FLORIDA HOSPITAL CREDIT UNION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

(With Independent Auditor’s Report Thereon)

FLORIDA HOSPITAL CREDIT UNION

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Independent Auditor's Report

December 4, 2018

To the Supervisory Committee and Board of Directors
of Florida Hospital Credit Union

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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.

DoerenMayhew

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Hospital 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.

Doeren Mayhew

Doeren Mayhew
Miami, FL

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 2018 AND 2017

Assets	**2018**	**2017**
Cash and cash equivalents	$3,163,257	$3,366,738
Interest bearing deposits	9,121,000	12,691,784
Available-for-sale investments	4,568,843	2,007,641
FHLB stock	213,400	43,800
Loans held for sale	343,800	171,000
Loans to members, net of allowance for loan losses	35,152,601	28,635,778
Accrued interest receivable	124,016	102,674
Property and equipment	249,479	349,244
NCUSIF deposit	417,393	413,870
Prepaid and other assets	597,154	326,225
Total assets	$53,950,943	$48,108,754
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$43,597,286	$42,103,780
Borrowings and interest payable	4,005,843	—
Accrued expenses and other liabilities	637,766	633,081
Total liabilities	48,240,895	42,736,861
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	1,062,279	1,062,279
Undivided earnings	4,738,116	4,306,692
Accumulated other comprehensive (loss)/income	(90,347)	2,922
Total members' equity	5,710,048	5,371,893
Total liabilities and members' equity	$53,950,943	$48,108,754

See the accompanying notes to the financial statements.

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Interest income:		
Loans to members	$1,688,736	$1,254,099
Investments	328,922	353,555
Total interest income	2,017,658	1,607,654
Interest expense:		
Members' shares and savings accounts	121,797	75,570
Borrowings	9,007	108
Total interest expense	130,804	75,678
Net interest income	1,886,854	1,531,976
Provision for loan losses	316,932	164,655
Net interest income after provision for loan losses	1,569,922	1,367,321
Non-interest income:		
Fees and charges and other operating income	748,975	763,026
Interchange income	295,738	277,386
Total non-interest income	1,044,713	1,040,412
Non-interest expenses:		
Compensation and benefits	1,108,307	997,089
Operating costs	559,360	558,913
Professional and outside services	515,544	434,526
Total non-interest expenses	2,183,211	1,990,528
Net income	$431,424	$417,205

See the accompanying notes to the financial statements.

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Net income	$431,424	$417,205
Other comprehensive loss:		
Available-for-sale investments:		
Net unrealized holding losses on available-for-sale investments	(93,269)	(36,241)
Reclassification adjustment for net investment gains and losses included in net income	—	—
Net change in available-for-sale investments:	(93,269)	(36,241)
Other comprehensive loss	(93,269)	(36,241)
Comprehensive income	$338,155	$380,964

See the accompanying notes to the financial statements.

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2016	$1,062,279	$3,889,487	$39,163	$4,990,929
Net income	—	417,205	—	417,205
Other comprehensive loss	—	—	(36,241)	(36,241)
Balance, September 30, 2017	1,062,279	4,306,692	2,922	5,371,893
Net income	—	431,424	—	431,424
Other comprehensive loss	—	—	(93,269)	(93,269)
Balance, September 30, 2018	$1,062,279	$4,738,116	($90,347)	$5,710,048

See the accompanying notes to the financial statements.

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Net income	$431,424	$417,205
Adjustments to net cash provided from operating activities:		
Provision for loan losses	316,932	164,655
Depreciation and amortization	106,537	108,552
Loss on disposal of property and equipment	—	45,653
Changes in operating assets and liabilities:		
Loans held for sale	(172,800)	(2,501)
Accrued interest receivable	(21,342)	(10,457)
Prepaid and other assets	(270,929)	(24,015)
Accrued expenses and other liabilities	4,685	(85,948)
Total adjustments	(36,917)	195,939
Net cash provided from operating activities	394,507	613,144

See the accompanying notes to the financial statements.

FLORIDA HOSPITAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Cash Flows (Continued)

	2018	2017
Cash flows from investing activities:		
Net change in loans to members	(2,497,289)	(2,943,887)
Maturity of interest bearing deposits	3,570,784	3,903,991
Proceeds from the call, maturity, or repayments of available-for-sale investments	403,415	189,474
Purchase of available-for-sale investments	(3,057,886)	(500,000)
Increase in FHLB stock	(169,600)	(43,800)
Purchase of auto loan participations	(4,336,466)	(5,487,737)
Increase in NCUSIF deposit	(3,523)	(537)
Purchases of property and equipment	(6,772)	(17,715)
Net cash used in investing activities	(6,097,337)	(4,900,211)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	1,493,506	495,751
Increase from borrowings and accrued interest	4,005,843	—
Net cash provided from financing activities	5,499,349	495,751
Net decrease in cash and cash equivalents	(203,481)	(3,791,316)
Cash and cash equivalents - beginning	3,366,738	7,158,054
Cash and cash equivalents - ending	$3,163,257	$3,366,738

Supplemental Information

Interest paid	$124,961	$75,678

See the accompanying notes to the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Florida Hospital Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Florida Statutes for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who are employees or former employees of Florida Hospital. Additionally, the Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Orlando, Florida area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentration of credit risk, except unsecured loans, which by their nature, increase the risk of loss compared to those loans that are collateralized.

Comprehensive Income/(Loss)

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain/(loss) on sale of investments in the statements of income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from corporate credit unions and banks (including cash items in the process of clearing) and interest-bearing deposits in corporate credit unions and banks with an original maternity of 90 days or less including overnight deposits. Amounts due from corporate credit unions and banks may, at times, exceed federally insured limits.

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured as no deposit to one individual institution exceeds $250,000.

Available-for-Sale Investments

Federal agency securities and mortgage-backed securities are classified as available-for-sale when the Credit Union anticipates that the securities 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. These securities are reported at fair value.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income/(loss). Purchase premiums and discounts are recognized in interest income over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (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.

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB of Atlanta, the Credit Union is required to invest in stock of the FHLB. The Credit Union’s minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union’s total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost and its disposition is restricted. No ready market exists for the FHLB stock, and it has no quoted market value.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value in the aggregate. Typically at the time of the loan sale, representations and warranties are given regarding the validity and accuracy of the loan and loan documents that if breached would require the loan to be repurchased.

Loans and Allowance for Loan Losses

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 fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off 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 non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Generally, loan fees have been recognized in income when received and direct loan origination costs have been recognized as a charge to expense when incurred.

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic assessment 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are classified into the following segments: Consumer and Real Estate. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into five classes: New vehicle, Used vehicle, Unsecured, Other secured, and Auto participations. Real Estate loans are divided into three classes: First mortgage, Home equity, and First mortgage participations.

The allowance consists of specific and general components. The specific component covers impaired loans and troubled debt restructurings and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2018 and 2017, the historical loss time frame for each class was 12 months.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

Impaired Loans

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. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral. The Credit Union did not maintain any impaired loans as of September 30, 2018 or 2017.

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring (TDR) if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. The Credit Union had no TDR activity during the years ended September 30, 2018 and 2017.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and real estate loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the consumer and real estate loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Loan Charge-off Policies

The Credit Union monitors and tracks delinquent loans and special mention loans. Early tracking of delinquent loans helps management assess the overall performance of the entire loan portfolio and assists in the early identification of loans that may be troubled and may eventually be charged off. The following are guidelines for defining what constitutes an uncollectible loan:

Consumer:

- Any loan that has not received a full contractual payment within the past 180 days will be deemed uncollectible, with the exception of real estate loans noted below.
- Collateralized consumer loans once the final deficiency balance is determined. The final deficiency balance is determined after all collateral protection insurance premium refunds, insurance proceeds, collateral liquidation proceeds and collection charges have been posted. Deficiency balances subject to a repayment plan are excluded from this charge-off provision.
- Unsecured loan balances subject to a Chapter 7 bankruptcy 60 days upon receipt of notification. Reaffirmed unsecured balances are excluded from this charge-off provision.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

Loan Charge-off Policies (Continued)

- Any portion of debt under a Chapter 11 or Chapter 13 bankruptcy proceeding discharged by the court is deemed uncollectible upon receipt of notification of discharge.
- An account is deemed uncollectible when the President/CEO and/or the Chief Operating Officer determine(s) that economically efficient collection practices have been exhausted.
- A loan is identified as fraudulent and deemed uncollectible.
- The borrower dies and a loss amount has been ascertained.

Real Estate:

- A foreclosed real estate loan upon the determination of the amount of the estimated loan loss. The loss is estimated by calculating the difference between the loan balance and a reasonable estimate of the fair market value of the collateral less liquidation costs.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are carried at cost, less accumulated amortization and are amortized using the straight-line method over the terms of the related leases, or the estimated life of the asset, whichever is less. The Credit Union reviews furniture and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Members' Shares 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 annual elections of the Board of Directors. 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 upon liquidation. Interest on members' shares 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 members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Borrowed Funds

The Credit Union has borrowed funds outstanding from the FHLB of Atlanta. Borrowings require a security interest in certain mortgage collateral, FHLB stock and any deposit accounts maintained by the Credit Union with the FHLB.

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Florida Statutes. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability upon examination by tax authorities. The Credit Union is a state-chartered credit union as defined 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 directly related to its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (UBI) derived by state-chartered credit unions.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Income Taxes (Continued)

Beginning in March 2008, the Internal Revenue Service (IRS) released Technical Advice Memorandums (TAMs) to specific state-chartered credit unions specifying the revenue sources subject to unrelated business income tax (UBIT). UBI may also be subject to tax in certain states. The Credit Union has assessed its activities and any potential federal or state income tax liability and determined no liability exists from federal or state taxation of activities deemed to be unrelated to its exempt purpose. As such, the Credit Union has not filed tax returns for reporting UBIT-related income for tax years prior to 2017. The IRS and state, where applicable, have the ability to assess taxes, penalties and interest for years in which no tax returns were filed. Management has determined that the financial impact, if any, of not filing UBIT-related income tax returns in previous years would not be material to the Credit Union's financial statements for the years ended September 30, 2018 and 2017.

Recent Accounting Pronouncements

On January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU). Changes to the current accounting model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Credit Union is currently evaluating the impact of the ASU.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current accounting standards, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on December 31, 2021. Early application is permitted for annual periods beginning January 1, 2019.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its financial statements, regulatory capital and related disclosures.

Reclassification

Certain amounts as reported in the 2017 financial statements have been reclassified to conform with the 2018 presentation. Reclassification adjustments did not affect total members' equity or net income.

Subsequent Events

Management has evaluated subsequent events through December 4, 2018, the date the financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of September 30, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$3,659,190	$—	($85,215)	$3,573,975
Federal agency securities	1,000,000	—	(5,132)	994,868
Total	$4,659,190	$—	($90,347)	$4,568,843

Note 2 - Investments (Continued)

The following table presents the amortized cost and estimated fair value of investments as of September 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Federal agency securities	$1,000,000	$20	($16,385)	$983,635
Mortgage-backed securities	1,004,719	19,287	—	1,024,006
Total	$2,004,719	$19,307	($16,385)	$2,007,641

The amortized cost and estimated fair value of debt securities as of September 30, 2018, by contractual maturity, are shown below. Expected maturities on securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized Cost	Fair Value
Within 1 year	$250,000	$249,678
1 to 5 years	250,000	247,727
5 to 10 years	500,000	497,463
Mortgage-backed securities	3,659,190	3,573,975
Total	$4,659,190	$4,568,843

Note 2 - Investments (Continued)

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$3,573,975	($85,215)	$—	$—	$3,573,975	($85,215)
Federal agency securities	248,670	(1,330)	746,198	(3,802)	994,868	(5,132)
	$3,822,645	($86,545)	$746,198	($3,802)	$4,568,843	($90,347)

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Federal agency securities	$733,615	($16,385)	$—	$—	$733,615	($16,385)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

Note 3 - Loans to Members

The composition of loans to members as of September 30, 2018 and 2017, is as follows:

	2018	2017
Consumer:		
New vehicle	$6,506,016	$5,361,750
Used vehicle	8,680,781	7,951,034
Unsecured	4,904,221	5,008,867
Other secured	29,147	76,575
Auto participations	7,663,553	5,019,942
Total consumer	27,783,718	23,418,168
Real Estate:		
First mortgage	5,217,515	3,289,609
Home equity	2,014,914	1,689,498
First mortgage participations	459,303	467,795
Total real estate	7,691,732	5,446,902
	35,475,450	28,865,070
Less: Allowance for loan losses	(322,849)	(229,292)
Loans to members, net	$35,152,601	$28,635,778

Net deferred loan origination costs included with the first mortgage loan class above approximated $17,000 and $4,000 as of September 30, 2018 and 2017, respectively. Unamortized premiums included with the loan partcipations above approximated $96,000 and $88,000 as of September 30, 2018 and 2017, respectively.

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2018:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$219,494	$9,798	$229,292
Provision for loan losses	312,916	4,016	316,932
Recoveries	68,252	—	68,252
Charge-offs	(291,627)	—	(291,627)
Ending allowance	$309,035	$13,814	$322,849
Ending balance individually evaluated for impairment	$—	$—	$—
Ending balance collectively evaluated for impairment	309,035	13,814	322,849
Ending allowance	$309,035	$13,814	$322,849

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2018:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$—	$—	$—
Ending balance collectively evaluated for impairment	27,783,718	7,691,732	35,475,450
Total loans	$27,783,718	$7,691,732	$35,475,450

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2017:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$194,729	$7,016	$201,745
Provision for loan losses	161,873	2,782	164,655
Recoveries	49,761	—	49,761
Charge-offs	(186,869)	—	(186,869)
Ending allowance	$219,494	$9,798	$229,292
Ending balance individually evaluated for impairment	$—	$—	$—
Ending balance collectively evaluated for impairment	219,494	9,798	229,292
Ending allowance	$219,494	$9,798	$229,292

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2017:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$—	$—	$—
Ending balance collectively evaluated for impairment	23,885,963	4,979,107	28,865,070
Total loans	$23,885,963	$4,979,107	$28,865,070

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
New vehicle	$81,754	$—	$—	$81,754	$6,424,262	$6,506,016
Used vehicle	26,901	—	—	26,901	8,653,880	8,680,781
Unsecured	85,493	18,470	17,389	121,352	4,782,869	4,904,221
Other secured	—	—	—	—	29,147	29,147
Auto participations	28,540	1,136	1,951	31,627	7,631,926	7,663,553
Total	222,688	19,606	19,340	261,634	27,522,084	27,783,718
Real Estate:						
First mortgage	—	—	—	—	5,217,515	5,217,515
Home equity	—	—	—	—	2,014,914	2,014,914
First mortgage participations	—	—	—	—	459,303	459,303
Total	—	—	—	—	7,691,732	7,691,732
Total	$222,688	$19,606	$19,340	$261,634	$35,213,816	$35,475,450

Loans on which the accrual of interest has been discontinued or reduced approximated $19,000 as of September 30, 2018. There were no loans 90 days or more past due and still accruing interest as of September 30, 2018.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
New vehicle	$11,361	$—	$—	$11,361	$5,350,389	$5,361,750
Used vehicle	12,682	2,376	626	15,684	7,935,350	7,951,034
Unsecured	65,834	7,649	16,599	90,082	4,918,785	5,008,867
Other secured	—	—	—	—	76,575	76,575
Auto participations	888	—	—	888	5,019,054	5,019,942
Total	90,765	10,025	17,225	118,015	23,300,153	23,418,168
Real Estate:						
First mortgage	—	—	—	—	3,289,609	3,289,609
Home equity	—	—	—	—	1,689,498	1,689,498
First mortgage participations	—	—	—	—	467,795	467,795
Total	—	—	—	—	5,446,902	5,446,902
Total	$90,765	$10,025	$17,225	$118,015	$28,747,055	$28,865,070

Loans on which the accrual of interest has been discontinued or reduced approximated $17,000 as of September 30, 2017. There were no loans 90 days or more past due and still accruing interest as of September 30, 2017.

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For consumer and real estate loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a nonperforming status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of September 30, 2018 and 2017:

	As of September 30, 2018		As of September 30, 2017	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Consumer:				
New vehicle	$6,506,016	$—	$5,361,750	$—
Used vehicle	8,680,781	—	7,950,408	626
Unsecured	4,886,832	17,389	4,992,268	16,599
Other secured	29,147	—	76,575	—
Auto participations	7,661,602	1,951	5,019,942	—
	27,764,378	19,340	23,400,943	17,225
Real Estate:				
First mortgage	5,217,515	—	3,289,609	—
Home equity	2,014,914	—	1,689,498	—
First mortgage participations	459,303	—	467,795	—
	7,691,732	—	5,446,902	—
Total	$35,456,110	$19,340	$28,847,845	$17,225

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of September 30, 2018 and 2017, by major classification as follows:

	2018	2017
Furniture and equipment	$358,253	$392,908
Leasehold improvements	424,666	424,666
	782,919	817,574
Less accumulated depreciation and amortization	(533,440)	(468,330)
	$249,479	$349,244

Depreciation and amortization charged to operations was approximately $107,000 and $109,000 for the years ended September 30, 2018 and 2017, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of September 30, 2018 and 2017:

	2018	2017
Share accounts	$27,496,203	$28,343,982
Share draft accounts	5,314,366	5,315,997
Money market accounts	8,607,427	7,679,712
Certificates	2,179,290	764,089
	$43,597,286	$42,103,780

As of September 30, 2018, scheduled maturities of certificates are as follows:

	2018
Within one year	$1,432,853
1 to 2 years	193,891
2 to 3 years	293,584
4 to 5 years	258,962
	$2,179,290

The aggregate amounts of members' time deposit accounts in denominations of $250,000 or more as of September 30, 2018 was approximately $300,000.

Note 6 - Employee Benefits

The Credit Union's employees participate in the Florida Hospital pension plan. The Credit Union's pension expense was approximately $43,000 and $40,000 for the years ended September 30, 2018 and 2017, respectively.

Note 7 - Related Party Transactions

The Credit Union is provided with facilities at no charge by Florida Hospital. The value of these services is not reflected in the accompanying financial statements; however, they approximate $63,000 per year.

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately $654,000 and $253,000 as of September 30, 2018 and 2017, respectively. Deposits of Credit Union directors and executive officers were approximately $269,000 and $211,000 as of September 30, 2018 and 2017, respectively.

Note 8 - Borrowed Funds

Corporate America Credit Union

The Credit Union maintains a $5,000,000 line of credit with Corporate America Credit Union. The terms of this agreement require the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement, excluding assets pledged to the Federal Home Loan Bank (FHLB). There were no borrowings outstanding as of September 30, 2018 or 2017.

Compass Bank

As of September 30, 2018, the Credit Union maintained an unsecured fed funds line-of-credit relationship with Compass Bank for $1,000,000. Fed funds borrowing limits under this agreement are subject to increase or decrease at any time at the bank's discretion. Rates for fed funds loans are established daily by the bank. Fed funds borrowings are overnight and automatically renewed on a daily basis up to a maximum of 14 consecutive calendar days. In exceptional circumstances, Compass Bank may agree to extend the customary 14 day period to a longer term, not to exceed 60 days in total. There were no borrowings outstanding as of September 30, 2018 or 2017.

Note 8 - Borrowed Funds (Continued)

Pacific Coast Bankers' Bank

As of September 30, 2018, the Credit Union maintained an unsecured fed funds line-of-credit relationship with Pacific Coast Bankers' Bank (PCBB) for $1,000,000. Fed funds borrowing limits under these agreements are subject to increase or decrease at any time at the bank's discretion. Rates for fed funds loans are established daily by the bank. Fed funds borrowings are overnight and automatically renewed on a daily basis up to a maximum of 10 consecutive calendar days. There were no borrowings outstanding as of September 30, 2018 or 2017.

Federal Home Loan Bank

As of September 30, 2018, the Credit Union had access to pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its qualified collateral, as defined in the FHLB Statement of Credit Policy. The unused line of credit under this agreement was approximately $8,848,000 as of September 30, 2018. Outstanding borrowed funds are summarized as follows:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2018	2017
FHLB	Fixed	2.27%	October 29, 2018	Non-amortizing	$1,500,000	$—
FHLB	Fixed	2.37%	February 27, 2019	Non-amortizing	1,500,000	—
FHLB	Fixed	3.21%	November 25, 2023	Non-amortizing	1,000,000	—
					4,000,000	—
				Interest payable	5,843	—
					$4,005,843	$—

The outstanding balances by maturity dates as of September 30, 2018 are as follows:

		2018
Within 1 year		$3,000,000
4 to 5 years		1,000,000
		4,000,000
	Interest payable	5,843
		$4,005,843

Note 9 - Commitments and Contingent Liabilities

License Agreement and Lease Commitments

As of September 30, 2018, the Credit Union maintained a licensing agreement with CU Answers for its operating system. Additionally, the Credit Union leases one branch location. The minimum remaining noncancellable lease and servicing obligations related to these agreements approximate the following as of September 30, 2018:

Year ending September 30,	Amount
2019	$226,000
2020	205,000
2021	183,000
2022	183,000
2023	153,000
	$950,000

Data processing expense approximated $183,000 for both the years ended September 30, 2018 and 2017. Rent expense approximated $42,000 and $41,000 for the years ended September 30, 2018 and 2017, respectively.

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2018, the total unfunded commitments under such lines of credit was approximately $6,839,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 10 - Regulatory Capital

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-balance-sheet items as calculated under generally accepted accounting practices. 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 amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). 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 as of September 30, 2018 and 2017 was 5.47% and 5.43%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of September 30, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2018, the most recent call reporting period, the NCUA 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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of September 30, 2018		As of September 30, 2017	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$5,800,395	10.75%	$5,368,971	11.16%
Amount needed to be classified as "adequately capitalized"	$3,237,057	6.00%	$2,886,525	6.00%
Amount needed to be classified as "well capitalized"	$3,776,566	7.00%	$3,367,613	7.00%

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

Note 11 - Fair Value Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of September 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$3,573,975	$—	$3,573,975
Federal agency securities	—	994,868	—	994,868
	$—	$4,568,843	$—	$4,568,843

Note 11 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis (Continued)

	Assets at Fair Value as of September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$1,024,006	$—	$1,024,006
Federal agency securities	—	983,635	—	983,635
	$—	$2,007,641	$—	$2,007,641

* * * End of Notes * * *