



**Members  
Credit Union**



**Be a Member  
Where You Matter More  
2019 ANNUAL REPORT**



# **Members Credit Union**

## **Board of Directors**

**Jack Braswell, Jr**

**Jerry Church**

**Robert Donley**

**Cody Hoyt**

**Karen Keller**

**Thomas Rhoney**

**Jeff Seaford**

**Cindy Stiff**

**William Tittsworth**

**Richard Trotter**

**Durham White, Jr**

## **Officers**

**William Tittsworth** Chairman of the Board

**Richard Trotter** Vice Chairman of the Board

**Robert Donley** President/CEO

**Cindy Stiff** Chief Financial Officer

**Eric Stiff** Sr Vice President, Member Experience

**Tim Mullen** Vice President, Lending and Operations

**Kevin O'Neal** Vice President, Financial Solutions

**Kristy Shell** Membership Officer

**James Ward** Security Officer



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## **Members Credit Union's Why Statement**

To be the caring and trusted financial partner to each member so that our members can focus less on finances and more on what really matters in their daily lives.



# Joint Report

Members Credit Union's year began with one of the most significant changes to impact service for our members. We upgraded from an old legacy online and mobile banking system to a new digital banking service. This change allows us to provide a seamless online and mobile banking experience with more functionality to our members.

**Now our members  
have access to the largest  
surcharge-free ATM network in  
the country with 30,000 ATMs  
across the USA.**

Since going live on January 9th, we've grown our online banking users from 16,000 to 24,000 and increased our mobile app ratings from 2.7 stars to 4.5 stars. I'm happy and proud to say this was a successful upgrade, and our member's feedback has been very positive.

We started 2019 on a high note, but we were not ready to rest on our laurels for the remainder of the year. In 2018, our members asked for more ATMs. In June, we delivered by joining the CO-OP ATM Network. Now our members have access to the largest surcharge-free ATM network in the country with 30,000 ATMs across the USA.

Some improvements were made behind the scenes but still made a significant impact. One of those endeavors was the upgrade to our employee intranet that we call The Hub. The Hub is the internal information site that allows all 106 employees at all 16 branch locations to find the right answers and updated resources quickly and therefore serve our members more efficiently. This site went live in August and has reduced the time employees spend searching for the answers to our member's questions because they can find the correct answer by searching on The Hub.

In September, Hanesbrands Credit Union merged into our credit union, and we welcomed 4,962 members along with ten full-time employees to our MCU family. As a result of the merger, we gained a branch location with a drive-thru, night deposit and ATM. The merger increased the

potential for growth with the addition of Hanesbrands Incorporated as a Sponsor Company. Hanesbrands is the world's largest marketer of basic apparel, with 68,000 employees in 40 countries, and its headquarters are in Winston-Salem. Inside the Hanesbrand's home office is a Members Credit Union branch staffed with one full-time employee to serve the employees of HBI. The credit union members that joined through the merger benefited by gaining a broader portfolio of financial services to choose from, more electronic banking access, and a more extensive and convenient branch network. We are confident that we are in the best position to meet the needs of our new membership segment thanks to the hard work of many of our employees who worked long hours on both weekdays and weekends to ensure the merger was successful.

Even though 2019 was a year of embracing many new services and changes, we did not lose sight of providing important financial services to our members. Our loan volume increased in 2019 by nearly 5% (writers note: actual growth number is 4.77%), and our used auto loan continues to be our most popular loan product thanks to a low rate and the personal service our members get from our loan officers. This year we helped more members get out of debt by approving 82% more debt consolidation loans than the previous year.

**This year we helped more members get out of debt by approving 82% more debt consolidation loans than the previous year.**

While we are proud of the upgrades and loan growth in 2019, our commitment to financial literacy and community organizations is stronger than ever. In the 2018 and 2019 school year, we conducted our Mad City Money Financial Reality Fair at eleven schools where a total of 2,716 middle school students benefited from learning first-hand what it's like to be an adult and make financial decisions. Currently, we are investing in our financial reality fair so that we can upgrade the format to a mobile app-based program that saves in the cost of printing and makes the program more appealing to teenagers.

In the fall of 2018, we opened our first student ran credit union branch located in Davie High School in Mocksville, North Carolina. War Eagle Credit Union, named after the High School's mascot, has now been open for over a year. We are continuing to build our relationship as an essential partner to Davie High.

Not only are we open for business during their lunch hours for three days of the week, but we participate in many of the school's home sporting events. War Eagle Credit Union sponsors Davie High Athletics and presents the half-time challenge event for home basketball games called Dizzy Layup. This past season we've awarded \$900 in prizes to the winners of these events. And I am most proud of the fact that War Eagles Credit Union awarded four \$2,000 scholarships to Davie High School Student in 2019. We plan to award scholarships to two students at the end of every semester in 2020 as well.

Our compassion for our community goes beyond teaching financial literacy. We believe in being socially responsible too. Members Credit

**We awarded \$14,500 in Scholarships to college-bound members for the 2019 and 2020 school year.**

Union supported the High Point Housing Authority in their mission of helping children succeed by supplying school supplies for their annual Back to School Jam and being a sponsor for their Holiday Gala,

where they distributed toys to children whose parents may not be able to buy gifts at Christmas. We answered the call to help when Hurricane Dorian hit the Bahamas and the coast of North Carolina by holding a blood drive here at our main office. Members CU and Change Healthcare together donated 20 pints of blood. According to the American Red Cross, 20 pints of blood can save 80 lives. We awarded \$14,500 in Scholarships to college-bound members for the 2019 and 2020 school year, and every month staff members volunteer for HOPE in Winston-Salem to help prepare fresh food to be delivered to families in need. These are just a few examples of our heart of service at work, and we could not do it without the trust of our members to be their credit union.

As we turn the page to a new decade, we look forward to your support



and continued trust. We will not lose sight of our commitment to supporting socially responsible causes and rewarding our membership with better service, lower fees, and better rates. All of which help us discover our credit union why. “To be the caring and trusted financial partner to each member so that our members can focus less on finances and more on what really matters in their daily lives.”



***Bob Donley***

A handwritten signature in black ink that reads "Bob Donley" in a cursive script.

Bob Donley  
President/CEO



***William A. Tittsworth***

A handwritten signature in black ink that reads "W. A. Tittsworth" in a cursive script.

William A. Tittsworth  
Chairman of the Board



Board of Directors  
Members Credit Union  
Winston-Salem, North Carolina

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Members Credit Union, which comprise the statements of financial condition as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of Members Credit Union as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Butler & Burke LLP*

Winston-Salem, North Carolina  
April 24, 2020

**MEMBERS CREDIT UNION**  
**STATEMENTS OF FINANCIAL CONDITION**  
**December 31, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,207,531	\$ 7,809,225
Investment securities, available-for-sale	60,761,645	41,459,495
Investment securities, held-to-maturity	89,624,054	80,914,430
Loans receivable, net of allowance for loan losses	149,184,346	129,941,016
Assets held for sale	79,988	77,651
Accrued interest receivable	869,178	795,955
Property and equipment, net	9,138,903	7,996,141
NCUSIF deposit	2,870,479	2,493,928
Other assets	<u>6,799,204</u>	<u>6,574,067</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 326,535,328</u></b>	<b><u>\$ 278,061,908</u></b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities</b>		
Members' share and savings accounts	\$ 282,302,876	\$ 242,133,577
Accrued expenses and other liabilities	<u>2,746,350</u>	<u>2,244,520</u>
<b><u>Total Liabilities</u></b>	<b><u>285,049,226</u></b>	<b><u>244,378,097</u></b>
<b>Members' Equity</b>		
Regular reserve	11,650,670	11,650,670
Undivided earnings	29,550,424	21,919,626
Accumulated other comprehensive income	<u>285,008</u>	<u>113,515</u>
<b><u>Total Members' Equity</u></b>	<b><u>41,486,102</u></b>	<b><u>33,683,811</u></b>
<b><u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u></b>	<b><u>\$ 326,535,328</u></b>	<b><u>\$ 278,061,908</u></b>

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See accompanying notes to financial statements.

**MEMBERS CREDIT UNION**  
**STATEMENTS OF INCOME**  
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Interest Income		
Outstanding loans	\$ 7,656,238	\$ 6,925,456
Investment securities	<u>3,343,964</u>	<u>3,063,949</u>
<u>Total Interest Income</u>	<u>11,000,202</u>	<u>9,989,405</u>
Interest Expense		
Members' share and savings accounts	<u>897,343</u>	<u>609,821</u>
<u>Total Interest Expense</u>	<u>897,343</u>	<u>609,821</u>
 <u>NET INTEREST INCOME</u>	 10,102,859	 9,379,584
Provision for Loan Losses	<u>1,150,213</u>	<u>1,301,575</u>
 <u>NET INTEREST INCOME AFTER</u> <u>PROVISION FOR LOAN LOSSES</u>	 <u>8,952,646</u>	 <u>8,078,009</u>
Non-Interest Income		
Fees and other income, net	3,659,795	4,130,507
Rental income	<u>213,039</u>	<u>251,656</u>
<u>Total Non-Interest Income</u>	<u>3,872,834</u>	<u>4,382,163</u>
Non-Interest Expense		
Compensation and benefits	6,067,570	5,605,149
Occupancy	1,080,896	933,108
Office operations	2,511,510	2,302,158
Repossession expenses and losses	94,867	276,921
Other	<u>575,804</u>	<u>656,068</u>
<u>Total Non-Interest Expense</u>	<u>10,330,647</u>	<u>9,773,404</u>
 <u>NET INCOME</u>	 <u>\$ 2,494,833</u>	 <u>\$ 2,686,768</u>

**MEMBERS CREDIT UNION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Years Ended December 31, 2019 and 2018**

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	<u>2019</u>	<u>2018</u>
Net Income	\$ 2,494,833	\$ 2,686,768
Other Comprehensive Income		
Unrealized holding gains (losses) arising during the period on securities available-for-sale	<u>171,493</u>	<u>(228,740)</u>
<b><u>TOTAL COMPREHENSIVE INCOME</u></b>	<b><u>\$ 2,666,326</u></b>	<b><u>\$ 2,458,028</u></b>

**MEMBERS CREDIT UNION**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**For the Years Ended December 31, 2019 and 2018**

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	\$ 11,650,670	\$ 19,232,858	\$ 342,255	\$ 31,225,783
Comprehensive Income	-	2,686,768	(228,740)	2,458,028
Balance, December 31, 2018	11,650,670	21,919,626	113,515	33,683,811
Comprehensive Income	-	2,494,833	171,493	2,666,326
Acquired in merger	-	5,135,965	-	5,135,965
Balance, December 31, 2019	<u>\$ 11,650,670</u>	<u>\$ 29,550,424</u>	<u>\$ 285,008</u>	<u>\$ 41,486,102</u>

See accompanying notes to financial statements.

**MEMBERS CREDIT UNION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,494,833	\$ 2,686,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	489,315	542,438
Amortization of investment premium (discounts), net	(5,117)	4,185
Provision for loan losses	1,150,213	1,301,575
Net changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(2,549)	95,971
(Increase) decrease in other assets	(288,019)	(729,805)
Increase (decrease) in accrued expenses and other liabilities	<u>358,441</u>	<u>38,461</u>
<u>Net Cash Provided by Operating Activities</u>	<u>4,197,117</u>	<u>3,939,593</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities of investment securities, held-to-maturity	48,400,399	49,835,041
Proceeds from sale/call of investment securities, held-to-maturity	28,250,000	5,000,000
Purchases of investment securities, held-to-maturity	(79,670,200)	(50,000,000)
Proceeds from maturities of investment securities, available-for-sale	83,833,274	32,303,744
Proceeds from sale/call of investment securities, available-for-sale	11,053,201	5,000
Purchases of investment securities, available-for-sale	(93,680,209)	(34,257,762)
Net increase in loans to members	(6,697,628)	(8,324,745)
Purchases of property and equipment	(242,610)	(520,766)
Change in NCUSIF deposit	(17,203)	27,768
(Increase) decrease in assets held for sale	(2,337)	162,020
Cash acquired in merger	<u>385,557</u>	<u>-</u>
<u>Net Cash Used in Investing Activities</u>	<u>(8,387,756)</u>	<u>(5,769,700)</u>
<b>FINANCING ACTIVITIES</b>		
Net increase in members' share and savings accounts	<u>3,588,945</u>	<u>1,035,240</u>
<u>Net Cash Provided by Financing Activities</u>	<u>3,588,945</u>	<u>1,035,240</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(601,694)	(794,867)
Cash and Cash Equivalents, Beginning	<u>7,809,225</u>	<u>8,604,092</u>
Cash and Cash Equivalents, Ending	<u>\$ 7,207,531</u>	<u>\$ 7,809,225</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for interest	<u>\$ 897,343</u>	<u>\$ 609,821</u>
Unrealized gains (losses) arising during the year on investment securities, available-for-sale	<u>\$ 171,493</u>	<u>\$ (228,740)</u>

See accompanying notes to financial statements.

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

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### NOTE A: ORGANIZATION

Members Credit Union is a member-owned, nonprofit cooperative organized under the laws of the State of North Carolina. Its members are principally employees of sponsor companies affiliated with the Credit Union.

### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Credit Union conform to U.S. generally accepted accounting principles (GAAP). A brief description of significant policies is presented below.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts on deposit with commercial banks with an original maturity of three months or less. These accounts at times may exceed federally insured limits. The Credit Union has not experienced any losses in these accounts and management does not believe it is exposed to any significant credit risk.

#### Investment Securities

The Credit Union's investment securities are classified and accounted for as follows:

*Held-to-Maturity* - Investment securities which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method.

*Available-for-Sale* - Investment 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. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and 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.



## MEMBERS CREDIT UNION

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Loans Receivable and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loan fees and certain direct loan origination costs are not deferred, since the effect of deferral and amortization as an adjustment of loan yield is not material to the financial statements of the Credit Union.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed, generally when the loan is six months past due without receipt of a payment in the last ninety days. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of 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, prevailing economic conditions, and historical experience. The loan portfolio is evaluated by category for impairment. Accordingly, the Credit Union does not separately identify individual loans for impairment. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. All loans continue to accrue interest until they are 90 days past due.

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, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms include payment relief in the terms of an extension of the original maturity date and short-term payment reductions. The Credit Union does not provide its members rate reductions, principal forgiveness, or reductions of accrued interest. In cases where management has identified a TDR, an analysis is performed to determine whether the loan is impaired.

##### Assets Held for Sale

Assets held for sale is comprised of automobiles repossessed by the Credit Union due to non-payment on loans. When repossessed, the carrying value of the automobiles are adjusted to the lower of the loan balance outstanding or fair market value based on published prices from a national automobile dealership association, with losses initially recorded in the provision for loan losses. Any subsequent expenses that do not significantly increase the vehicles value and actual losses on sale are recorded as repossession expenses and losses in the accompanying statements of income.

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Property and Equipment**

Land is carried at cost. Office buildings, furniture, fixtures, equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and 3 to 20 years for equipment and furniture. The cost of leasehold improvements is amortized using the straight-line method over terms ranging from 3 to 10 years.

#### **NCUSIF Deposit**

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is maintained in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 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.

#### **NCUSIF Insurance Premiums**

Credit unions are required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the premium in 2019 and 2018.

#### **Members' Share and Savings Accounts**

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on members' share 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 dividends.

#### **Fair Value Measurements**

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note L for assets of the Credit Union measured at fair value on a recurring basis.

## MEMBERS CREDIT UNION

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Income Taxes

The Credit Union is exempt by statute, from federal and state income taxes. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Credit Union's primary tax positions relate to its status as an entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Credit Union has no uncertain tax positions that would be subject to change upon examination.

The Credit Union is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Credit Union is also required to file an exempt organization business income tax return (Form 990-T) for any year unrelated business income exceeds \$1,000. The Credit Union's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

##### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Subsequent Events

The Credit Union has evaluated its subsequent events (events occurring after December 31, 2019) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

##### New Accounting Pronouncement

In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-08, *Receivables-Nonrefundable Fees and Other Costs – Premium Amortization on Purchased Callable Debt Securities*. The changes in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The discount continues to be amortized to maturity. The classification and measurement guidance will be effective for nonpublic business entities in fiscal years beginning after December 15, 2019.

**MEMBERS CREDIT UNION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE C: INVESTMENT SECURITIES**

Investment securities have been classified in the statements of financial condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2019 and 2018, are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>Securities available-for-sale</u></b>				
<b>December 31, 2019:</b>				
U.S. government and federal agency securities	\$ 28,496,183	\$ 299,579	\$ (17,883)	\$ 28,777,879
Deposits in other financial institutions	30,752,873	-	-	30,752,873
Mortgage-backed securities	<u>1,227,582</u>	<u>4,509</u>	<u>(1,198)</u>	<u>1,230,893</u>
	<u>\$ 60,476,638</u>	<u>\$ 304,088</u>	<u>\$ (19,081)</u>	<u>\$ 60,761,645</u>
<b>December 31, 2018:</b>				
U.S. government and federal agency securities	\$ 19,558,551	\$ 282,753	\$ (224,337)	\$ 19,616,967
Deposits in other financial institutions	20,659,000	50,149	-	20,709,149
Mortgage-backed securities	<u>1,128,429</u>	<u>4,950</u>	<u>-</u>	<u>1,133,379</u>
	<u>\$ 41,345,980</u>	<u>\$ 337,852</u>	<u>\$ (224,337)</u>	<u>\$ 41,459,495</u>
<b><u>Securities held-to-maturity</u></b>				
<b>December 31, 2019:</b>				
U.S. government and federal agency securities	\$ 78,179,453	\$ 400,930	\$ (148,303)	\$ 78,432,080
Deposits in other financial institutions	11,016,632	-	-	11,016,632
Mortgage-backed securities	<u>427,969</u>	<u>23,076</u>	<u>-</u>	<u>451,045</u>
	<u>\$ 89,624,054</u>	<u>\$ 424,006</u>	<u>\$ (148,303)</u>	<u>\$ 89,899,757</u>
<b>December 31, 2018:</b>				
U.S. government and federal agency securities	\$ 63,477,106	\$ 373,889	\$ (1,122,948)	\$ 62,728,047
Deposits in other financial institutions	16,833,765	-	-	16,833,765
Mortgage-backed securities	<u>603,559</u>	<u>24,892</u>	<u>(6)</u>	<u>628,445</u>
	<u>\$ 80,914,430</u>	<u>\$ 398,781</u>	<u>\$ (1,122,954)</u>	<u>\$ 80,190,257</u>

**MEMBERS CREDIT UNION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE C: INVESTMENT SECURITIES (CONTINUED)**

The scheduled maturities of held-to-maturity and available-for-sale securities at December 31, 2019, are as follows:

	<u>Securities held-to-maturity</u>		<u>Securities available-for-sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 10,750,000	\$ 10,746,520	\$ 32,927,143	\$ 32,927,957
Due from one to five years	35,054,953	35,016,587	3,969,819	3,994,100
Due from five to ten years	<u>43,391,132</u>	<u>43,685,605</u>	<u>22,352,094</u>	<u>22,608,695</u>
	89,196,085	89,448,712	59,249,056	59,530,752
Mortgage-backed securities	<u>427,969</u>	<u>451,045</u>	<u>1,227,582</u>	<u>1,230,893</u>
	<u>\$ 89,624,054</u>	<u>\$ 89,899,757</u>	<u>\$ 60,476,638</u>	<u>\$ 60,761,645</u>

Included in the above mortgage-backed securities, the Credit Union has mortgage-related derivatives in the form of collateralized mortgage obligations. At December 31, 2019, the amortized cost of those collateralized mortgage obligations was \$1,300,265 and the estimated market value was \$1,304,307.

Information pertaining to securities with gross unrealized losses at December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>Securities available-for-sale</u>				
U.S. government and federal agency securities	\$ 12,590	\$ 8,987,410	\$ 6,491	\$ 1,807,245
Mortgage-backed securities	-	-	-	-
	<u>\$ 12,590</u>	<u>\$ 8,987,410</u>	<u>\$ 6,491</u>	<u>\$ 1,807,245</u>
<u>Securities held-to-maturity</u>				
U.S. government and federal agency securities	\$ 90,560	\$ 16,909,440	\$ 57,743	\$ 22,441,795
Mortgage-backed securities	-	-	-	-
	<u>\$ 90,560</u>	<u>\$ 16,909,440</u>	<u>\$ 57,743</u>	<u>\$ 22,441,795</u>

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C: INVESTMENT SECURITIES (CONTINUED)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and 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.

The Credit Union had twenty-five debt securities with unrealized losses at December 31, 2019. All of these securities were either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Credit Union has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

### NOTE D: LOANS RECEIVABLE

The composition of loans to members at December 31 is as follows:

	2019	2018
Automobile	\$ 106,685,719	\$ 94,115,329
Mortgage	8,782,550	4,449,895
Unsecured	32,130,900	29,573,792
Share secured	2,331,642	2,349,673
Other	36,782	97,381
	149,967,593	130,586,070
Less allowance for loan losses	(783,247)	(645,054)
	<u>\$ 149,184,346</u>	<u>\$ 129,941,016</u>

#### Allowance for Loan Losses

The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risk 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: automobiles, mortgages, unsecured, share secured, and other. The Credit Union also sub-segments two of these segments into classes based on credit risk. Mortgages are divided into the following classes: (a) first mortgages, (b) home equity loans, and (c) land loans. Unsecured loans are divided into the following classes: (a) signature loans and credit cards, and (b) personal debt consolidation. Each class of loan requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. The Credit Union uses internally developed models for this process. Management must use judgment in establishing additional input metrics for the modeling process. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational process, reporting practices, and end-user controls are appropriate and properly documented.

## MEMBERS CREDIT UNION

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE D: LOANS RECEIVABLE (CONTINUED)

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

##### **Automobile**

Automobile loans are not assessed at an underlying class level. The Credit Union uses a six month rolling average historical loss time frame for the segment. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.

##### **Mortgage**

Mortgage loans are pooled by portfolio class and a historical loss percentage is applied to each class. The Credit Union uses a six month rolling average historical loss time frame for each class. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.

##### **Unsecured**

Unsecured loans are pooled by portfolio class and a historical loss percentage is applied to each class. The Credit Union uses a six month rolling average historical loss time frame for each class. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.

##### **Share Secured**

Share secured loans are not assessed at an underlying class level. Furthermore, the Credit Union does not have a historical loss on these loans as they are fully collateralized by deposits held by the Credit Union.

##### **Other**

Other loans are not assessed at an underlying class level. The Credit Union uses a six month rolling average historical loss time frame for the segment. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period.



# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D: LOANS RECEIVABLE (CONTINUED)

#### Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Credit Union considers the allowance for loan losses of \$783,247 adequate to cover loan losses inherent in the loan portfolio at December 31, 2019. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended December 31, 2019 and 2018.

	2019					
	Automobile	Mortgage	Unsecured	Share Secured	Other	Total
<u><i>Allowance for Loan Losses:</i></u>						
Beginning Balance	\$ 208,128	\$ -	\$ 436,926	\$ -	\$ -	\$ 645,054
Charge-Offs	(489,438)	(41,481)	(765,779)	-	-	(1,296,698)
Recoveries	115,075	38,271	131,332	-	-	284,678
Provision	568,432	23,513	558,268	-	-	1,150,213
Ending Balance	<u>\$ 402,197</u>	<u>\$ 20,303</u>	<u>\$ 360,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 783,247</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 402,197</u>	<u>\$ 20,303</u>	<u>\$ 360,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 783,247</u>
<u><i>Financing Receivables:</i></u>						
Ending Balance	<u>\$ 106,685,719</u>	<u>\$ 8,782,550</u>	<u>\$ 32,130,900</u>	<u>\$ 2,331,642</u>	<u>\$ 36,782</u>	<u>\$ 149,967,593</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 106,685,719</u>	<u>\$ 8,782,550</u>	<u>\$ 32,130,900</u>	<u>\$ 2,331,642</u>	<u>\$ 36,782</u>	<u>\$ 149,967,593</u>
	2018					
	Automobile	Mortgage	Unsecured	Share Secured	Other	Total
<u><i>Allowance for Loan Losses:</i></u>						
Beginning Balance	\$ 209,991	\$ -	\$ 416,490	\$ -	\$ -	\$ 626,481
Charge-Offs	(639,640)	-	(803,107)	-	-	(1,442,747)
Recoveries	36,898	-	122,847	-	-	159,745
Provision	600,879	-	700,696	-	-	1,301,575
Ending Balance	<u>\$ 208,128</u>	<u>\$ -</u>	<u>\$ 436,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645,054</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 208,128</u>	<u>\$ -</u>	<u>\$ 436,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645,054</u>
<u><i>Financing Receivables:</i></u>						
Ending Balance	<u>\$ 94,115,329</u>	<u>\$ 4,449,895</u>	<u>\$ 29,573,792</u>	<u>\$ 2,349,673</u>	<u>\$ 97,381</u>	<u>\$ 130,586,070</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 94,115,329</u>	<u>\$ 4,449,895</u>	<u>\$ 29,573,792</u>	<u>\$ 2,349,673</u>	<u>\$ 97,381</u>	<u>\$ 130,586,070</u>

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D: LOANS RECEIVABLE (CONTINUED)

#### Credit Quality Information

The Credit Union's internal risk ratings based on Beacon scores are as follows:

- 740 and above – Members may pose little to no additional risk.
- 680 to 739 – Members may pose nominal risk of loss.
- 620 to 679 – Members may show average risk.
- 560 to 619 – Members may show above average risk.
- 559 and below – Members may show high risk.

The following table represents credit exposures by creditworthiness category as of December 31, 2019 and 2018. The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of the credit risk. The Credit Union's internal creditworthiness grading system is based on experiences with similarly graded loans. 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 those loan balances.

	2019					
	740 and Above	680 to 739	620 to 679	560 to 619	559 and Below	Total
Automobile	\$ 30,803,350	\$ 28,459,956	\$ 34,348,856	\$ 11,946,183	\$ 1,127,374	\$ 106,685,719
Mortgage						
First Mortgage	1,398,028	1,855,188	1,921,942	336,964	116,013	5,628,135
Home Equity	739,148	980,851	1,016,144	178,155	61,337	2,975,635
Land	44,409	58,930	61,051	10,704	3,686	178,780
Unsecured						
Signature Loans and						
Unsecured Lines of Credit	4,344,075	7,087,628	12,279,670	4,823,975	370,072	28,905,420
Personal Debt Consolidation	667,058	1,792,080	651,924	108,923	5,495	3,225,480
Share Secured	1,243,698	370,725	364,204	208,092	144,923	2,331,642
Other	5,952	4,370	26,460	-	-	36,782
<b>Total</b>	<b>\$ 39,245,718</b>	<b>\$ 40,609,728</b>	<b>\$ 50,670,251</b>	<b>\$ 17,612,996</b>	<b>\$ 1,828,900</b>	<b>\$ 149,967,593</b>
	2018					
	740 and Above	680 to 739	620 to 679	560 to 619	559 and Below	Total
Automobile	\$ 26,087,717	\$ 24,200,284	\$ 31,295,800	\$ 11,660,392	\$ 871,136	\$ 94,115,329
Mortgage						
First Mortgage	452,748	535,670	666,322	115,500	39,899	1,810,139
Home Equity	570,566	675,067	839,718	145,557	50,280	2,281,188
Land	89,684	106,110	131,991	22,879	7,904	358,568
Unsecured						
Signature Loans and						
Unsecured Lines of Credit	4,063,970	6,935,377	11,496,505	4,605,637	379,782	27,481,271
Personal Debt Consolidation	627,293	1,440,495	19,316	-	5,417	2,092,521
Share Secured	1,177,431	270,748	453,116	267,761	180,617	2,349,673
Other	12,409	28,527	44,862	11,583	-	97,381
<b>Total</b>	<b>\$ 33,081,818</b>	<b>\$ 34,192,278</b>	<b>\$ 44,947,630</b>	<b>\$ 16,829,309</b>	<b>\$ 1,535,035</b>	<b>\$ 130,586,070</b>

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D: LOANS RECEIVABLE (CONTINUED)

#### Age Analysis of Past Due Financing Receivables

Following is a table which includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2019 and 2018.

	2019					
	0 – 2 Months Past Due	2 – 3 Months Past Due	Greater Than 3 Months Past Due	Current	Total Financing Receivable	Greater Than 3 Months Past Due and Accruing
Automobile	\$ 420,514	\$ 59,030	\$ 17,905	\$ 106,188,270	\$ 106,685,719	\$ -
Mortgage						
First Mortgage	26,193	-	-	5,601,942	5,628,135	-
Home Equity	50,829	-	149,840	2,774,966	2,975,635	-
Land	-	-	-	178,780	178,780	-
Unsecured						
Signature Loans and						
Unsecured Lines of Credit	298,479	155,184	198,520	28,253,237	28,905,420	-
Personal Debt Consolidation	6,985	7,405	12,411	3,198,679	3,225,480	-
Share Secured	-	-	60	2,331,582	2,331,642	-
Other	-	-	-	36,782	36,782	-
Total	<u>\$ 803,000</u>	<u>\$ 221,619</u>	<u>\$ 378,736</u>	<u>\$ 148,564,238</u>	<u>\$ 149,967,593</u>	<u>\$ -</u>
	2018					
	0 – 2 Months Past Due	2 – 3 Months Past Due	Greater Than 3 Months Past Due	Current	Total Financing Receivable	Greater Than 3 Months Past Due and Accruing
Automobile	\$ 343,701	\$ 93,291	\$ 36,323	\$ 93,642,014	\$ 94,115,329	\$ -
Mortgage						
First Mortgage	-	-	-	1,810,139	1,810,139	-
Home Equity	-	140,283	-	2,140,905	2,281,188	-
Land	-	11,005	-	347,563	358,568	-
Unsecured						
Signature Loans and						
Unsecured Lines of Credit	244,142	171,265	131,837	26,934,027	27,481,271	-
Personal Debt Consolidation	-	4,939	-	2,087,582	2,092,521	-
Share Secured	-	-	-	2,349,673	2,349,673	-
Other	-	-	-	97,381	97,381	-
Total	<u>\$ 587,843</u>	<u>\$ 420,783</u>	<u>\$ 168,160</u>	<u>\$ 129,409,284</u>	<u>\$ 130,586,070</u>	<u>\$ -</u>

**MEMBERS CREDIT UNION**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE D: LOANS RECEIVABLE (CONTINUED)**

**Nonaccrual Loans**

Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When automobiles are repossessed due to non-payment then accrual of interest is discontinued. All loans continue to accrue interest until they are 90 days past due. A period of 90 more days may pass before they are written off. Following is a table which includes nonaccrual loans by class as of December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Automobiles	\$ 17,905	\$ 36,323
Home Equity	149,840	-
Unsecured	198,520	131,837
Share secured	60	-
Personal debt consolidation	<u>12,411</u>	<u>-</u>
	<u>\$ 378,736</u>	<u>\$ 168,160</u>

Loans to directors and officers of the Credit Union totaled \$704,346 and \$819,325 at December 31, 2019 and 2018, respectively.

**NOTE E: PROPERTY AND EQUIPMENT**

Property and equipment at December 31 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,968,219	\$ 3,720,359
Buildings	6,434,433	5,317,145
Computer equipment	1,446,751	1,387,234
Furniture and office equipment	2,431,207	2,231,483
Leasehold improvements	<u>316,120</u>	<u>308,430</u>
	14,596,730	12,964,651
Less accumulated depreciation	<u>(5,457,827)</u>	<u>(4,968,510)</u>
	<u>\$ 9,138,903</u>	<u>\$ 7,996,141</u>

Depreciation expense totaled \$489,315 and \$542,438 in 2019 and 2018, respectively.

**MEMBERS CREDIT UNION**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE F: LINE OF CREDIT**

The Credit Union has available \$109,269,500 in multiple lines of credit with various financial institutions, collateralized by certain assets of the Credit Union. There were no outstanding balances at December 31, 2019 or 2018.

**NOTE G: MEMBERS' SHARE AND SAVINGS ACCOUNTS**

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

	<u>2019</u>	<u>2018</u>
Checking	\$ 58,719,409	\$ 46,333,133
Money market	19,439,287	17,594,530
Super 60	53,941,797	51,602,956
Share savings	101,041,735	84,255,673
IRA shares	<u>15,374,450</u>	<u>14,208,681</u>
	248,516,678	213,994,973
Share and IRA certificates	<u>33,786,198</u>	<u>28,138,604</u>
	<u>\$ 282,302,876</u>	<u>\$ 242,133,577</u>

At December 31, 2019 and 2018, the aggregate amount of members' share and savings accounts over \$250,000 was \$2,839,514 and \$2,141,031, respectively.

At December 31, 2019, scheduled maturities of share and IRA certificates are as follows:

2020	\$ 20,290,479
2021	5,986,455
2022	3,673,754
2023	2,289,396
2024	<u>1,546,114</u>
	<u>\$ 33,786,198</u>

Interest expense on members' share and savings accounts for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Checking	\$ 25,986	\$ 21,859
Money market	59,852	43,580
Super 60	252,469	193,875
Share savings	135,796	123,671
Share certificates and IRAs	<u>423,240</u>	<u>226,836</u>
	<u>\$ 897,343</u>	<u>\$ 609,821</u>

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## MEMBERS CREDIT UNION

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE H: RETIREMENT PLAN

The Credit Union sponsors a 401(k) retirement plan. Employees with more than 90 days of service who work more than 1,000 hours annually and have attained the age of 21 are eligible to participate. The Credit Union will contribute a dollar for dollar match up to 4% of regular pay. Additionally, the Credit Union contributes 2.5% of regular pay, regardless of participation by the employee. Retirement plan expense totaled \$237,608 and \$221,750 in 2019 and 2018, respectively.

#### NOTE I: COMMITMENTS AND CONTINGENT LIABILITIES

The principal commitments of the Credit Union are as follows:

##### Lease Commitments

At December 31, 2019, the Credit Union was obligated under noncancelable operating leases at fourteen branch locations. Net rent expense under operating leases, included in occupancy expenses, was \$283,706 and \$207,874 in 2019 and 2018, respectively.

The required minimum rental payments under the terms of the leases at December 31, 2019, are as follows:

2020	\$ 123,025
2021	59,975
2022	46,042
2023	19,360
2024	<u>9,456</u>
	<u>\$ 257,858</u>

##### Loan Commitments

At December 31, 2019, the Credit Union had outstanding commitments to members for variable rate unused lines of credit that are not reflected in the accompanying financial statements as follows:

Total approved lines of credit	\$ 49,285,780
Amounts borrowed	<u>(25,051,135)</u>
Unused lines of credit	<u>\$ 24,234,645</u>

##### Financial Instruments With Off-Balance-Sheet Risk

The Credit Union does not write options, offer standby letters of credit and financial guarantees, write interest rate caps or floors, or secure interest rate swaps or forward or futures contracts. Consequently, the Credit Union does not have exposure to credit loss in the event of non-performance by another party to such financial instruments.

# MEMBERS CREDIT UNION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J: CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA, as well as similar state requirements. 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 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 amounts and ratios (set forth in the table below) of net worth to total assets. 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. To qualify as complex, a credit union must have more than 50 million dollars in assets and a RBNWR ratio greater than 6.0%. A complex credit union will be considered under capitalized if its net worth ratio does not exceed its RBNWR ratio. The Credit Union's RBNWR ratio as of December 31, 2019 and 2018 was 6.47% and 5.95%, respectively. The Credit Union meets all capital adequacy requirements as of December 31, 2019 and 2018.

As of December 31, 2019, the most recent call reporting period, 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 7.0% 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.

The Credit Union's actual capital amounts and ratios at December 31, 2019 and 2018 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2019</b>						
Net Worth	\$ 41,201,094	12.62%	\$ 19,592,120	6.0%	\$ 22,857,473	7.0%
RBNWR	\$ 21,126,836	6.47%	N/A	N/A	N/A	N/A
<b>December 31, 2018</b>						
Net Worth	\$ 33,570,296	12.07%	\$ 16,683,714	6.0%	\$ 19,464,334	7.0%
RBNWR	\$ 16,544,684	5.95%	N/A	N/A	N/A	N/A

Because the RBNWR is less than the net worth ratio, the Credit Union continues to be categorized as well capitalized. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.



## MEMBERS CREDIT UNION

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE K: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Credit Union's financial instruments, including cash, available-for-sale investment securities, accrued interest, loans receivable, and members' share and savings accounts approximate the carrying amounts reflected in the accompanying financial statements. At December 31, 2019, the fair value of held-to-maturity investment securities exceeded the carrying value by \$275,703. At December 31, 2018, the carrying value of held-to-maturity investment securities exceeded the fair value by \$724,173.

#### NOTE L: FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Credit Union has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Credit Union uses fair value accounting to report available-for-sale investment securities. These securities are valued based on quoted market prices, when available, or on market prices provided by recognized broker dealers.

The fair value methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Credit Union believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**MEMBERS CREDIT UNION**  
**NOTES TO FINANCIAL STATEMENTS**

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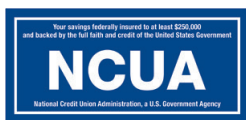
**NOTE L: FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table sets forth by level, within the fair value hierarchy, the Credit Union's assets measured at fair value on a recurring basis as of December 31, 2019 and 2018, respectively:

	Level 1	Level 2	Level 3	Total
<b><u>2019</u></b>				
<b><u>Securities available-for-sale</u></b>				
U.S. government and				
federal agency securities	\$ -	\$ 28,777,879	\$ -	\$ 28,777,879
Mortgage-backed securities	-	1,230,893	-	1,230,893
Deposits in other				
financial institutions	30,752,873	-	-	30,752,873
Total assets at fair value	<u>\$ 30,752,873</u>	<u>\$ 30,008,772</u>	<u>\$ -</u>	<u>\$ 60,761,645</u>
<b><u>2018</u></b>				
<b><u>Securities available-for-sale</u></b>				
U.S. government and				
federal agency securities	\$ -	\$ 19,616,967	\$ -	\$ 19,616,967
Mortgage-backed securities	-	1,133,379	-	1,133,379
Deposits in other				
financial institutions	20,709,149	-	-	20,709,149
Total assets at fair value	<u>\$ 20,709,149</u>	<u>\$ 20,750,346</u>	<u>\$ -</u>	<u>\$ 41,459,495</u>

# Services

Savings Accounts	Home Improvement Loan
Checking Accounts	Equity Access Loans
VISA Debit Card	VISA Credit Cards
MCU Cash Card	Personal LOC
Christmas Club	GAP Insurance
CDs	Mechanical Repair Coverage
Money Market Accounts	Payment Protection
Custodian Accounts	Payroll Deduction
IRAs	Shared Branching
Super 60 Savings	Direct Deposit
Youth Savings	MEMBERS Financial Services
Teen Checking	MEMCU Online Banking
New Car Loans	MEMCU Mobile Banking
Used Car Loans	Electronic Statements
Auto Refinancing	FREE Online Bill Pay
Debt Consolidation	Peer to Peer Payment App
Home Equity LOC	MCU Auto Buying Service



Federally Insured by the NCUA

# Branch Locations

## Elkin

827 N. Bridge Street  
Elkin, NC 28621  
(336) 526-0373 or (888) 526-0373

## Greensboro

4160 Piedmont Parkway, Suite 150  
Greensboro, NC 27410  
(336) 852-1424 or (800) 960-1426

## Hickory

2142 12th Avenue, NE  
Hickory, NC 28601  
(828) 327-3232 or (800) 960-3232

## High Point

1701 Westchester Drive, Suite 510  
High Point, NC 27262  
(336) 886-4415 or (800) 738-4415

## Hope Mills

3333 North Main Street, STE 120  
Hope Mills, NC 28348  
(910) 425-6806 or (800) 738-6806

## Kernersville

1407 Highway 66 S, Suite A  
Kernersville, NC 27284  
(336) 993-3059 or (877) 993-3059

## Lenoir

1240 Morganton Blvd., SW  
Lenoir, NC 28645  
(828) 757-3299 or (800) 280-3299

## Lincolnton

1822 N. Aspen Street  
Lincolnton, NC 28092  
(704) 732-2980 or (888) 326-2980

## Lumberton

4344 Fayetteville Road  
Lumberton, NC 28358  
(910) 738-2100 or (877) 738-2100

## Morganton

106 East Fleming Drive  
Morganton, NC 28655  
(828) 438-0070 or (800) 738-0070

## Newton

2475 Northwest Boulevard  
Newton, NC 28658  
(828) 464-0333 or (866) 654-6961

## Thomasville

1033 Randolph St., Ste 21  
Thomasville, NC 27360  
(336) 475-5922 or (800) 310-5922

## Valdese

835 Main Street, West  
Valdese, NC 28690  
(828) 874-3900 or (888) 874-3900

## Winston-Salem

5995 Museum Dr,  
Winston-Salem, NC 27105  
(336) 519-7528 or (888) 222-7528

## Corporate Office

Winston-Salem  
2098 Frontis Plaza Blvd.  
Winston-Salem, NC 27103  
(336) 748-4800 or (800) 951-8000

## HBI Office

Winston-Salem  
Only accessible to employees of  
Hanesbrands Inc.