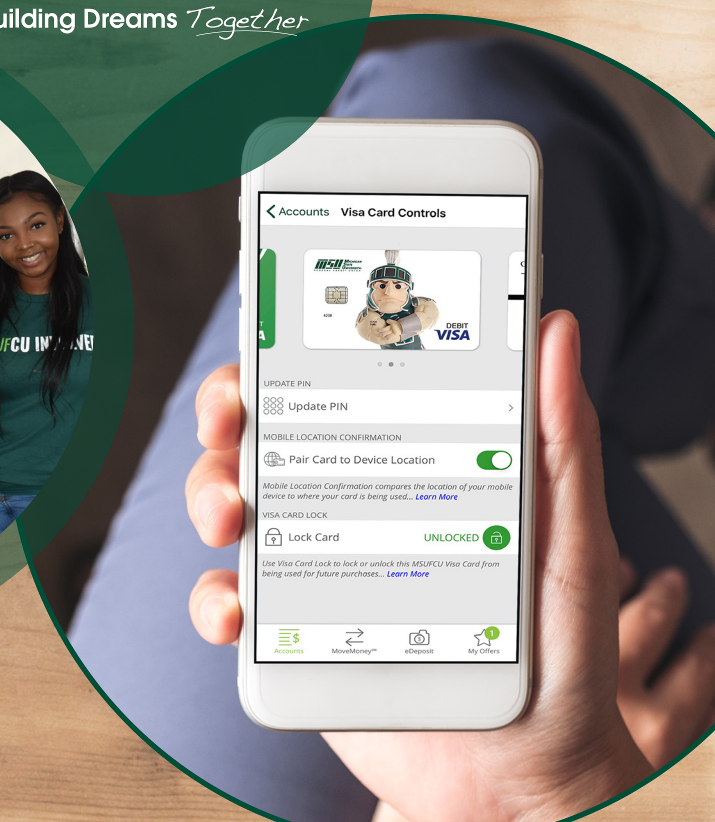
2018 ANNUAL REPORT

MICHIGAN STATE UNIVERSITY®
FEDERAL CREDIT UNION
Building Dreams Together



What's Inside

OUR MISSION IS TO PROVIDE SUPERIOR SERVICE WHILE ASSISTING MEMBERS AND EMPLOYEES TO ACHIEVE FINANCIAL SECURITY, THEIR GOALS, AND ULTIMATELY, THEIR DREAMS.

Michigan State University Federal Credit Union (MSUFCU) was founded in 1937 by Michigan State University (MSU) faculty and staff who needed a safe place to borrow and save money during the Great Depression. From that first day operating out of a desk drawer on MSU's campus to celebrating the groundbreakings of our 19th and 20th branches in 2018, we remain focused on our mission and core values. In 81 years, the Credit Union has grown to over $4.2 billion in assets — making us the 47th largest credit union in the country, and the third largest credit union in the state.

Our growth and success reflects the relationships we've built with our members and community partners. We use various communication methods, such as social media and feedback forums, to help us understand members' wants and needs, and offer innovative products and services to support their financial goals. Whether opening a child's first account or helping finance members' first homes, we take pride in providing a unique experience with every interaction. Together, dreams do come true.

Statement from the Chair of the Board of Directors

Dear Members,

On behalf of the Board of Directors, I would like to thank you for making 2018 another extraordinary year. Assets grew to over $4.2 billion, increasing nearly 10% over the prior year; our loan portfolio grew to $3.3 billion, an increase of 11.8%; and membership increased by 7.1%. We now serve 269,344 members worldwide. Also, the Credit Union remains well capitalized, with net worth at 10.8% — well above the NCUA requirement of 7%.

In 2018, we celebrated the groundbreaking of two branches — one in Berkley, MI, and the other in Clarkston, MI. Opening in late 2019, these locations will be MSUFCU's 19th and 20th branches, and are part of our long-term growth strategy to better serve the existing 51,000 members living in Oakland County. Additionally in 2018, we announced that we will be expanding our branch services to Holt, MI. Construction on this branch will begin in May 2019, and it is expected to open in early 2020.

Beyond our financial, member, and branch network growth, we continue to support local economic development in the communities we serve. We now employ 869 people in Greater Lansing, Metro Detroit, and Grand Rapids. It is because of these exceptional and motivated employees that MSUFCU continues to provide superior service, uphold its national reputation for excellence, and help members achieve their dreams.

The Credit Union continues to receive top workplace awards and, for the sixth consecutive year, placed in the top five within the large employer category for the Detroit Free Press Top Workplaces. Additionally in 2018, the Credit Union was recognized as the Best Credit Union to Work For by the Credit Union Journal, a Michigan Best and Brightest in Wellness award winner, a Nation's 101 Best and Brightest Company to Work For™ by the National Association for Business Resources, and was certified as a Great Place to Work®.

Thank you for your continued membership. It is because of you that we have a remarkable history and a bright future ahead.

Sincerely,

Bill Beekman
Chair of the Board

Message from the President/Chief Executive Officer

Dear Members,

I continue to be proud of the superior service we provide to our members. While the Credit Union expands to serve our ever-growing membership, we remain committed to our high standard of member service. I regularly hear stories from our members about the quality of service they receive from our friendly and knowledgeable employees who are living our mission of helping members achieve financial success.

Because our membership continues to grow at twice the rate of both state and national averages, we have the opportunity to hire more local employees to serve our members' needs. In 2018, we created 63 new jobs, and employed 869 at year-end. We are a market leader in providing excellent benefits and compensation to our employees. As a result, we retain over 90% of our newly hired employees in their first year of employment, and are considered an employer of choice.

This past year, we also expanded our financial education programs in local schools and restructured our youth accounts. This resulted in a 12% increase, an investment in the future of our Credit Union. Additionally, we introduced several new products and services, enhanced our digital offerings, and increased our commitment to giving back to our universities and communities.

The Credit Union proudly supports hundreds of community programs that provide access to arts and culture, education, stable housing, and social services — creating a community where everyone can achieve their dreams. When we support local organizations through philanthropy and volunteerism, our communities thrive and places are created where we are all proud to work and live. Over the past year, the Credit Union continued its commitment to the community through 795 financial education events attended by nearly 21,000 people. Our employees personally donated their time, talent, and resources through 4,750 volunteer hours and $231,780 in donations.

Thank you for choosing to be a member of the Credit Union and for trusting us as your financial partner.

Sincerely,

April M. Clobes
President/CEO

BOARD OF DIRECTORS

Bill Beekman
Chair

Angela Brown
Vice Chair

Gregory Deppong
Treasurer

Ernest Betts
Secretary

John Brick

Susan Carter

Michael Hudson

Steven Kurncz

Janet Lillie

EXECUTIVE TEAM

Pictured left to right.

Jeffrey Jackson
Chief Lending Officer

Lea Ammerman
Executive Vice President of Member Services

Deidre Davis
Chief Marketing Officer

Silvia Dimma
Chief Human Resources Officer

Samantha Amburgey
Chief Information Officer

April Clobes
President/Chief Executive Officer

Whitney Anderson-Harrell
Chief Community Development Officer

Sara Dolan
Chief Financial Officer

Jim Hunsanger
Chief Risk Officer

Steve Owen
Chief Legal Counsel

269,344
MEMBERS WORLDWIDE

$13,412,179
SAVED IN LOAN INTEREST

$1,246,273,967
IN FIRST MORTGAGES OUTSTANDING

ANOTHER YEAR OF MILESTONES

MSUFCU continued fulfilling its mission of helping members achieve their financial goals and dreams in 2018. By helping members establish credit through opening their first credit cards, start their own businesses, save for their dream weddings, purchase their first homes, or open savings accounts for their children's futures, MSUFCU was there for them every step of the way. It is because of our members' continued trust and support that we are able to invest in innovative products and services to best serve our membership. In return, this allows us to create new job opportunities, open additional branches, and support more organizations in our communities.

We take pride in saving members money, especially when it helps them accomplish their goals and dreams. Since 2013, we have helped members save more than $60 million in loan interest by refinancing high-rate loans from other financial institutions to MSUFCU at lower rates. By consistently educating members on ways to save, they are able to achieve financial freedom — allowing them to increase their savings and make purchases they may not have been able to otherwise.

PROVIDING SUPERIOR SERVICE

TOTAL TRANSACTIONS
39,786,729

ATM TRANSACTIONS
3,629,282

BILL PAYMENTS
1,070,468

BRANCH TRANSACTIONS
5,404,275

CALL CENTER CALLS
607,780

COMPUTERLINE LOGINS
10,878,936

eDEPOSITS
913,389

eMESSAGES & LIVE CHATS
248,309

MOBILE APP DOWNLOADS
40,552

MOBILE APP LOGINS
20,406,038

SERVING MEMBERS WORLDWIDE

Many of our members choose MSUFCU due to the superior service we provide, whether they're visiting us at one of our 18 branches in Michigan or sending us eMessages from the other side of the globe.

Through extended Call Center hours, eDeposit, Live Chat, surcharge-free CO-OP Network ATMs, a robust mobile app, and much more, we continue to receive positive feedback regarding our convenient account access and superior member service.

WHAT MEMBERS ARE SAYING

"If I could give more than 5 stars, I would! I have been a member for just under 10 years and could not be happier. MSUFCU is so convenient with many locations, their ComputerLine, and being able to use other credit unions' ATMs free of charge. Everyone I have ever talked to or worked with there has been friendly and worked hard to make sure I was taken care of.
- Katelyn A.

I still bank with you guys because of how great you are. And the fact that you have extended hours. I can get ahold of you after hours when places here in Arizona are closed. You guys are great!
- Anonymous"

"In addition to great service, they pay attention to little things. I recently was surprised with a card and a pair of binoculars in the mail as a retirement gift. When I went to the downtown branch to deposit my final paycheck the teller made a copy for a keepsake.
- Sheila T.

MSUFCU is seriously the best financial institution I have ever worked with. They are so easy to use and quick to respond to inquiries. Super knowledgeable and friendly! Thanks for all of the help and great service over the years!
- Kathy J."

PRODUCTS & *Enhancing* SERVICES

MORE BRANCHES TO SERVE OAKLAND COUNTY

BREAKING GROUND ON TWO NEW BRANCHES

As the Credit Union's membership continues to grow, so does the need for additional branches. To fulfill this need, we announced and celebrated two groundbreakings — one in Berkley and the other in Clarkston — enhancing our service to over 51,000 members living in Oakland County.

Both branches are expected to open in late 2019, debuting the Credit Union's new branch design, which will also feature the universal branch model we introduced in 2017.

COMMITTED TO OUR YOUTH MEMBERS

INTRODUCING A NEW YOUTH ACCOUNT STRUCTURE AND ONLINE YOUTH STORE

To better engage and educate our youth members, the Credit Union restructured its youth accounts. We now offer five youth accounts, each with age-appropriate content.

The new structure allows us to build stronger relationships with youth members by communicating with children in each age group based on their ability to understand financial concepts. The accounts help youth members learn how to gain greater financial independence through contests, promotions, and events.

We also launched an online Youth Store. All youth members receive one virtual coin for every $10 deposited into their accounts. They can then redeem their coins for fun and exciting items in the Youth Store, available in ComputerLine.

Sweet Pea
Ages 0-2

Dollar Dog
Ages 3-6

Cyber Saver
Ages 7-10

Money Club
Ages 11-13

CU Succeed
Ages 14-17

CELEBRATING OUR YOUTH MEMBERS AT ANNUAL KIDS' DAY EVENTS

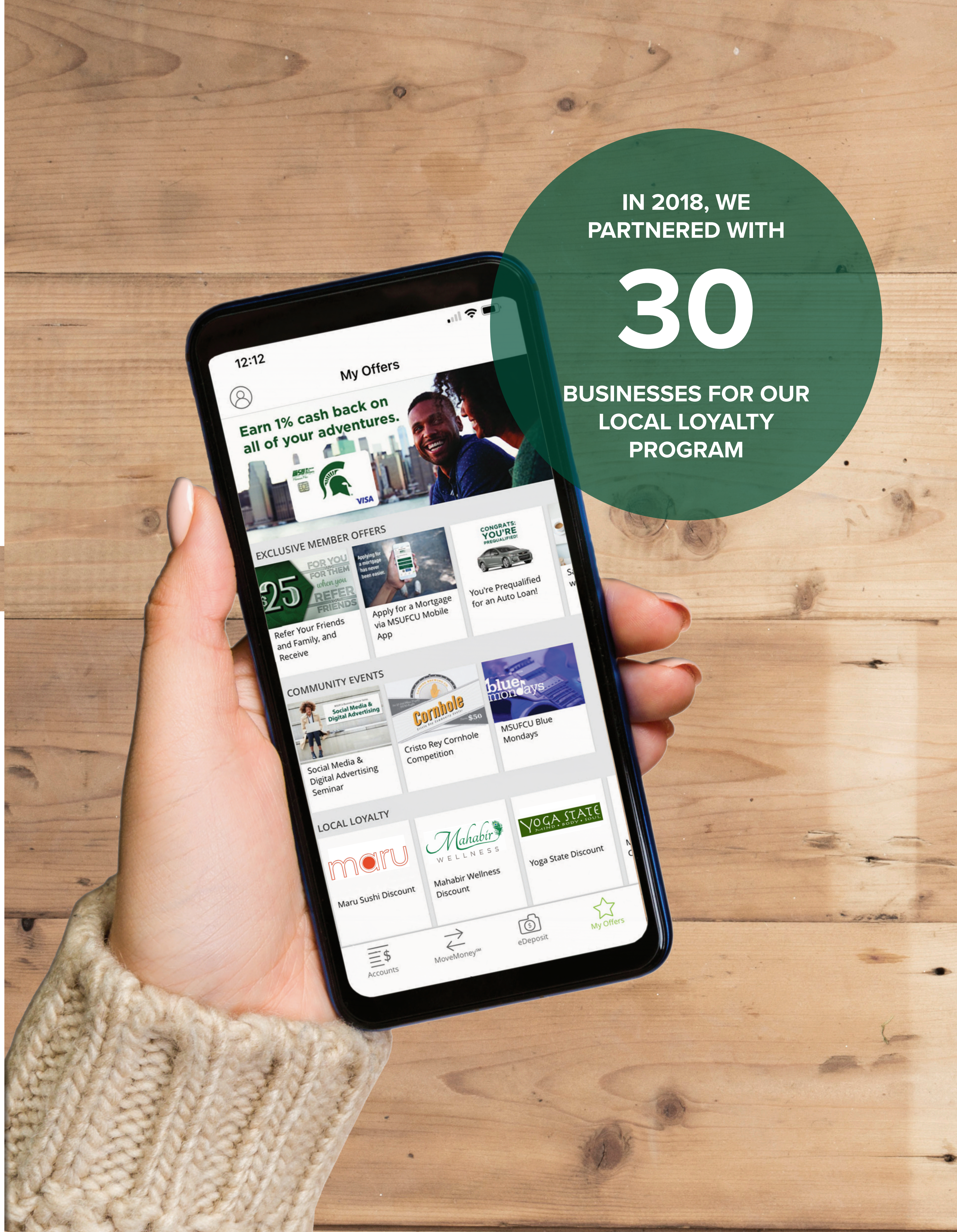
The Credit Union is dedicated to serving all of our youth members by offering free events that focus on creating positive financial habits in a fun, interactive way. In 2018, we welcomed more than 1,000 members to our two Kids' Day events — one held at our headquarters in East Lansing and the other at our Auburn Hills Branch.

EXCLUSIVE MEMBER BENEFITS

SUPPORTING BUSINESSES IN OUR COMMUNITIES THROUGH THE LOCAL LOYALTY PROGRAM

MSUFCU is deeply rooted in the community, and our success is closely linked with the health of the local economy. With this mind, we launched our Local Loyalty program, offering members exclusive discounts when they use their MSUFCU Visa Debit or Credit Cards at participating local businesses.

In the first year, we partnered with 30 businesses to offer members discounts at over 60 locations. Partnerships between MSUFCU and local businesses not only help our members save money, but also help boost the economy through increased sales at these businesses. Local Loyalty offers are featured in the MSUFCU Mobile app within My Offers, on social media, and on our website.



IN 2018, WE PARTNERED WITH

30

BUSINESSES FOR OUR LOCAL LOYALTY PROGRAM

BETTER HOME LOAN EXPERIENCES

GOING MOBILE WITH MSUFCU'S MORTGAGE APPLICATION

Home buying can be stressful, so we offer solutions to help members easily purchase their new homes. Introduced in 2018, members can quickly and conveniently apply for mortgages via the MSUFCU Mobile app.

INTRODUCING THE FIRST-TIME HOMEBUYER PROGRAM

With our exclusive First-Time Homebuyer Program, members can choose from 10- to 30-year terms with a fixed or variable rate and a down payment of as little as 3%. Plus, first-time homebuyers receive $500 off closing costs and a housewarming gift.

HELPING MEMBERS FIND HOMES — AND FURRY FRIENDS, TOO

Finding "furever" homes for companion animals living at the Capital Area Humane Society (CAHS) is not always easy. That's why we decided to help. In partnership with CAHS, MSUFCU offered a special promotion, "Get a Home, Give a Home." Members who received mortgage financing through MSUFCU could adopt animals in need from CAHS, with the Credit Union covering the adoption fee.

"POPPING UP" IN GROWING MARKETS

RAISING BRAND AWARENESS THROUGH A POP-UP SHOP AT THE RIVERTOWN CROSSINGS MALL NEAR GRAND RAPIDS

The Credit Union opened a Pop-Up Shop at the RiverTown Crossings Mall near Grand Rapids, executing its Pop-Up strategy for a second time. Pop-up shops continue to be an innovative way to grow brand awareness in emerging markets. For three weeks in November 2018, the Pop-Up Shop offered the Credit Union a temporary space that was heavily trafficked during the holiday season.

The Pop-Up Shop helped raise awareness of the branch we opened in Grand Rapids in September 2017. Conversations with visitors focused on the convenience of the Grand Rapids Branch and ways to access MSUFCU accounts remotely, including opening accounts online and the variety of services available via the mobile app.

WE WELCOMED
1,021
VISITORS TO THE RIVERTOWN CROSSINGS POP-UP SHOP

Credit Union and community members visited the space to learn about our products and services, as well as receive financial education and provide feedback about Credit Union services using "voting boards."

Special offers on Mortgages and Certificates were also available for those who visited the Pop-Up Shop.

Additionally, there were plenty of activities for kids at the Pop-Up Shop, including coloring masks; a photo booth with fun props; and our youth gaming apps: Saving With Piggy, Saving Magic, Saving Draggy, and Dream Racer. Youth visitors were also able to cast their votes regarding the youth gaming apps and our youth newsletters.

IMPROVED ONLINE & MOBILE EXPERIENCES

APPLYING FOR AN MSUFCU ACCOUNT IS EASIER AND FASTER THAN EVER BEFORE

MSUFCU launched an online account application to improve the experience and expedite the process for both prospective and current members. This system offers a more streamlined, modern design, allowing individuals to open and manage their accounts anytime, anywhere.

Personalizing the experience, the system asks users about their life stages to provide them with product recommendations as they progress through the application. Users can begin the process by either “shopping” for products by viewing ratings and reviews, where they can add products to their “wallets” and check out, or by directly filling out and completing the application.

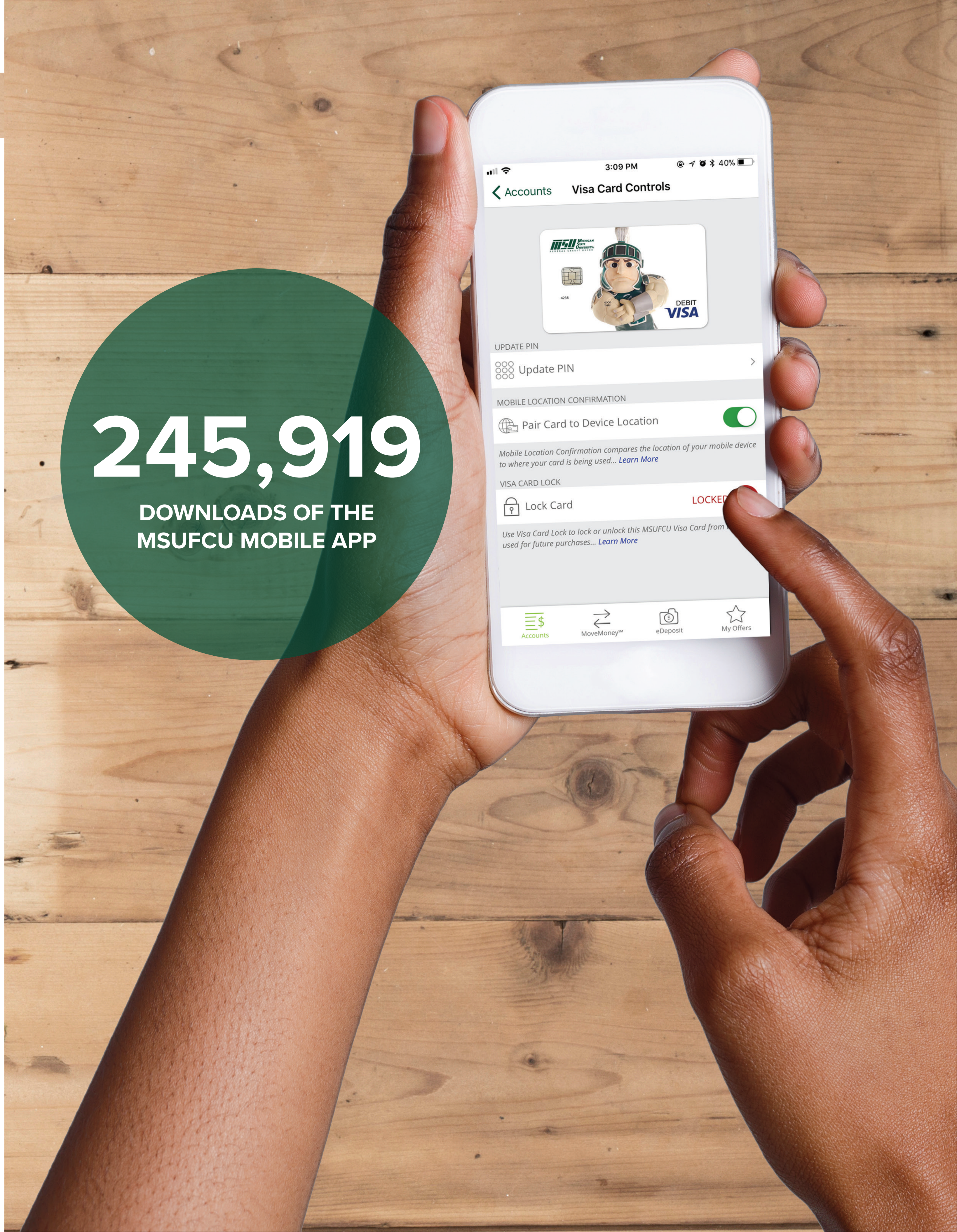
An additional benefit to the new online application is that new members have access to ComputerLine and the mobile app immediately.

GIVING MEMBERS PEACE OF MIND BY OFFERING VISA CARD LOCK

Visa Card Lock allows members to lock or unlock their debit and credit cards in ComputerLine or the mobile app. By locking their cards, no one can use them to make purchases. If a card is lost or misplaced, a member can simply lock it, then unlock it once it’s found. This gives members card control at their fingertips.

ADDING ACCOUNT PROTECTION WITH MOBILE LOCATION CONFIRMATION

The Mobile Location Confirmation feature compares the location of members’ phones to where their debit and credit cards are being used, helping to protect them from fraud. Members can easily enroll their cards through the Visa Card Controls screen in the mobile app and we’ll do the rest to ensure their accounts are safe and secure.



245,919

DOWNLOADS OF THE MSUFCU MOBILE APP

WE WELCOMED **852** NEW OAKLAND UNIVERSITY STUDENT MEMBERS

WE HOSTED **55** FINANCIAL EDUCATION EVENTS ON OU'S CAMPUS

OAKLAND UNIVERSITY CREDIT UNION

CONTINUING TO STRENGTHEN OUR PARTNERSHIP WITH OAKLAND UNIVERSITY AND ITS STUDENTS

In 2018, Oakland University (OU) Credit Union marked its fifth year in the Oakland Center on OU's campus. It also marked the year OU celebrated its expansion and completed renovation of the Oakland Center, in which the Credit Union also remodeled its space. The campus branch re-opened in August 2018, welcoming new and returning students to a newly designed space where they are invited to stations to conduct all of their account transactions.

While the trade name OU Credit Union was created in 2013, our partnership with OU extends back over 60 years. OU was established as Michigan State University-Oakland in the 1950s. During that time, MSUFCU provided financial services to all university employees and over the years, we've continued to strengthen our relationship. Committed to serving the OU community, we offer OU-branded products and services, and have expanded our financial education presence on OU's campus.

1,783 NEW OU CREDIT UNION MEMBERS

712 NEW OU CREDIT UNION VISA CREDIT CARDS OPENED

2,218 NEW OU CREDIT UNION MOBILE APP DOWNLOADS

Since 2013, MSUFCU has hosted Blue Mondays, the jazz concert series bringing world-renowned jazz musicians to East Lansing. We are proud to partner with MSU's College of Music to support and enrich the arts in our community.

INVESTED IN MAKING A DIFFERENCE

GIVING BACK TO THE COMMUNITY IS ONE OF OUR CORE VALUES

Our passion to serve the communities we operate in reaches beyond finances. From MSU and OU to greater Lansing, Oakland County, and Grand Rapids, employees find many unique ways to donate their time and talents to local causes. By volunteering to pack lunches for children in need, participating in charitable races, teaching children and adults the importance of responsible money management, and much more, our employees continue to embrace their roles as community leaders.

Each year, the Credit Union donates approximately $10 per member to charitable organizations. This financial support provides education and resources to underserved populations, creates sustainable programs, and empowers others to make a positive difference. Together, we work with our members and community partners to make our community a place you are proud to live and work.

1,122
ORGANIZATIONS SUPPORTED

PROVIDING FREE FINANCIAL EDUCATION TO THOUSANDS IN OUR COMMUNITY

MSUFCU believes that financial education and access to resources are two tools necessary for achieving financial security and relays this into every interaction between employees, members, and the community.

Our educational initiatives and events are free to the public and include: seminars on specialized topics such as budgeting, understanding credit scores, estate planning, and college tuition preparation; lunch and learn classes at various local employers; and MSUFCU's Financial 4.0 mobile app and website for college students.

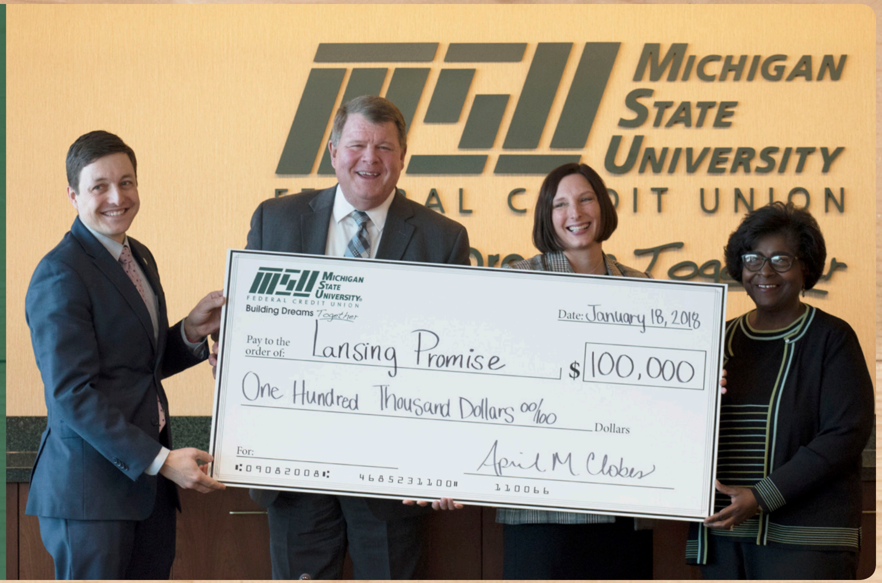
The financial education program continues to expand, particularly in Oakland County, where we partner with the Brandon School District to offer in-school Credit Unions and offer students the ability to conduct transactions. We also partner with Lansing schools to provide financial education, including Lansing Student Accounts Valuing Education (SAVE) for elementary students, and Financial Reality Fairs to help high school students better understand financial concepts and responsibilities.

795
FINANCIAL EDUCATION SEMINARS AND EVENTS

20,872
SEMINAR AND EVENT ATTENDEES

Lansing Promise Donation

On January 18, 2018, MSUFCU donated $100,000 to Lansing Promise, a scholarship program providing access to place-based tuition assistance for all eligible high school graduates or GED recipients living and schooling within the Lansing School District boundaries.



Generosity Feeds

On September 29, 2018, Credit Union employees and their families volunteered to help pack more than 10,000 meals with Generosity Feeds in Eaton Rapids. This organization is uniting communities across the country to help end childhood hunger in every county.

Michigan RivALZ

On May 19, 2018, MSUFCU employees helped tackle Alzheimer's in the third annual Michigan State vs. Michigan RivALZ flag football game, benefiting the Alzheimer's Association. This event consists of teams competing to inspire fundraising, awareness, and action in the fight against Alzheimer's disease.

MSU Homecoming Parade

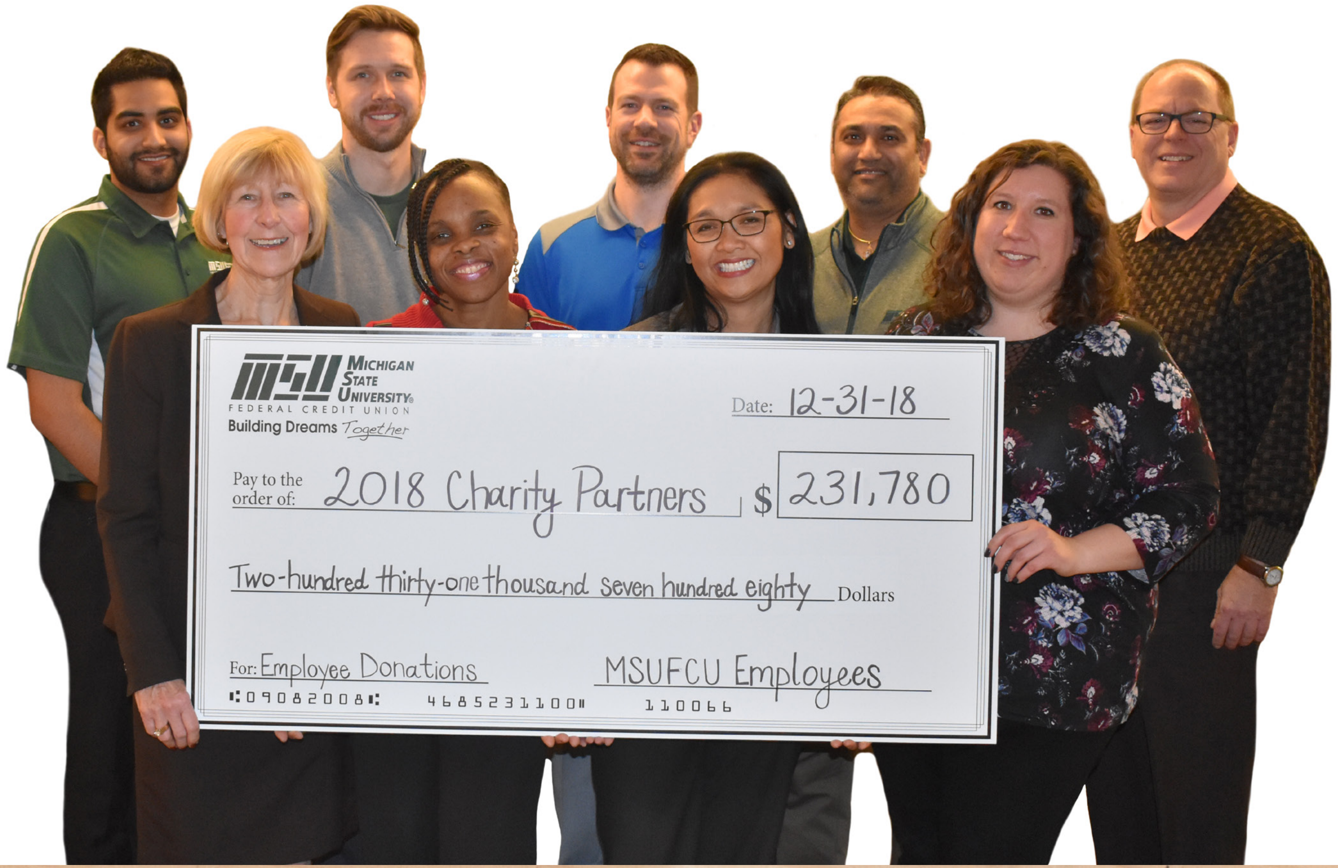
Credit Union employees joined fellow Spartans and community members to celebrate the MSU Homecoming parade on October 5, 2018. MSUFCU is proud to sponsor the parade and celebrates the accomplishments of Spartans worldwide.

Sparrow Michigan Mile

On June 2, 2018, MSUFCU sponsored KIDSPRINT at the Sparrow Michigan Mile event, which helps encourage local children and families to lead healthy lifestyles. Credit Union employees volunteered to award medals to participants ages six and under, supporting youth wellness in our community.

Pay It Forward

Every year, the Credit Union celebrates its anniversary by surprising our community with random acts of kindness throughout the week of November 15. This year, we honored Michigan State University's ROTC, among many others, by giving gift bags to the officers.



EMPLOYEES GIVING BACK

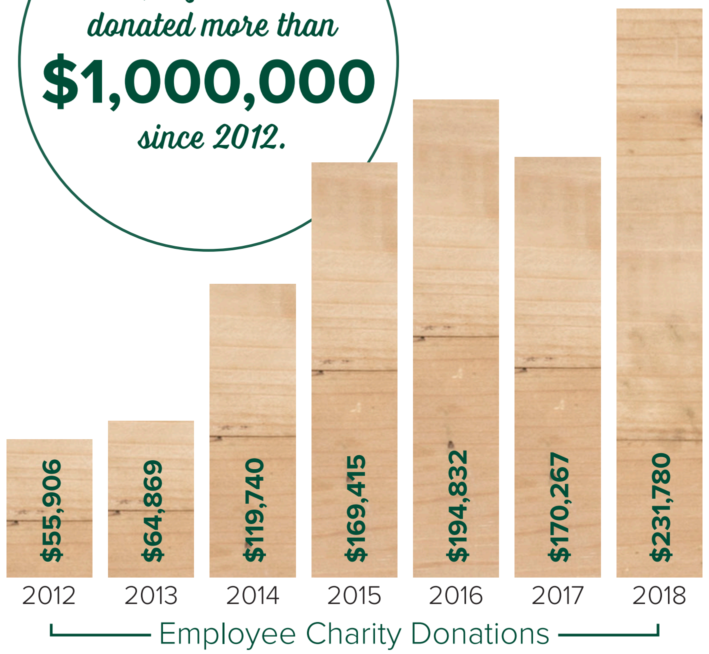
RAISING FUNDS AND AWARENESS FOR OUR ANNUAL CHARITY PARTNERS

In 2018, employees raised a total of $231,780 for four charities: Court Appointed Special Advocates, Kids' Food Basket, Lighthouse of Oakland County, and Capital Area United Way.

Every year, employees nominate and select local charities, along with the United Way, to support through their charitable giving efforts. They raise funds through special events and activities, including dress down days, movie theater ticket purchases, bake sales, and more.

Money raised each quarter is divided evenly between the charities and then donated. Additionally, employees work closely with these charities and other local organizations to volunteer their time and talents.

Employees have donated more than
$1,000,000
since 2012.



Recognition

2018

AWARD-WINNING ORGANIZATION

TOP WORK PLACES 2018 — Detroit Free Press

Great Place To Work® Certified JUL 2018–JUL 2019 USA

Credit Union Journal — Best Credit Unions to Work For

The Louise Herring Philosophy in Action Member Service Award

CardRates.com Editor's Choice™ — Michigan State University Federal Credit Union ★★★★★

Desjardins Financial Education Award

Great Place To Work® Best Workplaces™ for Women USA 2018

LEAP stronger together — Regional Diversity Star Winner 2018

Best and Brightest Companies to Work For — Top 101 in the Nation — Winner 2018

VISA Global Service Quality Performance 2018 Winner

Training Top 125 — 2018 winner

Best and Brightest in Wellness — Winner 2018

2018 MSUFCU COMMITTEES

ASSET LIABILITY MANAGEMENT COMMITTEE

The Asset Liability Management Committee (ALCO) monitors the Credit Union's interest rate risk, liquidity position, investment portfolio, and key ratios. ALCO also analyzes new products, pricing strategies, and the impact of changing interest rates on MSUFCU's financial and competitive position.

John Brick, Co-chair, Board Liaison
Angela Brown, Board Liaison
Antonio Doblas-Madrid
Michael Mazzeo
Robert Patterson
Dave Weatherspoon
Jeff Williams

April Clobes
Sara Dolan, Co-chair
Jim Hunsanger
Jeff Jackson
Robert Johnson

SUPERVISORY COMMITTEE

The Supervisory Committee protects our membership by enforcing bylaws, overseeing internal and external audits, and hiring external financial statement auditors. Doing so, they review information far beyond established federal regulations.

Sarah Blanck
Elizabeth Lawrence
Janet Lillie, Board Liaison
Kelly Millenbah
Francisco Villarruel
Kristine Zayko, Chair

April Clobes
Robert Johnson

2018 AMBASSADORS

MSUFCU AMBASSADORS

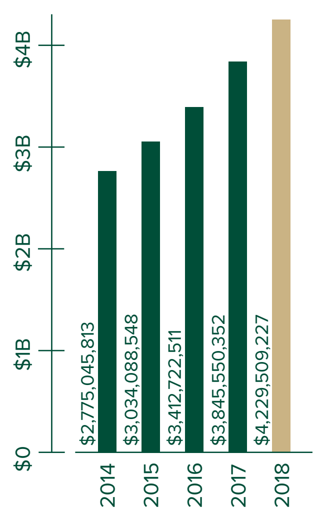
Kim Allan
Kim Arthur
Elaine Bailey
Diane Barker
Audree Baxter
Bill Beekman
Bridget Behe
Ernest Betts
Cherie Booms
John Brick
Jeff Brodie
Angela Brown
Blair Bullard
Trace Camacho
Terry Cannon
Christine Carter
Sue Carter
Jerry Cash
Stella Cash
Zachary Constan
Kat Cooper
Douglas Cron
Carmellia Davis-King
Kathleen Deneau
Ken Deneau
Sue Depoorter
Gregory Deppong
Lynne Devereaux
Lisa Dunlap
Jodee Fortino
Natisha Foster
Karen Grannemann
Marilee Griffith
Jodi Hancock
Rosemarie Harman
Mary Lou Heberlein
Paul Heberlein
Lisa Hinds
Charles Hornburg
Angela Howard-Montie
Cheryl Howell
Michael Hudson
Laurie Huntley
Darlene Johnson
Erin Johnson
Ed Karazim
Fred Kayne
Sally Keisling
Darrell King
Michael Kolar
Denni Kraft
Rhonda Lienhart
Janet Lillie
Angela Matlock
Dean Matsudo
Denise Maybank
Chandos McCoy
Matt McKune
June Messner
Robert Meyer
Kathleen Mills
Carol Noud
Melony Peabody
Karyn Pearl
Debbie Powell
Marilyn Powell
Marcia Ratliff
Sonya Ribnicky
John Roberts
Judith Salminen
Angelica Santos
Mary Schwalm
Lori Senecal
Nina Silbergleit
Cristine Stock
Lori Strom
Laurel Switzenberg
Paula Terzian
Bob Thomas
Victoria Tryban
Marsha Walsh
Susan Waltersdorf
S. Faye Watson
Jeff Williams
Keith Williams
Nancy Yeadon

OU CREDIT UNION AMBASSADORS

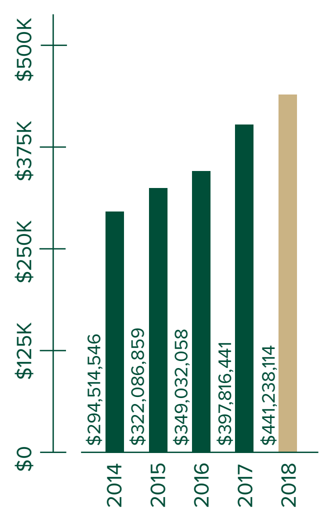
David Archbold
Dawn Aubry
Scott Barns
Nancy Barton-Kenney
Lorna Bearup
David Birkholz
Charles Brown
Sheila Carpenter
Virginia Cloutier
Eric Condic
Ann Dunlop
Pieter Frick
Sandy Gabert
Kitty Gentile
Frank Giblin
Geraldine Graham
Cora Hanson
Robert Hanson
Susan Hartman
Greg Jordan
Ellen Keaton
Sandy Kern
Bonnie Koch
Kelly Lenda
Julie McCarrel
Barbara McDowell
Deborah Middlebrook
Jean Ann Miller
Maggie Phelps
George Preisinger
Don Ritenburgh
Katherine Rowley
Laura Schartman
Val Schnable
Maura Selahowski
Leigh Settlemoir Dzwik
Steven Shablin
Tammye Stoves
Linda Switzer
Mohan Tanniru
Ronald Tracy
Chris Turkopp
Geoffrey Upward
David Vartanian
Tricia Westergaard
Hazen Wilcox

FINANCIAL & MEMBER GROWTH

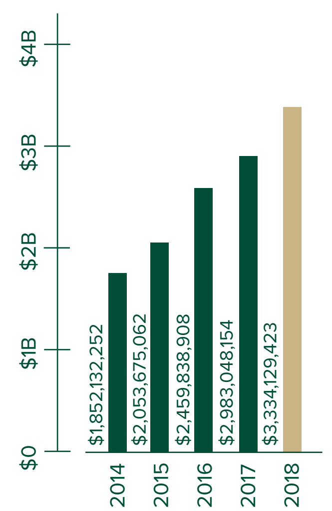
Total Assets
Year ended December 31



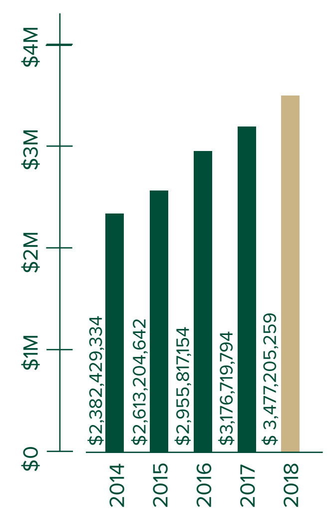
Total Reserves
Year ended December 31



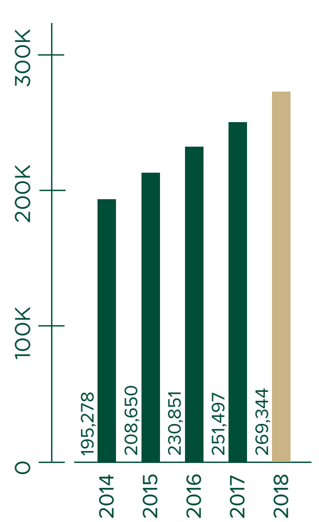
Net Loans
Year ended December 31



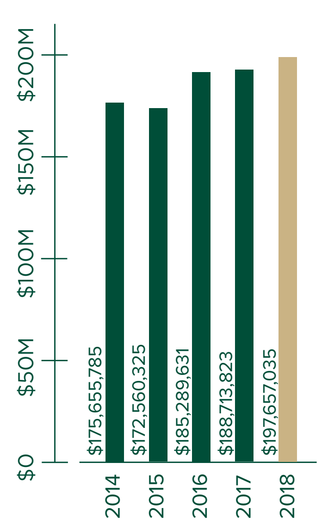
Total Shares
Year ended December 31



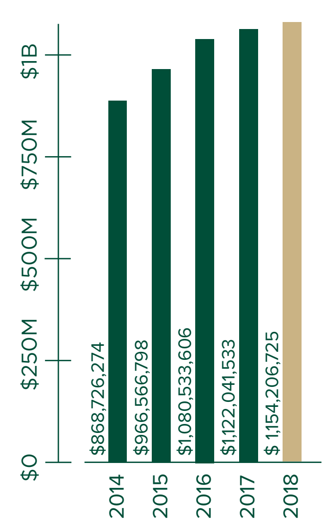
Membership
Year ended December 31



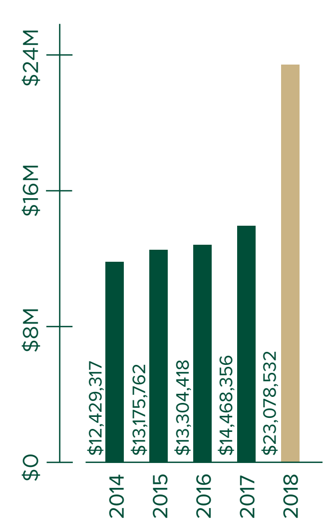
IRAs*
Year ended December 31



IMMAs
Year ended December 31



Dividends Paid, All Savings
Year ended December 31



*IRAs consist of IMMAs and Share Certificates

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Michigan State University Federal Credit Union

We have audited the accompanying financial statements of Michigan State University Federal Credit Union (the "Credit Union"), which comprise the statement of financial condition as of December 31, 2018 and 2017 and the related statements of income and 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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University Federal Credit Union as of December 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC
February 8, 2019

STATEMENT OF FINANCIAL CONDITION

	AT YEAR END	
	DECEMBER 31, 2018	DECEMBER 31, 2017
ASSETS		
Cash and cash equivalents	$ 109,121,994	$ 101,171,651
Time deposits with other financial institutions	140,000,000	91,641,722
Investment securities - Available for sale (Note 3)	388,803,599	422,585,977
Other investments	14,169,300	11,244,300
Loans to members - Net (Note 4)	3,334,129,423	2,983,048,154
Premises and equipment - Net (Note 5)	136,935,478	139,465,075
Goodwill	7,836,819	7,836,819
Business-owned life insurance	42,895,357	42,272,528
NCUSIF deposit	30,888,079	28,466,825
Other assets	24,729,178	17,817,301
Total assets	**$ 4,229,509,227**	**$ 3,845,550,352**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share and savings accounts (Note 6)	$ 3,477,205,259	$ 3,176,719,794
Borrowings (Note 7)	260,000,000	210,000,000
Postretirement benefit obligations (Note 9)	27,608,825	25,237,248
Accrued expenses and other liabilities	23,457,029	35,776,869
Total liabilities	3,788,271,113	3,447,733,911
Members' Equity	441,238,114	397,816,441
Total liabilities and members' equity	**$ 4,229,509,227**	**$ 3,845,550,352**

See notes to financial statements.

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEARS ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Interest Income		
Loans - Including fees	$ 150,481,626	$ 129,357,363
Investment securities	10,282,260	9,204,113
Interest-bearing balances with other financial institutions	858,440	369,783
Total interest income	161,622,326	138,931,259
Interest Expense		
Members' share and savings accounts	23,078,532	14,468,356
Borrowings	5,675,297	2,603,268
Total interest expense	28,753,829	17,071,624
Net Interest Income	132,868,497	121,859,635
Provision for Loan Losses (Note 4)	12,707,752	13,063,469
Net Interest Income after Provision for Loan Losses	120,160,745	108,796,166
Noninterest Income		
Fees and charges	17,733,183	16,693,543
VISA interchange	24,434,224	22,272,774
NCUSIF rebate	1,741,727	-
Other	3,286,200	3,034,347
Total noninterest income	47,195,334	42,000,664
Noninterest Expense		
Salaries and employee benefits	62,804,505	55,096,068
Occupancy	10,679,269	9,104,343
Operating expenses	44,818,759	41,243,132
Other	3,502,570	1,915,599
Total noninterest expense	121,805,103	107,359,142
Net Income	45,550,976	43,437,688
Other Comprehensive (Loss) Income		
Unrealized loss on securities:		
Arising during the year	(1,574,844)	(83,823)
Reclassification adjustment	-	(24,264)
Total unrealized loss on securities	(1,574,844)	(108,087)
Postretirement benefit plan:		
Net (loss) gain arising during the year	(909,219)	4,698,702
Reclassification adjustment - Net actuarial loss	354,760	756,080
Total postretirement benefit plan	(554,459)	5,454,782
Total other comprehensive (loss) income	(2,129,303)	5,346,695
Comprehensive Income	**$ 43,421,673**	**48,784,383**

See notes to financial statements.

STATEMENT OF MEMBERS' EQUITY

	YEARS ENDED DECEMBER 31, 2018 AND 2017				
	Regular Reserve	Equity Acquired in Mergers	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2017	$ 17,980,012	$ 3,825,906	$ 346,031,976	$ (18,805,836)	$ 349,032,058
Comprehensive income:					
Net income	-	-	43,437,688	-	43,437,688
Unrealized loss on securities	-	-	-	(108,087)	(108,087)
Postretirement benefit plan	-	-	-	5,454,782	5,454,782
Balance - December 31, 2017	17,980,012	3,825,906	389,469,664	(13,459,141)	397,816,441
Comprehensive income:					
Net income	-	-	45,550,976	-	45,550,976
Unrealized loss on securities	-	-	-	(1,574,844)	(1,574,844)
Postretirement benefit plan	-	-	-	(554,459)	(554,459)
Balance - December 31, 2018	**$ 17,980,012**	**$ 3,825,906**	**$ 435,020,640**	**$ (15,588,444)**	**$ 441,238,114**

See notes to financial statements.

STATEMENT OF CASH FLOWS

	YEARS ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash Flows from Operating Activities		
Net income	$ 45,550,976	$ 43,437,688
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	10,417,271	9,741,709
Provision for loan losses	12,707,752	13,063,469
Net amortization of securities	1,070,425	1,749,949
Net gain on sale of available-for-sale securities	-	(24,264)
Loss on disposal of premises and equipment	731,355	8,516
Earnings on business-owned life insurance	(1,234,800)	(1,146,371)
Actuarial loss on postretirement benefit liability	1,817,118	2,542,572
Net change in:		
Other assets	(6,138,080)	1,598,967
Accrued expenses and other liabilities	(12,319,840)	6,058,653
Net cash provided by operating activities	52,602,177	77,030,888
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Sales	-	11,950,791
Maturities, prepayments, and calls	130,732,272	176,754,378
Purchases	(99,595,163)	(84,459,489)
Activity in other investments - Purchases	(2,925,000)	(2,591,400)
Net change in loans	(364,562,818)	(536,272,715)
Additions to premises and equipment	(8,619,029)	(29,036,838)
Proceeds from time deposits with other institutions	69,641,722	31,306,000
Purchases of time deposits with other institutions	(118,000,000)	(60,000,000)
Increase in NCUSIF deposit	(2,421,254)	(2,683,652)
Proceeds from the surrender of business-owned life insurance	1,716,511	-
Purchases of business-owned life insurance	(1,104,540)	(6,344,232)
Net cash used in investing activities	(395,137,299)	(501,377,157)

See notes to financial statements.

	YEARS ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash Flows from Financing Activities		
Net increase in members' shares	$ 300,485,465	$ 220,902,640
Proceeds from issuance of Federal Home Loan Bank advances	238,500,000	384,100,000
Repayment of Federal Home Loan Bank advances	(188,500,000)	(224,100,000)
Net cash provided by financing activities	350,485,465	380,902,640
Net Change in Cash and Cash Equivalents	7,950,343	(43,443,629)
Cash and Cash Equivalents - Beginning of year	101,171,651	144,615,280
Cash and Cash Equivalents - End of year	109,121,994	101,171,651
Supplemental Cash Flow Information		
Cash paid for interest	28,651,040	16,943,827
Transfers from loans to other real estate owned	773,797	552,112

See notes to financial statements.

NOTE 1 - Nature of Business

Michigan State University Federal Credit Union (the "Credit Union") is a federally chartered credit union regulated by the National Credit Union Administration and insured by the National Credit Union Share Insurance Fund. The Credit Union operates branches in the metropolitan Lansing, Detroit, and Grand Rapids areas.

The Credit Union grants consumer loans (including credit card loans), various types of mortgage loans, and business loans to its members. The Credit Union's primary field of membership includes students, alumni, and employees of Michigan State University and Oakland University. Oakland University is served under the registered trade name Oakland University Credit Union. The majority of member loans are secured by collateral, including, but not limited to, members' shares, vehicles, real estate, and other consumer assets. Deposit services include interest-bearing and noninterest-bearing checking accounts, savings accounts, money market accounts, certificates, and IRAs. Other services include mobile applications and computer and telephone transactions, as well as automated teller machines.

NOTE 2 - Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with other financial institutions, federal funds sold, and interest-bearing deposits with other financial institutions with original maturities of 90 days or less. Net cash flows are reported for member loan and share accounts.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions consist of nonmembership capital deposits with corporate credit unions with contractual maturities of five years or less.

Securities

Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income and as a separate component of members' equity. Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of 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 (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.

Other Investments

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) of Indianapolis, is required to maintain an investment in the capital stock of the FHLB. The Credit Union held $13,050,000 and $10,125,000 of FHLB capital stock at December 31, 2018 and 2017, respectively. The stock is redeemable at par by the FHLB and, therefore, is carried at cost and periodically evaluated for impairment. The Credit Union records cash and stock dividends in interest income - investment

NOTE 2 - Significant Accounting Policies (Continued)

securities on the statement of income and comprehensive income.

Other investments also include the Credit Union's investment in Alloya Corporate Credit Union's (Alloya) permanent capital base, which is required to be maintained for full participation as a member of Alloya. The deposit was $1,069,300 as of December 31, 2018 and 2017. The deposit is not insured by the National Credit Union Share Insurance Fund (NCUSIF). Interest on the deposit is paid quarterly based on available earnings at interest rates approved by Alloya's board of directors. In the event a member credit union withdraws from Alloya, the deposit would be repaid in one installment three years after notice of withdrawal is given.

Other investments also include various investments totaling $50,000 at December 31, 2018 and 2017 that are carried at cost on the accompanying statement of financial condition.

Loans
The Credit Union grants mortgage, commercial, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the metropolitan Lansing, Detroit, and Grand Rapids areas. The ability of the Credit Union's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan's yield using the interest method.

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 process of collection. In all cases, loans are placed on nonaccrual 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 nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. If a loan is returned to accrual, the interest payments previously received continue to be reported as a reduction of the unpaid principal balance until the loan is paid off, at which time the interest payments are recognized in interest income.

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

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

The allowance consists of both specific and general reserve components. The specific component relates to loans that are classified as impaired. A specific allowance is established for impaired loans when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The

NOTE 2 - Significant Accounting Policies (Continued)

general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors.

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 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 by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and mortgage loans for impairment disclosures unless the loan is a troubled debt restructuring.

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Credit Union, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Credit Union would not otherwise consider. To make this determination, the Credit Union must determine whether (a) the borrower is experiencing financial difficulties and (b) the Credit Union granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, would the borrower likely default.

Foreclosed Assets
Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at the fair value of the real estate, less estimated costs to sell, through a charge to the allowance for loan losses, if necessary. Subsequent to foreclosure, valuations are periodically performed by management, and write-downs required by changes in estimated fair value are charged against earnings through a valuation allowance and reported in other noninterest expenses. The carrying value of foreclosed assets, included in other assets on the statement of financial condition, was $456,032 and $186,981 as of December 31, 2018 and 2017, respectively.

Premises and Equipment
Land and land improvements are carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the

NOTE 2 - Significant Accounting Policies (Continued)

shorter of the lease term or the life of the leasehold improvements.

Goodwill
The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment.

No impairment charge was recognized during the years ended December 31, 2018 and 2017.

Business-owned Life Insurance
The Credit Union has purchased life insurance policies on certain key officers. Business-owned life insurance is recorded at its cash surrender value or the amount that can be realized upon immediate liquidation.

NCUSIF Deposit
The deposit in the National Credit Union Share Insurance Fund is in accordance with the NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1 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.

Members' Share and Savings Accounts
Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share accounts is based on the 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 management and approved by the board of directors based on an evaluation of current and future market conditions.

Members' Equity
The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes
The Credit Union is exempt, by statute, from federal and state income taxes.

Other Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities and amounts recognized related to postretirement benefit plans (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the equity section of the statement of financial condition. Such items, along with net income, are considered components of comprehensive income.

Loan Commitments and Related Financial Instruments
Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and business letters of credit, issued to meet member financing needs. The face amount for these items represents the exposure to loss before considering member collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements at December 31, 2018 and 2017.

Reclassification
Certain 2017 amounts have been reclassified to

NOTE 2 - Significant Accounting Policies (Continued)

conform to the 2018 presentation.

Upcoming Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Credit Union's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Credit Union has not yet determined which application method it will use. The Credit Union will adopt the new standard during 2019, and management does not expect it to have a significant impact on the financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosures related to certain financial instruments, including requiring equity investments to be accounted for at fair value with changes recorded through earnings, the use of the exit price when measuring fair value, and disaggregation of financial assets and liabilities by category for disclosure purposes. The new guidance will be effective for the Credit Union's year ending December 31, 2019. Early adoption is permitted as early as periods ending after December 31, 2017 with some additional options for early application, such as the elimination of the requirement for nonpublic business entities to disclose the methods and significant assumptions used to estimate the disclosed fair value of financial instruments. The Credit Union adopted the provision by which it eliminated the disclosure of the method and assumptions used to determine fair value of its financial instruments in these financial statements. The Credit Union does not believe adopting the remaining provisions of ASU No. 2016-01 in the future will have a significant impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Credit Union's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on the Credit Union's financial statements as a result of the leases classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Credit Union's loans

NOTE 2 - Significant Accounting Policies (Continued)

and available-for-sale debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Credit Union's year ending December 31, 2022. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Credit Union is still quantifying the impact of the new standard, but expects it to have a significant impact on the financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value, instead of the current two-step test. A qualitative assessment may still be completed first to determine if a quantitative impairment test is required. This standard is effective on a prospective basis for fiscal years beginning after December 15, 2020. The Credit Union does not expect the adoption of the new standard to have a significant impact on its financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This standard requires the presentation of the service cost component of net benefit cost to be in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost should be presented separately from the service cost component and outside of income from operations. The standard is effective for fiscal years beginning after December 15, 2018 and must be adopted retrospectively. Adoption of the new standard is not expected to have a significant impact on the Credit Union's financial statements.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 8, 2019, which is the date the financial statements were available to be issued.

NOTE 3 - Investment Securities

The amortized cost and fair value of securities available for sale and gross unrealized gains and losses recognized in accumulated and other comprehensive loss at December 31 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
Available for Sale:				
U.S. government and federal agency obligations	$ 243,171,263	$ 78,979	$ (2,220,096)	$ 241,030,146
Mortgage-backed securities - Residential	153,575,984	691	(6,045,921)	147,530,754
Negotiable certificates of deposit	250,000	-	(7,301)	242,699
Total	$ 396,997,247	$ 79,670	$ (8,273,318)	$ 388,803,599
2017				
Available for Sale:				
U.S. government and federal agency obligations	$ 242,858,765	$ 1,428	$ (1,890,684)	$ 240,969,509
Mortgage-backed securities - Residential	186,096,016	1,252	(4,729,955)	181,367,313
Negotiable certificates of deposit	250,000	-	(845)	249,155
Total	$ 429,204,781	$ 2,680	$ (6,621,484)	$ 422,585,977

At December 31, 2018 and 2017, securities with a carrying value of approximately $285,940,000 and $415,535,000, respectively, were pledged as collateral to secure borrowed funds and a security with a carrying value of approximately $5,000,000 was pledged to the discount window.

The contractual scheduled maturities of securities available for sale at December 31, 2018 are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 88,993,487	$ 88,481,379
Due in one through five years	154,427,776	152,791,466
Mortgage-backed securities - Residential	153,575,984	147,530,754
Total	$ 396,997,247	$ 388,803,599

There were no sales of investment securities for the year ended December 31, 2018. Proceeds from sales of investment securities were $11,950,791, gross realized gains were $24,264, and there were no gross realized losses for the year ended December 31, 2017.

NOTE 3 - Investment Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
2018				
Available for Sale:				
U.S. government and federal agency obligations	$ (171,276)	$ 84,722,542	$ (2,048,820)	$ 141,311,029
Mortgage-backed securities - Residential	-	-	(6,045,921)	146,966,011
Negotiable certificates of deposit	-	-	(7,301)	242,699
Total	$ (171,276)	$ 84,722,542	$ (8,102,042)	$ 288,519,739
2017				
Available for Sale:				
U.S. government and federal agency obligations	$ (853,046)	$ 147,674,201	$ (1,037,638)	$ 88,301,164
Mortgage-backed securities - Residential	(582,608)	41,244,358	(4,147,347)	139,309,144
Negotiable certificates of deposit	(845)	249,155	-	-
Total	$ (1,436,499)	$ 189,167,714	$ (5,184,985)	$ 227,610,308

Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair values are expected to recover as the bonds approach their maturity dates. There are 92 and 94 investment securities in an unrealized loss position at December 31, 2018 and 2017, respectively.

NOTE 4 - Loans to Members

A summary of the balances of loans follows:

	2018	2017
Consumer	$ 1,743,134,750	$ 1,554,505,447
Residential real estate	1,413,112,774	1,285,403,302
Commercial	192,925,701	158,164,171
Total loans	3,349,173,225	2,998,072,920
Less allowance for loan losses	19,859,591	19,998,263
Plus net deferred loan costs	4,815,789	4,973,497
Net loans	$ 3,334,129,423	$ 2,983,048,154

In the ordinary course of business, the Credit Union has granted loans to executive officers, supervisory committee members, and directors and their affiliates amounting to approximately $2,829,000 and $2,721,000 as of December 31, 2018 and 2017, respectively.

The Credit Union's activity in the allowance for loan losses for the years ended December 31, 2018 and 2017, by loan segment, is summarized below:

	YEAR ENDED DECEMBER 31, 2018			
	Consumer	Mortgage	Business	Total
Beginning balance	$ 16,478,347	$ 852,550	$ 2,667,366	$ 19,998,263
Charge-offs	(14,674,932)	(304,769)	(33,724)	(15,013,425)
Recoveries	2,106,681	56,320	4,000	2,167,001
Provision	11,644,308	120,412	943,032	12,707,752
Ending balance	$ 15,554,404	$ 724,513	$ 3,580,674	$ 19,859,591
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$ 497,254	$ 640,944	$ 1,138,198
Collectively evaluated for impairment	15,554,404	227,259	2,939,730	18,721,393
Ending allowance balance	$ 15,554,404	$ 724,513	$ 3,580,674	$ 19,859,591
Loans:				
Individually evaluated for impairment	$ -	$ 8,240,533	$ 4,532,955	$ 12,773,488
Collectively evaluated for impairment	1,743,134,750	1,404,872,241	188,392,746	3,336,399,737
Total loans	$ 1,743,134,750	$ 1,413,112,774	$ 192,925,701	$ 3,349,173,225

NOTE 4 - Loans to Members (Continued)

YEAR ENDED DECEMBER 31, 2017

	Consumer	Mortgage	Business	Total
Beginning balance	$ 14,658,277	$ 2,246,629	$ 2,335,459	$ 19,240,365
Charge-offs	(14,105,130)	(285,690)	(243,184)	(14,634,004)
Recoveries	2,186,992	84,941	56,500	2,328,433
Provision	13,738,208	(1,193,330)	518,591	13,063,469
Ending balance	$ 16,478,347	$ 852,550	$ 2,667,366	$ 19,998,263
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$ 594,754	$ -	$ 594,754
Collectively evaluated for impairment	16,478,347	257,796	2,667,366	19,403,509
Ending allowance balance	$ 16,478,347	$ 852,550	$ 2,667,366	$ 19,998,263
Loans:				
Individually evaluated for impairment	$ -	$ 6,557,171	$ -	$ 6,557,171
Collectively evaluated for impairment	1,554,505,447	1,278,846,131	158,164,171	2,991,515,749
Total loans	$1,554,505,447	$ 1,285,403,302	$ 158,164,171	$ 2,998,072,920

As of December 31, 2018 and 2017, the Credit Union had 27 loans with a balance of approximately $2,968,000 and $3,069,000, respectively, considered to be troubled debt restructurings (TDRs). These loans are classified as impaired loans and individually evaluated for impairment. Most of these loans were first mortgage loans. The allowance allocated to these loans at December 31, 2018 and 2017 is $261,570 and $316,909, respectively. In almost all cases, these loans were delinquent and being provided for in the allowance for loan losses computation, and, as a result, the restructuring of these loans did not add a material amount to the allowance for loan losses upon their modification. Modifications agreed to by the Credit Union consisted of term extensions and lowered interest rates. No principal and interest was forgiven. During 2018 and 2017, loans classified as troubled debt restructurings that ultimately defaulted were not material to the financial statements.

The Credit Union also classifies delinquent residential real estate loans as impaired loans and individually evaluates these for impairment. As of December 31, 2018 and 2017, these delinquent loans had a balance of approximately $5,273,000 and $3,488,000, respectively.

Individual business loans are evaluated for impairment. At December 31, 2018, the Credit Union had impaired business loans of approximately $4,533,000, of which $3,653,000 has related allowances totaling $640,944 recorded.

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2018 and 2017.

NOTE 4 - Loans to Members (Continued)

Credit Quality Indicators

The credit quality indicators used for monitoring performance by the Credit Union are primarily performance based and include past-due status and nonaccrual status.

Age Analysis of Past-due Loans

The Credit Union's age analysis of past-due loans at December 31, 2018 and 2017, by loan segment and class, is summarized below:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
2018						
Consumer:						
Secured	$ 9,059,160	$ 2,572,933	$ 2,716,516	$ 14,348,609	$ 1,269,290,037	$ 1,283,638,646
Unsecured	3,281,865	1,134,423	1,493,589	5,909,877	380,187,641	386,097,518
Other	492,619	172,410	70,457	735,486	72,663,100	73,398,586
Mortgage:						
First mortgage	3,625,390	1,478,582	2,333,093	7,437,065	1,238,836,902	1,246,273,967
Home equity	428,565	195,234	354,112	977,911	165,860,896	166,838,807
Business	14,597	-	945,654	960,251	191,965,450	192,925,701
Total	$ 16,902,196	$ 5,553,582	$ 7,913,421	$ 30,369,199	$ 3,318,804,026	$ 3,349,173,225
2017						
Consumer:						
Secured	$ 9,616,335	$ 2,930,491	$ 2,838,222	$ 15,385,048	$ 1,108,471,263	$ 1,123,856,311
Unsecured	3,415,301	1,233,076	1,714,772	6,363,149	356,359,846	362,722,995
Other	450,141	189,440	162,503	802,084	67,124,057	67,926,141
Mortgage:						
First mortgage	4,076,808	1,503,209	1,491,626	7,071,643	1,120,845,376	1,127,917,019
Home equity	329,878	119,653	389,234	838,765	156,647,518	157,486,283
Business	956,809	-	-	956,809	157,207,362	158,164,171
Total	$ 18,845,272	$ 5,975,869	$ 6,596,357	$ 31,417,498	$ 2,966,655,422	$ 2,998,072,920

There were no loans past due greater than 90 days and accruing interest as of December 31, 2018 and 2017.

Nonaccrual Loans

The Credit Union's loans on nonaccrual status at December 31, 2018 and 2017, by loan segment and class, are summarized below:

	2018	2017
Consumer:		
Secured	$ 2,716,516	$ 2,838,222
Unsecured	1,493,589	1,714,772
Other	70,457	162,503
Mortgage:		
First mortgage	2,333,093	1,491,626
Home equity	354,112	389,234
Business	945,654	-
Total	$ 7,913,421	$ 6,596,357

NOTE 5 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2018	2017
Land	$ 15,392,143	$ 15,320,741
Buildings and building improvements	126,799,763	125,513,304
Furniture, fixtures, equipment, and software	24,812,704	23,391,307
Leasehold improvements	3,032,069	5,469,340
Construction in progress	710,297	299,028
Total cost	170,746,976	169,993,720
Accumulated depreciation	(33,811,498)	(30,528,645)
Net premises and equipment	$ 136,935,478	$ 139,465,075

As of December 31, 2018, the Credit Union had outstanding contract commitments for planned construction of new branch offices totaling approximately $9,200,000.

Depreciation expense for 2018 and 2017 totaled approximately $10,417,000 and $9,742,000, respectively.

The Credit Union leases certain branch offices. One of the lease commitments is with Michigan State University and expires in 2021.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2018 pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending	Amount
2019	$ 301,392
2020	291,008
2021	218,062
2022	108,131
2023	110,999
Thereafter	291,487
Total	$ 1,321,079

The land on which a branch location is located is leased from Michigan State University for $1. The lease expires in the year 2110. The cost of such rentals is not included above. Total rent expense was approximately $300,000 and $254,000 during 2018 and 2017, respectively.

NOTE 6 - Members' Shares and Savings Accounts

A summary of members' share and savings accounts at December 31 is as follows:

	2018	2017
Regular shares	$ 522,144,937	$ 501,954,443
Share draft	531,291,199	492,449,085
Money market checking	69,629,810	63,943,840
Insured money management accounts	1,154,206,725	1,122,041,533
Business deposits	232,208,983	187,926,805
Share certificates	967,723,605	808,404,088
Total members' share and savings accounts	$ 3,477,205,259	$ 3,176,719,794

The aggregate amounts of members' share and savings accounts in denominations of $250,000 or more at December 31, 2018 and 2017 were approximately $112,164,000 and $84,846,000, respectively.

At December 31, 2018, scheduled maturities of share certificates are as follows:

Years Ending	Amount
2019	$ 458,842,725
2020	149,599,619
2021	121,033,860
2022	106,058,733
2023	102,947,915
Thereafter	29,240,753
Total	$ 967,723,605

In the normal course of business, the Credit Union's directors, supervisory committee members, and executive officers maintain share accounts. The total amount of these shares at December 31, 2018 and 2017 was approximately $2,591,000 and $1,963,000, respectively.

NOTE 7 - Borrowings

The Credit Union has advances from the Federal Home Loan Bank (FHLB) of Indianapolis totaling approximately $260,000,000 and $210,000,000 at December 31, 2018 and 2017, respectively. The advances require monthly interest payments based on the rate at the time each advance was taken. The interest rates range from 1.32 percent to 3.34 percent on balances outstanding, with a weighted-average interest rate of 2.49 percent at December 31, 2018. The interest rates ranged from 0.97 to 2.92 percent, with a weighted-average interest rate of 2.06 percent at December 31, 2017. The advances are collateralized by qualifying securities and mortgage loans as of December 31, 2018. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

The Credit Union has approximately $980,829,000 and $919,105,000 in additional borrowing capacity with the Federal Home Loan Bank of Indianapolis at December 31, 2018 and 2017, respectively.

Future obligations of the advances are as follows at December 31, 2018:

Years Ending	Amount
2019	$ 40,000,000
2020	25,000,000
2021	10,000,000
2022	15,000,000
2023	30,000,000
Thereafter	140,000,000
Total	$ 260,000,000

NOTE 8 - Line of Credit

Under a line of credit agreement with Alloya Corporate Credit Union (Alloya), the Credit Union has available borrowings of $100,000,000. There were no amounts outstanding on the line of credit at December 31, 2018 and 2017. Alloya has a blanket pledge on all credit union assets as collateral for borrowings on this line of credit. Alloya rescinds any rights to qualifying assets pledged as collateral on the Federal Home Loan Bank of Indianapolis advances. On January 1, 2019, the available borrowings under this line of credit agreement were reduced to a maximum of 50 times the Credit Union's capital share account held at Alloya. On January 1, 2019, the maximum borrowings was approximately $53,400,000. The board of directors has authorized the Credit Union to enter into a line of credit agreement with Corporate Central Credit Union for available borrowings of $60,000,000. This line of credit will be secured by the Credit Union's certificates of deposit held at Corporate Central Credit Union. Management expects to close on this line of credit in the first quarter of 2019.

The Credit Union also has access to discount window borrowings from the Federal Reserve Bank of Chicago. There is no specific borrowing limit or maturity/expiration date for the relationship. The amount that can be borrowed is subject to full collateralization by the acceptable pledging of assets acceptable to the Federal Reserve Bank of Chicago. The interest rate for any discount window borrowings will be the published discount borrowing rate in effect on the date of the borrowing. The discount window borrowings are governed in accordance with the terms and conditions established in an agreement between the Credit Union and the Federal Reserve Bank of Chicago.

NOTES TO FINANCIAL STATEMENTS | DECEMBER 31, 2018 AND 2017

NOTE 9 - Postretirement Benefit Plans

The Credit Union provides continued health and dental insurance to eligible retirees, their spouses, and eligible dependents in addition to a $5,000 death benefit to a designated beneficiary. An employee is eligible for these benefits after retiring at age 62 with at least 15 years of service or at least 25 years of service without regard to age. The Credit Union records postretirement benefits that require the accrual of expected cost of retiree benefits during the years that the employees render the necessary service to be entitled to receive such postretirement benefits of the plan.

The plan eligibility requirements were amended for employees hired after December 1, 2009. Dependents of retirees will no longer be covered by the plan. Furthermore, the percentage of premiums that will be paid by the Credit Union will vary depending on the retirement age of the employee. Employees hired after December 31, 2015 will not be eligible for postretirement benefits.

Obligations and Funded Status

	Postretirement Benefits	
	2018	2017
Accumulated benefit obligation	$ 27,608,825	$ 25,237,248

Amounts recognized in accumulated other comprehensive income consist of the following:

	Postretirement Benefits	
	2018	2017
Net loss	$ 7,394,796	$ 6,840,337

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Postretirement Benefits	
	2018	2017
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 2,313,790	$ 2,985,462
Employer contributions	496,672	440,950
Benefits paid	(496,672)	(440,950)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net loss	554,459	5,454,782
Total recognized in other comprehensive income	554,459	5,454,782
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,868,249	8,440,244

NOTES TO FINANCIAL STATEMENTS | DECEMBER 31, 2018 AND 2017

NOTE 9 - Postretirement Benefit Plans (Continued)

The estimated net loss for the postretirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $402,529.

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended December 31 are as follows:

	2018	2017
Discount rate	4.25%	4.00%

Assumed Healthcare Cost Trend Rates at December 31

	Postretirement Benefits	
	2018	2017
Healthcare cost trend rate assumed for next year, pre-65	8.00%	5.00%
Healthcare cost trend rate assumed for next year, post-65	5.00%	5.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	4.00%
Year that the rate reaches the ultimate trend rate, pre-65/post-65	2025/2020	2019

<u>Cash Flow</u>

Contributions and Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid. Expected contributions from the Credit Union are substantially the same as projected benefit payments.

Years Ending	Amount
2019	$ 524,980
2020	572,122
2021	597,145
2022	628,100
2023	670,009
Thereafter	4,471,685

NOTE 10 - Retirement Plans

All full-time and part-time employees are eligible to contribute to the Credit Union's 401(k) plan. Employees who have been on staff for at least 12 months, have worked at least 1,000 hours, and are 21 years of age or older are eligible for the Credit Union's matching contribution. Employees may contribute up to 100 percent of their compensation (subject to IRS limits), and the Credit Union will make a matching contribution equal to 200 percent of the employee's 401(k) elective deferral contributions up to 5 percent of the employees' salary. The 401(k) plan expense was approximately $3,449,000 and $2,966,000 for 2018 and 2017, respectively. In addition, the Credit Union pays the administrative costs of the plan.

The Credit Union also has a 457(b) plan for certain key employees to allow these employees to defer income in excess of the 401(k) plan contribution limits. The Credit Union does not make any contributions to this plan.

NOTE 11 - Off-balanace-sheet Activities

Credit-related Financial Instruments

The Credit Union is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

As of December 31, 2018 and 2017, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2018	2017
Commitments to grant mortgage and consumer loans	$ 30,760,000	$ 36,437,000
Commitments to grant business loans	11,643,000	24,146,000
Unfunded commitments under lines of credit	963,403,000	887,608,000
Unfunded commitments under overdraft protection programs	95,095,000	90,460,000

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Credit Union, is based on management's credit evaluation of the member.

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

NOTE 12 - Minimum Regulatory Capital Requirements

The Credit Union is subject to various regulatory capital 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 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) to total assets (as defined). Credit unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2018 and 2017 was 5.83 percent and 5.95 percent, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent call reporting period, and December 31, 2017, the Credit Union was categorized 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 percent of assets. There are no conditions or events since the notification that management believes have changed the Credit Union's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2018						
Net worth	$ 456,826,558	10.80%	$ 253,770,554	6.00%	$ 296,065,646	7.00%
As of December 31, 2017						
Net worth	411,275,582	10.69	230,733,021	6.00	269,188,525	7.00

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

NOTE 13 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Credit Union's assets measured at fair value on a recurring basis at December 31, 2018 and 2017 and the valuation techniques used by the Credit Union to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

NOTE 13 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31
U.S. government and federal agency obligations	$ -	$ 241,030,146	$ -	$ 241,030,146
Mortgage-backed securities - Residential	-	147,530,754	-	147,530,754
Negotiable certificates of deposit	-	242,699	-	242,699
Total available-for-sale securities	$ -	$ 388,803,599	$ -	$ 388,803,599
2017				
U.S. government and federal agency obligations	$ -	$ 240,969,509	$ -	$ 240,969,509
Mortgage-backed securities - Residential	-	181,367,313	-	181,367,313
Negotiable certificates of deposit	-	249,155	-	249,155
Total available-for-sale securities	$ -	$ 422,585,977	$ -	$ 422,585,977

The Credit Union also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans and foreclosed assets.

Assets Measured at Fair Value on a Nonrecurring Basis

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31
2018				
Impaired loans	$ -	$ -	$ 11,954,607	$ 11,954,607
Foreclosed assets	-	-	456,032	456,032
2017				
Impaired loans	$ -	$ -	$ 6,557,171	$ 6,557,171
Foreclosed assets	-	-	186,981	186,981

Michigan State University Federal Credit Union
Building Dreams Together

Oakland University Credit Union

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