215	17,508	32,723	4,848,093	4,880,816
Total	$ 425,942	$ 143,721	$ 569,663	$103,532,923	$104,102,586

Credit Quality Information
Age Analysis of Past Due Loans Receivable by Class
As of September 30, 2017

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	$ -	$ -	$ -	$ 20,331,933	$ 20,331,933
Consumer	350,736	221,831	572,567	39,326,238	39,898,805
Credit cards	18,925	26,718	45,643	5,100,585	5,146,228
Total	$ 369,661	$ 248,549	$ 618,210	$ 64,758,756	$ 65,376,966

NOTE 4: LOANS RECEIVABLE - *continued*

Impaired loans: The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a ninety-day default period and all loans classified as TDRs.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonaccrual loans: The Credit Union generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach ninety days past due.

When the Credit Union places a loan on nonaccrual status, the Credit Union reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Credit Union returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable. As of September 30, 2018, $25,741 of loans were placed on nonaccrual status with approximately $570 of accrued interest not recognized in the financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	September 30, 2018	September 30, 2017
Land	$ 1,000,000	$ 1,000,000
Building and improvements	1,039,252	1,037,162
Furniture, fixtures, and equipment	1,338,103	1,184,807
Subtotal	3,377,355	3,221,969
Accumulated depreciation and amortization	(2,019,392)	(1,868,487)
	$ 1,357,963	$ 1,353,482

Depreciation and amortization expense amounted to $156,818 and $154,796 for the years ended September 30, 2018 and 2017, respectively.

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

	September 30, 2018	September 30, 2017
Share drafts	$ 45,663,018	$ 39,533,398
Share savings	97,564,531	92,547,879
Other deposits	157,946,641	167,024,478
	$301,174,190	$299,105,755

The aggregate amounts of uninsured members’ share and savings accounts were approximately $13,600,000 and $18,260,000 as of September 30, 2018 and 2017, respectively.

A summary by maturity of members' share and savings accounts is as follows:

	September 30, 2018	September 30, 2017
No contractual maturity	$182,243,942	$174,164,380
Within one year	49,692,256	48,641,968
One to three years	39,038,080	38,404,416
Over three years	30,199,912	37,894,991
	$301,174,190	$299,105,755

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS - *continued*

Interest rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

NOTE 7: BORROWED FUNDS

The Credit Union maintains a line of credit agreement with the Federal Reserve Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2018 and 2017, the Credit Union had no outstanding balance on the line of credit but could borrow up to $2,000,000 for both years. The line of credit agreement is secured with the investment portfolio held at Federal Reserve Bank of San Francisco for safekeeping.

The Credit Union maintains a line of credit agreement with the Federal Home Loan Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2018 and 2017, the Credit Union had no outstanding balance on the line of credit but could borrow up to $185,951,684 and $124,000,000, respectively. The line of credit agreement is secured with the investment portfolio held at Federal Home Loan Bank of San Francisco for safekeeping.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is 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 financial condition.

The principal commitments of the Credit Union are as follows:

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

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

These financial instruments include commitments for lines of credit, credit cards, and home equity lines of credit. The contract amounts represent credit risk totaling approximately $14,160,000 and $18,260,000 as of September 30, 2018 and 2017, respectively.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

Financial instruments with off-balance sheet risk - 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 generally consists of certificates of deposit, share accounts, automobiles and real estate.

Unfunded commitments under revolving credit lines and overdraft protection agreements 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 not be drawn upon to the total extent to which the Credit Union is committed.

Financial instruments with concentration of credit risk: The Credit Union's lending activity is with its members as previously described in Note 1. The Credit Union's policy is to obtain collateral whenever necessary.

A substantial portion of the cash equivalents portfolio is comprised of deposits in Federal Reserve Bank of San Francisco, Colorado National Bank, and Federal Home Loan Bank of San Francisco. As of September 30, 2018, the deposit exceeds the insured amount by approximately $3,750,000 for Colorado National Bank.

Income taxes: The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions, except for certain income producing activities of exempt organizations that are not subject to unrelated business income tax as specified in the memo released by the IRS in May 2015. Many states have similar laws. In the opinion of Management, any liability arising from federal or state taxation of activities deemed to be unrelated to its exempt purposes is not expected to have a material effect on the Credit Union's financial position or results of operation.

NOTE 9: RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans as of September 30, 2018 and 2017 amounted to approximately $70,000 and $200,000, respectively. The aggregate amounts of these loans were not significant to the financial statements. Deposits from those related parties as of September 30, 2018 and 2017 amounted to approximately $1,520,000 and $2,090,000, respectively.

NOTE 10: RETIREMENT PLAN

401(k) Retirement plan: The Credit Union has a 401(k) retirement plan for all employees who have met both the tenure and minimum age requirements specified in the plan. The Credit Union contributions are based on a percentage of employee compensation. The plan's net assets available for benefits amounted to $2,600,178 and $2,081,934 as of September 30, 2018 and 2017, respectively.

NOTE 11: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the California Department of Business Oversight. Failure to meet minimum net worth requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amount and ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined). 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 calculated by the California DBO as of September 30, 2018 is 7.63%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that as of September 30, 2018, the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2018, the most recent call reporting period, California DBO categorized the Credit Union 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 and meet any applicable RBNWR. There are no conditions or events since that notification that Management believes have changed the Credit Union's category.

NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 11: REGULATORY CAPITAL- *continued*

The Credit Union's actual capital amounts and ratios as of September 30, 2018 are also presented in the table, as follows:

Actual		For Capital Adequacy Purposes		To be Well-Capitalized per Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio
$ 52,236,724	14.8%	$ 21,153,157	6.0%	$ 24,678,683	7.0%

The calculations above are made without including other comprehensive income.

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Furthermore, in performing its calculation of total assets, the Credit Union used the quarter-end option, as permitted by regulation.

Board of Directors and Supervisory Committee
Glendale Area Schools Credit Union
Glendale, California

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the financial statements of Glendale Area Schools Credit Union as of and for the year ended September 30, 2018, and our report thereon dated January 11, 2019, which expressed an unmodified opinion on those financial statements, appears on page AFS-1 and page AFS-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed below is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information presented herein is fairly stated in all material respects in relation to the financial statements taken as a whole.

Schedule of Other General and Administrative Expenses

Summary of Reclassifying and Adjusting Entries

RICHARDS & ASSOCIATES
Certified Public Accountants

Michael E. Richards, CPA

Yorba Linda, California
January 11, 2019

GLENDALE AREA SCHOOLS CREDIT UNION

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Years ended September 30, 2018 and 2017

	2018	2017
Loan servicing	$ 701,635	$ 541,548
Outsourced services	213,440	170,018
Office occupancy	101,443	92,584
Members' insurance	76,549	-
Education and promotion	75,332	25,304
Operational write-off	60,009	108,557
Regulatory supervision	38,325	38,228
Travel and conference	15,485	5,933
Annual meeting	10,862	7,154
Miscellaneous expenses	50,080	68,944
	$ 1,343,160	$ 1,058,270

This schedule is supplemental information only.

GLENDALE AREA SCHOOLS CREDIT UNION

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES

For the year ended September 30, 2018

		DEBIT		CREDIT
RECLASSIFYING ENTRY 1				
Other assets	$	117,268		
Other liabilities			$	117,268

To reclassify other liabilities accounts with debit balance as of September 30, 2018.

		DEBIT		CREDIT
RECLASSIFYING ENTRY 2				
Share insurance deposit	$	3,879,559		
Investments			$	3,879,559

To reclassify share insurance deposit balance as of September 30, 2018 at American Share Insurance.

		DEBIT		CREDIT
RECLASSIFYING ENTRY 3				
Other non-operating income	$	70,328		
Rental income			$	70,328

To reclassify rental income.

		DEBIT		CREDIT
RECLASSIFYING ENTRY 4				
Other miscellaneous expenses	$	3,620		
Income from investments			$	3,620

To reclassify common stock dividend payment.

This schedule is supplemental information only.

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*
For the year ended September 30, 2018

	DEBIT	CREDIT
RECLASSIFYING ENTRY 5		
Non-operating expenses	$ 24,474	
Miscellaneous expenses		$ 24,474

To reclassify non-operating building utilities and maintenance expenses.

	DEBIT	CREDIT
RECLASSIFYING ENTRY 6		
Other assets	$ 4,125,500	
Cash and cash equivalents		$ 4,125,500

To reclassify future dated ACH.

	DEBIT	CREDIT
RECLASSIFYING ENTRY 7		
Premises and equipment	$ 79,993	
Other assets		$ 79,993

To reclassify hardware and software deposit as of September 30, 2018.

	DEBIT	CREDIT
ADJUSTING ENTRY 1		
Undivided earnings	$ 102,802	
Income from investments		$ 102,802

To reverse the adjustment to accrued interest on FHLB stock as of September 30, 2017.

This schedule is supplemental information only.

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*
For the year ended September 30, 2018

		DEBIT		CREDIT
ADJUSTING ENTRY 2				
Income from investments	$	9,362		
Undivided earnings			$	9,362

To reverse the adjustment to CUSIP 31347ALG7 accrued interest purchased in September 2017.

		DEBIT		CREDIT
ADJUSTING ENTRY 3				
Compensation and benefits	$	55,200		
Undivided earnings			$	55,200

To reverse the adjustment to accrued compensation expense as of September 30, 2017.

		DEBIT		CREDIT
ADJUSTING ENTRY 4				
Office occupancy	$	2,721		
Prepaid expenses			$	2,721

To fully amortize prepaid property tax as of September 30, 2018.

		DEBIT		CREDIT
ADJUSTING ENTRY 5				
Prepaid expenses	$	2,786		
Office operations			$	2,786

To correct over amortization of prepaid Statefarm, Amtrust and MVI as of September 30, 2018.

This schedule is supplemental information only.

SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued*

For the year ended September 30, 2018

	DEBIT	CREDIT
ADJUSTING ENTRY 6		
Office operations	$ 14,474	
Prepaid expenses		$ 14,474

To correct under amortization of prepaid Jack Henry software maintenance as of September 30, 2018.

This schedule is supplemental information only.