



**Financial Statements**  
**December 31, 2018 and 2017**



# Benchmark Federal Credit Union

---

## Table of Contents

December 31, 2018 and 2017

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Condition	3
Statement of Income	4
Statement of Comprehensive Loss	5
Statement of Members' Equity	6
Statement of Cash Flows	7 - 8
Notes to Financial Statements	9 - 34



## **Independent Auditor's Report**

To the Supervisory Committee  
Benchmark Federal Credit Union  
West Chester, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Benchmark Federal Credit Union, which comprise the statement of financial condition as of December 31, 2018 and 2017, and the related statements of income, comprehensive loss, 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 audit 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 Benchmark 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.

RKL LLP

March 21, 2019  
Wyomissing, Pennsylvania

# Benchmark Federal Credit Union

## Statement of Financial Condition

	December 31,	
	2018	2017
<b>Assets</b>		
Loans to Members, Net	\$ 162,006,490	\$ 163,181,545
Cash and Cash Equivalents	553,241	711,300
Interest Bearing Accounts	12,559,881	6,281,007
Securities Available for Sale	34,491,284	42,836,134
Accrued Interest Receivable	572,208	545,280
Property, Equipment, and Leasehold Improvements, Net	2,099,795	2,518,455
NCUSIF Deposit	1,693,371	1,789,765
Prepaid Expenses and Other Assets	1,379,219	1,517,988
<b>Total Assets</b>	<b>\$ 215,355,489</b>	<b>\$ 219,381,474</b>
<b>Liabilities and Members' Equity</b>		
<b>Liabilities</b>		
Members' shares and savings accounts	\$ 185,904,739	\$ 188,879,732
Note payable	-	38,677
Accounts payable and accrued expenses	105,521	108,773
<b>Total Liabilities</b>	<b>186,010,260</b>	<b>189,027,182</b>
<b>Members' Equity</b>	<b>29,345,229</b>	<b>30,354,292</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 215,355,489</b>	<b>\$ 219,381,474</b>

# Benchmark Federal Credit Union

## Statement of Income

	Years Ended December 31,	
	2018	2017
<b>Interest Income</b>		
Interest on loans	\$ 7,256,140	\$ 7,247,332
Interest on investment securities and interest bearing accounts	860,974	748,607
<b>Total Interest Income</b>	<b>8,117,114</b>	<b>7,995,939</b>
<b>Interest Expense</b>		
Dividends on members' shares and savings accounts	1,041,130	928,273
Interest on borrowed funds	2,190	3,385
<b>Total Interest Expense</b>	<b>1,043,320</b>	<b>931,658</b>
<b>Net Interest Income</b>	<b>7,073,794</b>	<b>7,064,281</b>
<b>Provision for Possible Loan Losses</b>	<b>816,341</b>	<b>671,076</b>
<b>Net Interest Income after Provision for Possible Loan Losses</b>	<b>6,257,453</b>	<b>6,393,205</b>
<b>Noninterest Income (Expense)</b>		
Service fees	304,007	273,230
Gain (loss) on sale of investments	55,442	(30,450)
Other	1,116,820	1,098,080
<b>Total Noninterest Income (Expense)</b>	<b>1,476,269</b>	<b>1,340,860</b>
<b>Noninterest Expenses</b>		
Employee compensation and benefits	3,872,191	3,740,855
Travel and conference	80,428	114,303
Office occupancy	469,348	518,053
Office operations	1,449,090	1,669,612
Educational and promotional	383,737	330,870
Loan servicing	1,466,849	1,449,126
Professional and outside services	157,395	132,549
Operating fees	57,957	51,359
Miscellaneous	62,340	93,359
<b>Total Noninterest Expenses</b>	<b>7,999,335</b>	<b>8,100,086</b>
<b>Net Loss</b>	<b>\$ (265,613)</b>	<b>\$ (366,021)</b>

See accompanying notes.

## Benchmark Federal Credit Union

### Statement of Comprehensive Loss

---

	Years Ended December 31,	
	2018	2017
	<u>                    </u>	<u>                    </u>
<b>Net Loss</b>	<b>\$ (265,613)</b>	<b>\$ (366,021)</b>
<b>Other Comprehensive Income (Loss)</b>		
Unrealized holding gains (losses) on securities arising during period	(688,008)	182,481
Reclassification adjustment for (gains) losses included in net loss	<u>(55,442)</u>	<u>30,450</u>
<b>Other Comprehensive Income (Loss)</b>	<b><u>(743,450)</u></b>	<b><u>212,931</u></b>
<b>Comprehensive Loss</b>	<b><u>\$ (1,009,063)</u></b>	<b><u>\$ (153,090)</u></b>

**Benchmark Federal Credit Union**

## Statement of Members' Equity

	<b>Restricted, Regular Reserve Fund</b>	<b>Unrestricted, Undivided Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	\$ 4,954,900	\$ 25,198,674	\$ 353,808	\$ 30,507,382
Net loss	-	(366,021)	-	(366,021)
Unrealized gains on investment securities	-	-	212,931	212,931
<b>Balance, December 31, 2017</b>	<b>4,954,900</b>	<b>24,832,653</b>	<b>566,739</b>	<b>30,354,292</b>
Net loss	-	(265,613)	-	(265,613)
Unrealized losses on investment securities	-	-	(743,450)	(743,450)
<b>Balance, December 31, 2018</b>	<b>\$ 4,954,900</b>	<b>\$ 24,567,040</b>	<b>\$ (176,711)</b>	<b>\$ 29,345,229</b>



# Benchmark Federal Credit Union

## Statement of Cash Flows

	Years Ended December 31,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (265,613)	\$ (366,021)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	424,573	460,211
Amortization (accretion) of investment securities premiums (discounts), net	2,619	6,492
(Gains) losses from sales of securities available for sale	(55,442)	30,450
Excess (deficiency) of provision for possible loan losses over (under) net loans charged off	229,056	(8,443)
(Increase) decrease in assets		
Accrued interest receivable	(26,928)	10,200
Prepaid expenses and other assets	138,769	482,804
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(3,252)	(48,936)
<b>Net Cash Provided by Operating Activities</b>	<b>443,782</b>	<b>566,757</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturing and called securities available for sale	8,325,000	13,750,000
Proceeds from sales of securities available for sale	12,897,790	7,823,692
Purchase of securities available for sale	(13,568,567)	(8,399,600)
Net (increase) decrease in interest bearing accounts	(6,278,874)	2,463,899
Net (increase) decrease in loans to members	945,999	(10,965,922)
Net (increase) decrease in NCUSIF deposit	96,394	(19,048)
Expenditures for equipment, net	(5,913)	(47,178)
<b>Net Cash Provided by Investing Activities</b>	<b>2,411,829</b>	<b>4,605,843</b>
<b>Cash Flows from Financing Activities</b>		
Net decrease in members' shares and savings account	(2,974,993)	(5,382,087)
Net proceeds (payments) from note payable	(38,677)	38,677
<b>Net Cash Used in Financing Activities</b>	<b>(3,013,670)</b>	<b>(5,343,410)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(158,059)</b>	<b>(170,810)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>711,300</b>	<b>882,110</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 553,241</b>	<b>\$ 711,300</b>

See accompanying notes.

## Benchmark Federal Credit Union

### Statement of Cash Flows (continued)

	Years Ended December 31,	
	2018	2017
<b>Supplemental Disclosures of Cash Flow Information</b>		
Dividends credited to members' shares and savings accounts	<u>\$ 1,041,130</u>	<u>\$ 928,273</u>
Interest on borrowed funds	<u>\$ 2,190</u>	<u>\$ 3,385</u>
Change in unrealized gains (losses) on investments	<u>\$ (743,450)</u>	<u>\$ 212,931</u>

## **Benchmark Federal Credit Union**

---

### Notes to Financial Statements

December 31, 2018 and 2017

#### **Note 1 - Organization**

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

#### **Note 2 - Summary of Significant Accounting Policies**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

##### **Basis of Financial Statement Presentation and Accounting Estimates**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the statement of financial condition, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates.

##### **Presentation of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, including items in the process of clearing. All Vizo Financial Corporate Credit Union accounts are categorized as interest bearing accounts. Cash flows from loans to members originated by the Credit Union, interest bearing accounts, and members' shares and savings accounts are reported net.

##### **Loans**

Loans, that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are stated at the outstanding unpaid principal balances, net of any deferred fees. Interest income is accrued on the unpaid principal balance. The Credit Union is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. Consumer and residential real estate loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loans.

## **Benchmark Federal Credit Union**

---

### Notes to Financial Statements

December 31, 2018 and 2017

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **Loan Origination Fees and Costs**

First mortgage loan origination fees received are deferred and amortized primarily over the lesser of the term of the loan or 10 years using the straight-line method. This method does not result in a materially different amortization than that computed by the level-yield method. In the event that related loans are sold or paid off, such deferred loan origination fees are recognized as income in the period of sale or payoff.

Student loan origination fees and costs are deferred and accreted over a 120-month period using the straight-line method. The straight-line method does not result in a materially different accretion than that computed by the level-yield method.

The Credit Union has not adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310, relating to certain direct consumer loan origination and commitment fees, and certain direct consumer loan origination costs, since the applicable portions of the Codification do not have a material effect on the Credit Union's financial statements.

##### **Allowance for Loan Losses**

The allowance for loan losses (ALL) is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the ALL and subsequent recoveries, if any, are credited to the allowance.

The ALL is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

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

## **Benchmark Federal Credit Union**

---

Notes to Financial Statements

December 31, 2018 and 2017

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **Allowance for Loan Losses (continued)**

The Credit Union's allowance for possible loan losses consists of two elements: (1) specific valuation allowances established for probable losses on specific loans and (2) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristic and trends, adjusted as necessary to reflect the impact of current conditions.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment using historical charge-offs as the starting point in estimating loss. Accordingly, the Credit Union may not separately identify individual consumer and residential loans for impairment disclosures.

#### **Troubled Debt Restructurings**

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring, as noted above, for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

#### **Securities Available for Sale**

Securities classified as available for sale are those debt and equity securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Credit Union's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported as increases and decreases, net, in members' equity. Realized gains or losses on the sale of these securities, determined on the basis of the cost of specific securities sold, are included in earnings.

## **Benchmark Federal Credit Union**

---

Notes to Financial Statements

December 31, 2018 and 2017

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **Foreclosed Assets**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from the foreclosed assets.

#### **Property, Equipment, and Leasehold Improvements**

Property, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of building and improvements is computed on the straight-line method over estimated useful lives from 20 to 39 years. Depreciation of equipment is computed on the straight-line method over estimated useful lives from 1 to 10 years.

Improvements to leased property are amortized over the lesser of the life of the lease or lives of the improvements.

Maintenance and repairs of property, equipment, and leasehold improvements are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of property, equipment, and leasehold improvements, the cost and accumulated depreciation or amortization are eliminated from the accounts, and gain or loss is included in operations. Management reviews property, equipment, and leasehold improvements whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **Employee Benefits**

The Credit Union sponsors a 401(k) savings plan for those employees who meet the eligibility requirements and elect to participate. As provided in the plan, participants may contribute up to a specified percentage of their gross wages to the plan.

#### **Income Tax Matters**

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

#### **Advertising Costs**

Advertising costs are expensed as incurred.

## Benchmark Federal Credit Union

---

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 2 - Summary of Significant Accounting Policies (continued)

##### Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Credit Union has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values, however, the exception requires the Credit Union to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 will be effective for the Credit Union for fiscal years beginning after December 15, 2018. The Credit Union is currently evaluating the impact of the adoption of ASU 2016-01 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. The Credit Union is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. ASU 2016-13 retains many of the disclosure amendments in ASU 2010-20, *Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, updated to reflect the change from an incurred loss methodology to an expected credit loss methodology. ASU 2016-13 will be effective for the Credit Union for fiscal years beginning after December 15, 2021. The Credit Union is currently evaluating the impact of the adoption of ASU 2016-13 on its financial statements.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 3 - Loans to Members, Net

A summary of loans outstanding, by primary collateral, at the end of the reporting periods is as follows:

	December 31,	
	2018	2017
Residential real estate		
First mortgages	\$ 87,436,334	\$ 82,224,347
Home equities	16,761,064	16,939,516
	<u>104,197,398</u>	<u>99,163,863</u>
Consumer		
Secured	41,477,320	46,692,025
Unsecured	2,911,850	3,397,628
Credit cards	11,425,097	11,774,354
Education	2,655,266	2,585,060
	<u>58,469,533</u>	<u>64,449,067</u>
Gross loans	162,666,931	163,612,930
Allowance for loan losses	<u>(660,441)</u>	<u>(431,385)</u>
Net loans	<u>\$ 162,006,490</u>	<u>\$ 163,181,545</u>
Included in the loan balances are the following		
Net unamortized deferred loan costs	<u>\$ 241,970</u>	<u>\$ 700,410</u>
Loans pledged as collateral for borrowings and commitments from		
Vizo Financial Corporate Credit Union line of credit	<u>\$ 152,369,853</u>	<u>\$ 146,827,068</u>

The Credit Union has purchased loan participations originated by other institutions which are secured by vehicles to members of these institutions. The loan participations were purchased without recourse and the originating institution performs all loan servicing functions on these loans. The total loan participations, included in consumer - secured above, totaled \$10,297,078 and \$16,785,862 at December 31, 2018 and 2017, respectively.



## **Benchmark Federal Credit Union**

---

### Notes to Financial Statements

December 31, 2018 and 2017

#### **Note 4 - Loan Quality**

Management performs a monthly evaluation of the adequacy of the ALL. Consideration is given to a variety of factors in establishing this estimate, including but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent), and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or higher, including nonaccrual. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors, including but not limited to, the economy, deferred maintenance, industry, type of property and equipment, etc., and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Credit Union.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For the purposes of calculating the ALL, the Credit Union segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: residential real estate and consumer. The residential real estate segment is further segregated by first mortgage loans and home equity products. The consumer segment is further segregated by secured, unsecured, credit cards, and education loans.

The analysis for determining the ALL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components, specific and general allocations. The specific component addresses specific reserves established for impaired loans. A loan is considered to be impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations.

The general component addresses the reserves established for pools of homogenous loans, including primarily nonclassified residential real estate or consumer loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Credit Union's historical loan loss experience and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes a risk matrix that incorporates qualitative and environmental factors such as: loan volume, management, nonperforming loans, loan review process, credit concentrations, competition, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment, and experience. As a result of this input, additional loss percentages may be assigned to each pool of loans.

The total allowance reflects the Credit Union's estimate of loan losses inherent in the loan portfolio and considers the ALL of \$660,441 adequate to cover losses inherent in the portfolio as of December 31, 2018.

**Benchmark Federal Credit Union**

## Notes to Financial Statements

December 31, 2018 and 2017

**Note 4 - Loan Quality (continued)**

The following table presents, by loan segment, the ALL and changes to the ALL for the years ended December 31:

	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance at December 31, 2016	\$ 127,314	\$ 312,514	\$ 439,828
Charge-offs	(31,921)	(794,593)	(826,514)
Recoveries	-	146,995	146,995
Provision	(45,730)	716,806	671,076
Allowance at December 31, 2017	<b>49,663</b>	<b>381,722</b>	<b>431,385</b>
Charge-offs	<b>(28,215)</b>	<b>(699,397)</b>	<b>(727,612)</b>
Recoveries	<b>144</b>	<b>140,183</b>	<b>140,327</b>
Provision	<b>(3,032)</b>	<b>819,373</b>	<b>816,341</b>
Allowance at December 31, 2018	<b><u>\$ 18,560</u></b>	<b><u>\$ 641,881</u></b>	<b><u>\$ 660,441</u></b>

The following tables present, by loan segment, loans that were evaluated for the ALL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31:

<b>2018</b>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Loans evaluated for allowance			
Individually	\$ 388,262	\$ 99,985	\$ 488,247
Collectively	103,809,136	58,369,548	162,178,684
	<b><u>\$ 104,197,398</u></b>	<b><u>\$ 58,469,533</u></b>	<b><u>\$ 162,666,931</u></b>
Allowance established for loans evaluated			
Individually	\$ 1,705	\$ 59,310	\$ 61,015
Collectively	16,855	582,571	599,426
Allowance at December 31, 2018	<b><u>\$ 18,560</u></b>	<b><u>\$ 641,881</u></b>	<b><u>\$ 660,441</u></b>
<b>2017</b>			
Loans evaluated for allowance			
Individually	\$ 122,082	\$ 65,267	\$ 187,349
Collectively	99,041,781	64,383,800	163,425,581
	<b><u>\$ 99,163,863</u></b>	<b><u>\$ 64,449,067</u></b>	<b><u>\$ 163,612,930</u></b>
Allowance established for loans evaluated			
Individually	\$ 44,796	\$ 24,592	\$ 69,388
Collectively	4,867	357,130	361,997
Allowance at December 31, 2017	<b><u>\$ 49,663</u></b>	<b><u>\$ 381,722</u></b>	<b><u>\$ 431,385</u></b>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

The following tables present additional information about those loans considered to be impaired at December 31:

2018	December 31,			For the Year Ended December 31,
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no specific allowance				
Residential real estate				
First mortgages	\$ 347,896	\$ 347,896	\$ -	\$ 173,947
Home equities	-	-	-	-
	<u>347,896</u>	<u>347,896</u>	<u>-</u>	<u>173,947</u>
Consumer				
Secured	-	-	-	-
Unsecured	-	-	-	-
Credit cards	-	-	-	-
Education	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 347,896</u>	<u>\$ 347,896</u>	<u>\$ -</u>	<u>\$ 173,947</u>
Impaired loans with specific allowance				
Residential real estate				
First mortgages	\$ -	\$ -	\$ -	\$ -
Home equities	40,366	40,366	1,705	40,366
	<u>40,366</u>	<u>40,366</u>	<u>1,705</u>	<u>40,366</u>
Consumer				
Secured	59,424	59,424	18,749	29,712
Unsecured	40,561	40,561	40,561	40,561
Credit cards	-	-	-	-
Education	-	-	-	-
	<u>99,985</u>	<u>99,985</u>	<u>59,310</u>	<u>70,273</u>
	<u>\$ 140,351</u>	<u>\$ 140,351</u>	<u>\$ 61,015</u>	<u>\$ 110,639</u>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

2017	December 31,			For the Year Ended December 31,
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no specific allowance				
Residential real estate				
First mortgages	\$ -	\$ -	\$ -	\$ -
Home equities	77,286	77,286	-	38,643
	<u>77,286</u>	<u>77,286</u>	<u>-</u>	<u>38,643</u>
Consumer				
Secured	-	-	-	-
Unsecured	-	-	-	-
Credit cards	-	-	-	-
Education	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 77,286</u>	<u>\$ 77,286</u>	<u>\$ -</u>	<u>\$ 38,643</u>
Impaired loans with specific allowance				
Residential real estate				
First mortgages	\$ -	\$ -	\$ -	\$ -
Home equities	44,796	44,796	44,796	44,796
	<u>44,796</u>	<u>44,796</u>	<u>44,796</u>	<u>44,796</u>
Consumer				
Secured	65,267	65,267	24,592	32,634
Unsecured	-	-	-	-
Credit cards	-	-	-	-
Education	-	-	-	-
	<u>65,267</u>	<u>65,267</u>	<u>24,592</u>	<u>32,634</u>
	<u>\$ 110,063</u>	<u>\$ 110,063</u>	<u>\$ 69,388</u>	<u>\$ 77,430</u>

As part of its process to calculate the ALL, the Credit Union reviews several credit quality factors, including payment status (performing, nonperforming, and aging) and internal credit rating.

**Benchmark Federal Credit Union**

## Notes to Financial Statements

December 31, 2018 and 2017

**Note 4 - Loan Quality (continued)**

The following table presents a summary of nonperforming assets as of December 31:

	2018		2017	
	Balance	Percent of Loan Segment	Balance	Percent of Loan Segment
Nonaccrual loans				
Residential real estate				
First mortgages	\$ -	- %	\$ -	- %
Home equities	-	-	77,286	0.08
	-	- %	77,286	0.08 %
Consumer				
Secured	232,411	0.40 %	288,150	0.45 %
Unsecured	24,848	0.04	23,902	0.04
Credit cards	-	-	-	-
Education	-	-	-	-
	257,259	0.44 %	312,052	0.49 %
Total nonaccrual loans	257,259	0.16 %	389,338	0.24 %
Loans past due 90 days or more and not included above				
Consumer				
Credit cards	33,674		60,380	
Education	38,887		-	
Total loans past due 90 days or more and still accruing	72,561		60,380	
Total nonaccrual and loans past due 90 days or more and still accruing	329,820		449,718	
Foreclosed assets	-		12,000	
Total nonperforming assets	\$ 329,820		\$ 461,718	
Restructured loans (TDRs)				
Performing	\$ 80,927		\$ 44,796	
Total TDRs	\$ 80,927		\$ 44,796	

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

	<u>2018</u>	<u>2017</u>
	<u>Percent of Loan Segment</u>	<u>Percent of Loan Segment</u>
Nonperforming assets to total gross loans	<u>0.20 %</u>	<u>0.28 %</u>
Nonperforming assets to total assets	<u>0.15 %</u>	<u>0.21 %</u>
Allowance for loan losses to nonperforming assets	<u>200.24 %</u>	<u>93.43 %</u>

Loans on which the accrual of interest has been discontinued and reversed approximated \$257,000 and \$389,000 at December 31, 2018 and 2017, respectively. If interest on those loans had been accrued, such accrued income would have approximated \$6,000 and \$14,000 for 2018 and 2017, respectively. The effect of nonaccrual loans was not significant to the results of operations.

The following tables present the aging of payments of the loan portfolio at December 31:

2018	<u>Loans Past Due (Days)</u>				<u>Total</u>	<u>Total Loans</u>
	<u>Current</u>	<u>30-59</u>	<u>60-89</u>	<u>90+</u>		
Residential real estate						
First mortgages	\$ 86,136,166	\$ 952,272	\$ 347,896	\$ -	\$ 1,300,168	\$ 87,436,334
Home equities	16,692,831	68,233	-	-	68,233	16,761,064
	<u>102,828,997</u>	<u>1,020,505</u>	<u>347,896</u>	<u>-</u>	<u>1,368,401</u>	<u>104,197,398</u>
Consumer						
Secured	40,220,844	861,688	162,377	232,411	1,256,476	41,477,320
Unsecured	2,848,743	38,259	-	24,848	63,107	2,911,850
Credit cards	10,943,771	354,816	92,836	33,674	481,326	11,425,097
Education	2,616,379	-	-	38,887	38,887	2,655,266
	<u>56,629,737</u>	<u>1,254,763</u>	<u>255,213</u>	<u>329,820</u>	<u>1,839,796</u>	<u>58,469,533</u>
	<u>\$ 159,458,734</u>	<u>\$ 2,275,268</u>	<u>\$ 603,109</u>	<u>\$ 329,820</u>	<u>\$ 3,208,197</u>	<u>\$ 162,666,931</u>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

2017	Current	Loans Past Due (Days)			Total	Total Loans
		30-59	60-89	90+		
Residential real estate						
First mortgages	\$ 81,565,917	\$ 327,357	\$ 331,073	\$ -	\$ 658,430	\$ 82,224,347
Home equities	16,636,516	151,458	74,256	77,286	303,000	16,939,516
	<u>98,202,433</u>	<u>478,815</u>	<u>405,329</u>	<u>77,286</u>	<u>961,430</u>	<u>99,163,863</u>
Consumer						
Secured	44,971,642	1,092,395	339,838	288,150	1,720,383	46,692,025
Unsecured	3,310,384	43,909	19,433	23,902	87,244	3,397,628
Credit cards	11,126,543	455,101	132,330	60,380	647,811	11,774,354
Education	2,585,060	-	-	-	-	2,585,060
	<u>61,993,629</u>	<u>1,591,405</u>	<u>491,601</u>	<u>372,432</u>	<u>2,455,438</u>	<u>64,449,067</u>
	<u>\$ 160,196,062</u>	<u>\$ 2,070,220</u>	<u>\$ 896,930</u>	<u>\$ 449,718</u>	<u>\$ 3,416,868</u>	<u>\$ 163,612,930</u>

Generally, a loan is considered nonperforming if it is 90 days or greater past due. The following table presents the performance status on selected loans:

December 31, 2018	Consumer				Residential Real Estate		Total
	Secured	Unsecured	Credit Cards	Education	Home Equities	First Mortgages	
Performing	\$ 41,244,909	\$ 2,887,002	\$ 11,391,423	\$ 2,616,379	\$ 16,761,064	\$ 87,436,334	\$ 162,337,111
Nonperforming	232,411	24,848	33,674	38,887	-	-	329,820
	<u>\$ 41,477,320</u>	<u>\$ 2,911,850</u>	<u>\$ 11,425,097</u>	<u>\$ 2,655,266</u>	<u>\$ 16,761,064</u>	<u>\$ 87,436,334</u>	<u>\$ 162,666,931</u>
December 31, 2017							
Performing	\$ 46,403,875	\$ 3,373,726	\$ 11,713,974	\$ 2,585,060	\$ 16,862,230	\$ 82,224,347	\$ 163,163,212
Nonperforming	288,150	23,902	60,380	-	77,286	-	449,718
	<u>\$ 46,692,025</u>	<u>\$ 3,397,628</u>	<u>\$ 11,774,354</u>	<u>\$ 2,585,060</u>	<u>\$ 16,939,516</u>	<u>\$ 82,224,347</u>	<u>\$ 163,612,930</u>

#### Modifications

The Credit Union's loan portfolio also includes certain loans that have been modified in a TDR where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

##### Modifications (continued)

When the Credit Union modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

The following tables include the recorded investment and number of modifications for modified loans. The Credit Union reports the recorded investment in the loans prior to a modification and also the recorded investment and number of modifications for TDRs within the last year where a concession has been made, that then defaulted in the current reporting period.

	Modifications by Class of Loans		
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
<b>December 31, 2018</b>			
Troubled debt restructurings			
Home equities	1	\$ 40,366	\$ 40,366
Unsecured	1	40,561	40,561
	<u>2</u>	<u>\$ 80,927</u>	<u>\$ 80,927</u>
<b>December 31, 2017</b>			
Troubled debt restructurings			
Home equities	1	\$ 44,796	\$ 44,796
Unsecured	-	-	-
	<u>1</u>	<u>\$ 44,796</u>	<u>\$ 44,796</u>

The Credit Union did not have any TDRs within the last year where a concession has been made that then defaulted during the years ended December 31, 2018 and 2017.



## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 4 - Loan Quality (continued)

##### Off-Balance Sheet Credit Exposures

In addition to the ALL, the Credit Union also estimates probable losses related to unfunded lending commitments, such as home equity, unsecured lines of credit, and credit card commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Credit Union's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, may result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments is reported in the statement of income.

#### Note 5 - Interest Bearing Accounts

##### Composition of Interest Bearing Accounts

	December 31,	
	2018	2017
Vizo Financial Corporate Credit Union		
Federal funds account	\$ 10,384,000	\$ 1,840,000
Share accounts	375,282	2,702,408
Perpetual contributed capital (PCC) account	930,599	930,599
Federal reserve compensating balance	870,000	808,000
	<u>\$ 12,559,881</u>	<u>\$ 6,281,007</u>

The PCC account has a perpetual maturity and is callable only at the option of Vizo Financial Corporate Credit Union. This account is not subject to share insurance coverage by the National Credit Union Share Insurance Fund (NCUSIF or the Fund) or other deposit insurers. This account is subordinated to all other liabilities of Vizo Financial Corporate Credit Union, including uninsured obligations to shareholders and the NCUSIF.

The compensating balance account on deposit at Vizo Financial Corporate Credit Union totaling \$870,000 and \$808,000 at December 31, 2018 and 2017, respectively, is required by the Federal Reserve Bank to comply with Regulation E.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 6 - Securities Available for Sale

##### Composition of Securities Available for Sale

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Governmental agency securities	\$ 4,860,567	\$ -	\$ 180,699	\$ 4,679,868
Negotiable certificates of deposit	29,807,428	4,109	121	29,811,416
	<u>\$ 34,667,995</u>	<u>\$ 4,109</u>	<u>\$ 180,820</u>	<u>\$ 34,491,284</u>
December 31, 2017				
U.S. Governmental agency securities	\$ 9,500,394	\$ -	\$ 113,639	\$ 9,386,755
Negotiable certificates of deposit	23,176,652	1,765	-	23,178,417
Ultra Short Mortgage mutual fund	9,592,349	-	393,835	9,198,514
VISA, Inc. stock	-	1,072,448	-	1,072,448
	<u>\$ 42,269,395</u>	<u>\$ 1,074,213</u>	<u>\$ 507,474</u>	<u>\$ 42,836,134</u>

##### Contractual Maturities

	December 31, 2018	
	Amortized Cost	Approximate Fair Value
Due in one year or less	\$ 8,191,000	\$ 8,029,200
Due after one year through three years	19,652,428	19,637,536
Due after three years through ten years	6,824,567	6,824,548
	<u>\$ 34,667,995</u>	<u>\$ 34,491,284</u>
	December 31, 2017	
Due in one year or less	\$ 8,575,394	\$ 8,562,150
Due after one year through three years	10,612,676	10,614,019
Due after three years through ten years	13,488,976	13,389,003
Mutual fund	9,592,349	9,198,514
VISA, Inc. stock	-	1,072,448
	<u>\$ 42,269,395</u>	<u>\$ 42,836,134</u>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 6 - Securities Available for Sale (continued)

##### Contractual Maturities (continued)

The mutual fund and the stock are excluded from the above maturity summary since the anticipated maturities of these investments are not readily determinable.

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

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<b>2018</b>				
U.S. Governmental agency securities	\$ 19	\$ 360,548	\$ 180,680	\$ 4,319,320
Negotiable certificates of deposit	121	249,527	-	-
	<u>\$ 140</u>	<u>\$ 610,075</u>	<u>\$ 180,680</u>	<u>\$ 4,319,320</u>
<b>2017</b>				
U.S. Governmental agency securities	\$ -	\$ -	\$ 113,639	\$ 9,386,755
Ultra Short Mortgage mutual fund	-	-	393,835	9,198,514
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 507,474</u>	<u>\$ 18,585,269</u>

All of these securities are 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 management 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 7 - Accrued Interest Receivable

##### Composition of Accrued Interest Receivable

	December 31,	
	2018	2017
Loans to members	\$ 474,363	\$ 474,899
Investment securities	97,845	70,381
	<u>\$ 572,208</u>	<u>\$ 545,280</u>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 8 - Property, Equipment, and Leasehold Improvements, Net

##### Composition of Property, Equipment, and Leasehold Improvements

	December 31,	
	2018	2017
Building and improvements	\$ 1,793,537	\$ 1,793,537
Office furniture and equipment	3,631,681	3,640,144
Leasehold improvements	1,211,391	1,211,391
	<b>6,636,609</b>	6,645,072
Accumulated depreciation and amortization	<b>(4,536,814)</b>	(4,126,617)
	<b>\$ 2,099,795</b>	\$ 2,518,455

#### Note 9 - NCUSIF Deposit

##### Deposit in NCUA Share Insurance Fund

The National Credit Union Administration (NCUA) requires insured members to maintain a deposit balance with the NCUSIF equal to one percent of their insured shares, adjusted semiannually. Insured members may not withdraw funds, other than as an adjustment, as previously noted, from this deposit account, nor does this account earn interest unless the conditions of the Fund are such that some rate of return is approved to be disbursed. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the Fund are transferred from the NCUA Board. The Fund utilizes earnings from these deposit balances to fund its operations.

If these earnings are not sufficient to maintain the Fund at a predetermined level, premium assessments may be levied against all insured members based upon their insured shares.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 10 - Members' Shares and Savings Accounts

##### Composition of Members' Shares and Savings Accounts

	Rates at December 31, 2018	December 31, 2018	December 31, 2017
Regular share accounts	0.05%-1.00%	\$ 52,976,810	\$ 54,580,218
High-yield savings accounts	1.34%	10,622,057	-
Christmas club accounts	0.10%-0.15%	247,165	183,868
Vacation club accounts	0.10%-0.15%	2,816,262	2,520,794
Share draft accounts	0.05%-1.98%	33,892,092	30,973,024
IRA share accounts	0.10%-0.15%	2,562,609	3,205,602
High-yield money maker accounts	0.30%-0.35%	27,149,185	39,217,660
Money market accounts	0.15%	10,517,703	10,887,720
		<u>140,783,883</u>	<u>141,568,886</u>
Share and IRA certificates			
0.20% to 1.00%		1,293,497	11,667,138
1.01% to 2.00%		28,896,891	27,648,987
2.01% to 3.00%		14,191,083	7,994,721
3.01% to 4.00%		739,385	-
		<u>45,120,856</u>	<u>47,310,846</u>
		<u>\$ 185,904,739</u>	<u>\$ 188,879,732</u>

The aggregate amounts of members' shares and savings accounts with cumulative balances over \$250,000 were approximately \$52,341,000 and \$53,933,000 at December 31, 2018 and 2017, respectively.

##### Scheduled Maturities of Members' Shares and Savings Accounts

	December 31,	
	2018	2017
No contractual maturity	\$ 140,783,883	\$ 141,568,886
Maturity within one year	20,673,106	21,517,866
One to two years	11,709,416	10,352,956
Two to five years	12,738,334	15,440,024
	<u>\$ 185,904,739</u>	<u>\$ 188,879,732</u>

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 10 - Members' Shares and Savings Accounts (continued)

##### Interest Expense on Members' Shares and Savings Accounts

	Years Ended December 31,	
	2018	2017
Regular share accounts	\$ 86,307	\$ 85,242
High-yield savings accounts	46,952	-
Christmas club accounts	350	335
Vacation club accounts	3,429	3,268
Share draft accounts	17,145	18,289
IRA share accounts	3,707	4,441
High-yield money maker accounts	118,340	147,226
Money market accounts	16,206	17,171
Share and IRA certificates	748,694	652,301
	<u>\$ 1,041,130</u>	<u>\$ 928,273</u>

##### Other

Members' shares and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates are set by the Board of Directors based on an evaluation of current and future market conditions, as well as current earnings. Interest expense is charged to operations.

#### Note 11 - Borrowed Funds

##### Note Payable

The Credit Union has a \$5,000,000 line of credit with Vizo Financial Corporate Credit Union, of which \$0- and \$38,677 was in use at December 31, 2018 and 2017, respectively. The availability of the line of credit requires the Credit Union to maintain funds on deposit totaling \$930,599 at December 31, 2018 and 2017 (see Note 5). The interest rate is determined periodically and fluctuates depending upon general market conditions. The line of credit is collateralized by a security agreement covering substantially all member loans of the Credit Union.

#### Note 12 - Commitments and Contingencies

##### General

##### Contingencies

In the normal course of business, the Credit Union is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 12 - Commitments and Contingencies (continued)

##### Loan Commitments and Contingencies

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

The Credit Union is party to 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 home equity lines of credit, unsecured lines of credit, credit card commitments, and overdraft protection program commitments. They involve, to varying degrees, elements of credit risk in excess of the amounts recognized on the statement of financial condition.

The Credit Union's exposure to credit loss, in the event of nonperformance by the other parties to the financial instruments for these commitments, is represented by the contractual amounts of those instruments. The Credit Union uses the same credit policies in making these commitments as it does for on-balance sheet instruments. The approximate commitments are as follows:

	December 31,	
	2018	2017
Home equity lines of credit	\$ 8,757,000	\$ 7,524,000
Unsecured lines of credit	2,969,000	2,829,000
Credit card commitments	29,251,000	28,946,000
Overdraft protection program commitments	4,467,000	4,491,000
	<u>\$ 45,444,000</u>	<u>\$ 43,790,000</u>

###### Financial Instruments with Concentrations of Credit Risk

###### Home Equity and Unsecured Lines of Credit

Home equity and unsecured lines of credit are agreements to lend to a member as long as there is no violation of any condition established in the agreement. Many of the commitments will expire without being fully utilized. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. Collateral held includes real estate for home equity lines of credit.

###### Credit Card Commitments

Credit card commitments are commitments on credit cards issued by the Credit Union. These commitments are unsecured.

###### Overdraft Protection Program Commitments

Overdraft protection program commitments are agreements to provide overdraft protection on member share draft accounts.

## **Benchmark Federal Credit Union**

---

Notes to Financial Statements

December 31, 2018 and 2017

### **Note 12 - Commitments and Contingencies (continued)**

#### **Loan Commitments and Contingencies (continued)**

##### **Financial Instruments with Concentrations of Credit Risk (continued)**

###### **Concentration by Geographic Location**

The Credit Union has a significant concentration of loans to members located primarily in Pennsylvania, New Jersey, Delaware, Virginia, Florida, and New York. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' abilities to honor their contracts is dependent upon the effect of the local economy on the Credit Union's field of membership. See Note 3 for concentration by loan type.

#### **Other Contingencies, Credit Risk**

##### **Financial Instruments with Concentrations of Credit Risk**

###### **Cash and Cash Equivalents**

The Credit Union maintains working cash on hand approximating \$553,000 and \$711,000 at December 31, 2018 and 2017, respectively.

###### **Interest Bearing Accounts**

The Credit Union has interest bearing accounts with a financial institution. At December 31, 2018 and 2017, the first \$250,000 of deposits with this institution is insured by an agency of the U.S. Government. Interest bearing accounts may, at times, exceed federally insured limits.

###### **Investment Securities**

The Credit Union's investment securities are being held in accordance with the terms of safekeeping agreements with various brokers.

Although the Credit Union has credit risk due to the uninsured portion of the above deposits and investments, the Credit Union does not anticipate any accounting loss.

#### **Lease Commitments**

##### **Branch Offices**

The Credit Union leases its West Chester branch office space under an agreement that expires December 31, 2021. The lease requires an aggregate minimum annual rental of \$28,119, resulting in aggregate future minimum rentals of \$86,918 through the lease term (as defined therein) plus a proportionate share of defined expenses. Additionally, the agreement requires the Credit Union to carry certain minimum insurance coverages. This branch location opened in 2016.



## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 12 - Commitments and Contingencies (continued)

##### Lease Commitments (continued)

###### Branch Offices (continued)

The Credit Union leases its Phoenixville branch office space under an agreement that expires September 30, 2020. The lease requires an aggregate minimum annual rental of \$27,152, resulting in aggregate future minimum rentals of \$48,332 through the lease term (as defined therein) plus a proportionate share of defined expenses. Additionally, the agreement requires the Credit Union to carry certain minimum insurance coverages. This branch location opened in 2016.

The total minimum rental commitment at December 31, 2018 is due as follows:

2019	\$	55,475
2020		49,940
2021		<u>29,835</u>
	\$	<u>135,250</u>

The total rental occupancy expense included in the statement of income for the years ended December 31, 2018 and 2017 was \$71,665 and \$144,582, respectively.

#### Note 13 - Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-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), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2018 and 2017 was 6.74% and 6.59%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00%. 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 and 2017, the Credit Union's net worth is 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 capital ratio as set forth in the table. Management believes there are no conditions or events that will change the Credit Union's category.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 13 - Capital Requirements (continued)

The Credit Union's actual capital amounts and ratios are also presented as follows at December 31:

2018	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
Net worth	\$ 29,522	13.71%	\$ 12,921	6.00%	\$ 15,075	7.00%
Risk-Based Net Worth Requirement - per call report	14,515	6.74%	N/A	N/A	N/A	N/A
2017						
Net worth	\$ 29,788	13.58%	\$ 13,163	6.00%	\$ 15,357	7.00%
Risk-Based Net Worth Requirement - per call report	14,458	6.59%	N/A	N/A	N/A	N/A

\* (Dollars in thousands)

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

#### Note 14 - Pension Benefits

##### Retirement Savings Plan

The Credit Union sponsors a retirement savings plan (401(k) plan) covering all employees who reach 21 years of age and have completed at least three months of continuous service. Participants may elect to defer compensation up to the maximum allowed by federal regulations. The Credit Union contributes, on behalf of each of the employees who are participants of the plan, a matching contribution equal to 50% of the participant's contribution up to 6% of the participant's compensation in addition to a 5% safe harbor contribution. The Credit Union reflects its contributions as an operating expense. Contributions to the retirement savings plan for the years ended December 31, 2018 and 2017 amounted to \$203,412 and \$200,450, respectively.

#### Note 15 - Related Party Transactions

##### Transactions with Directors, Principal Officers, Employees, and Immediate Family Members

Directors, principal officers, and employees of the Credit Union, including their families, are considered to be related parties.

## **Benchmark Federal Credit Union**

---

### Notes to Financial Statements

December 31, 2018 and 2017

#### **Note 15 - Related Party Transactions (continued)**

##### **Transactions with Directors, Principal Officers, Employees, and Immediate Family Members (continued)**

The Credit Union has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, principal officers, employees, and their immediate families on materially similar terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The aggregate loans to Credit Union officials amounted to approximately \$2,332,000 and \$2,182,000 at December 31, 2018 and 2017, respectively. The aggregate amount of deposits is not significant to the financial statements.

#### **Note 16 - Fair Values of Financial Instruments**

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurement. This guidance also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FASB ASC 820, fair value measurements are disclosed by level within that hierarchy.

This guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

In determining the appropriate level, the Credit Union performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following is a description of the valuation methodology used for investments measured at fair value. There has been no change in the methodology used during December 31, 2018 and 2017.

Estimated fair values for investment securities are obtained from a third-party and are based on a comparison of the book rate to the market rate at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Credit Union believes its valuation method is 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.

## Benchmark Federal Credit Union

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 16 - Fair Values of Financial Instruments (continued)

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	Fair Value Measurements at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Governmental agency securities	\$ -	\$ 4,679,868	\$ -	\$ 4,679,868
Negotiable certificates of deposit	-	29,811,416	-	29,811,416
	<u>\$ -</u>	<u>\$ 34,491,284</u>	<u>\$ -</u>	<u>\$ 34,491,284</u>
	Fair Value Measurements at December 31, 2017			
U.S. Governmental agency securities	\$ -	\$ 9,386,755	\$ -	\$ 9,386,755
Negotiable certificates of deposit	-	23,178,417	-	23,178,417
Ultra Short Mortgage mutual fund	9,198,514	-	-	9,198,514
VISA, Inc. stock	1,072,448	-	-	1,072,448
	<u>\$ 10,270,962</u>	<u>\$ 32,565,172</u>	<u>\$ -</u>	<u>\$ 42,836,134</u>

#### Note 17 - Subsequent Events

The Credit Union has evaluated subsequent events through March 21, 2019. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2018 were noted.