CERTIFIED AUDIT REPORT

717 CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2020 and 2019

Nearman Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

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Supervisory Committee
Seven Seventeen Credit Union, Inc.
Warren, Ohio

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Seven Seventeen Credit Union, Inc., which comprise the statements of financial condition as of December 31, 2020 and 2019, and the related statements of income, changes in members' equity, comprehensive income, 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 consolidated 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 of material misstatement.

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

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

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Supervisory Committee
Seven Seventeen Credit Union, Inc.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seven Seventeen Credit Union, Inc. as of December 31, 2020 and 2019, 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.

Nearman, Maynard, Vallez, CPAs

Nearman, Maynard, Vallez, CPAs
Miami, Florida
March 11, 2021

CONSOLIDATED FINANCIAL STATEMENTS

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 28,277,985	$ 21,342,518
Investments:		
Available-for-sale	85,475,198	32,106,931
Held-to-maturity	6,398,000	3,358,000
Other	130,880,467	66,509,048
Federal Home Loan Bank (FHLB) stock	2,617,500	2,445,800
Loans held-for-sale	1,667,029	335,550
Loans receivable, net of allowance for loan losses	927,459,322	921,906,568
Accrued interest receivable	3,221,676	3,137,060
Premises and equipment, net	23,130,763	20,525,533
National Credit Union Share Insurance Fund deposit	9,784,120	8,627,842
Assets acquired in liquidation	100,447	145,288
Other assets	40,215,644	33,872,006
Total Assets	$ 1,259,228,151	$ 1,114,312,144

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2020	December 31, 2019
Liabilities		
Share and savings accounts	$ 1,063,484,427	$ 907,266,787
Borrowed funds	-	24,519,717
Interest payable	999,564	1,485,279
Accrued expenses and other liabilities	17,031,115	16,943,885
Total liabilities	1,081,515,106	950,215,668
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	11,249,296	11,249,296
Undivided earnings	161,423,125	148,529,199
Accumulated other comprehensive income (loss)	374,093	(348,550)
Equity acquired in mergers	4,666,531	4,666,531
Total members' equity	177,713,045	164,096,476
Total Liabilities and Members' Equity	$ 1,259,228,151	$ 1,114,312,144

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF INCOME

	December 31, 2020	December 31, 2019
Interest Income		
Interest on loans receivable	$ 48,325,153	$ 48,414,617
Interest on investments	1,211,799	1,831,207
Interest income	49,536,952	50,245,824
Interest Expense		
Dividends on share and savings accounts	6,013,543	6,159,198
Interest on borrowed funds	395,150	263,456
Interest expense	6,408,693	6,422,654
Net Interest Income	43,128,259	43,823,170
Provision for Loan Losses	3,907,155	4,369,222
Net Interest Income After Provision for Loan Losses	39,221,104	39,453,948
Non-Interest Income		
Card income	7,848,417	7,031,813
Loan origination and servicing income	7,156,420	1,325,202
Service charges	5,208,458	6,287,556
Investment commission and insurance income	1,505,338	1,945,783
Other non-interest income	475,974	989,037
Gains on sale of investments, net	43,753	-
Gain on disposition of assets acquired in liquidation, net	36,554	4,845
Non-interest income	22,274,914	17,584,236
	61,496,018	57,038,184
Non-Interest Expense		
Compensation and employee benefits	30,905,906	28,236,133
Operations	11,050,661	10,577,186
Education and promotion	2,671,974	3,402,811
Occupancy	2,093,588	1,952,178
Prepayment penalties on extinguishment of debt	998,654	-
Professional and outside services	857,923	790,536
Loss on private label investments, net	23,386	21,731
Non-interest expense	48,602,092	44,980,575
Net Income	$ 12,893,926	$ 12,057,609

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

COMPREHENSIVE INCOME

	December 31, 2020	December 31, 2019
Net Income	$ 12,893,926	$ 12,057,609
Other Comprehensive Income		
Net unrealized holding gains on securities arising during the year	743,010	785,825
Less reclassification adjustment for net (gains)/losses included in net income	(20,367)	21,731
	722,643	807,556
Comprehensive Income	$ 13,616,569	$ 12,865,165

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired In Mergers	Total
Balance, December 31, 2018	$ 11,249,296	$ 136,471,590	$ (1,156,106)	$ 4,666,531	$ 151,231,311
Net income	-	12,057,609	-	-	12,057,609
Change in unrealized gain/(loss) on securities	-	-	807,556	-	807,556
Balance, December 31, 2019	11,249,296	148,529,199	(348,550)	4,666,531	164,096,476
Net income	-	12,893,926	-	-	12,893,926
Change in unrealized gain/(loss) on securities	-	-	722,643	-	722,643
Balance, December 31, 2020	$ 11,249,296	$ 161,423,125	$ 374,093	$ 4,666,531	$ 177,713,045

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2020	December 31, 2019
Cash Flows From Operating Activities		
Net income	$ 12,893,926	$ 12,057,609
Adjustments to reconcile net income to net cash:		
Provision for loan losses	3,907,155	4,369,222
Depreciation of premises and equipment	2,397,359	1,695,243
Gain on sale of investments, net	(43,753)	-
Loss on private label investments, net	23,386	21,731
Gain on disposition of assets acquired in liquidation, net	(36,554)	(4,845)
Amortization of investment premiums/discounts	533,407	98,402
Amortization of loan premiums/discounts	30,174	23,654
Amortization of deferred loan origination fees/costs	3,111,981	2,801,611
Changes in operating assets and liabilities:		
Loans held-for-sale	(1,331,479)	299,387
Accrued interest receivable	(84,616)	(266,416)
Other assets	(6,343,638)	(497,776)
Dividends payable	(485,715)	633,047
Accrued expenses and other liabilities	87,230	2,291,511
Net cash provided by operating activities	14,658,863	23,522,380
Cash Flows From Investment Activities		
Purchases of:		
Available-for-sale securities	(73,922,994)	(8,487,412)
Held-to-maturity securities	(9,434,000)	-
FHLB stock	(171,700)	-
Premises and equipment	(5,002,589)	(6,272,072)
Proceeds from:		
Maturities, paydowns and sales of available-for-sale securities	20,764,330	6,081,842
Maturities and paydowns of held-to-maturity securities	6,394,000	1,068,000
Sale of mortgage loans	141,921,005	25,550,511
Sale of assets acquired in liquidation, net	231,843	257,206
Net change in:		
Other investments	(64,371,419)	(50,699,686)
Loans receivable, net of charge-offs	(155,582,247)	(79,750,970)
Assets acquired in liquidation	(150,448)	(217,229)
NCUSIF deposit	(1,156,278)	(426,145)
Recoveries on loans charged off	1,059,178	1,295,555
Net cash used in investing activities	(139,421,319)	(111,600,400)

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

SEVEN SEVENTEEN CREDIT UNION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2020	December 31, 2019
Cash Flows From Financing Activities		
Net change in share and savings accounts	156,217,640	72,988,382
Proceeds from borrowings	-	20,000,000
Repayments of borrowings	(24,519,717)	(1,265,283)
Net cash provided by financing activities	131,697,923	91,723,099
Net Change in Cash and Cash Equivalents	6,935,467	3,645,079
Cash and Cash Equivalents at Beginning of Year	21,342,518	17,697,439
Cash and Cash Equivalents at End of Year	$ 28,277,985	$ 21,342,518
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 6,894,408	$ 5,789,607
Loans receivable transferred to assets acquired in liquidation	$ 71,188	$ 145,288

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Seven Seventeen Credit Union, Inc. (the "Credit Union") is a cooperative association incorporated in the State of Ohio for the purposes of promoting thrift among, and creating a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

The Credit Union's wholly-owned credit union service organization (CUSO) subsidiary, Sound Financial Services, Inc. is engaged in providing maintenance and security services.

Principles of Consolidation

The consolidated financial statements ("financial statements") include the accounts of Sound Financial Services, Inc. and its wholly owned CUSO subsidiary. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP, as detailed in the Accounting Standards Codification (ASC), that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

For purposes of the statement of financial condition and the statement of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments

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

Available-for-Sale: Investments are classified available-for-sale when Management anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value. Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in members' equity and comprehensive income.

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

Other Investments: Investments in this category do not meet the definition of a debt or equity security under U.S. GAAP. Other investments may include certain cash equivalents that Management has elected to classify as investments.

Realized gains and losses on disposition, if any, are computed using the specific identification method. The amortization of premiums and the accretion of discounts are recognized over the term of the related investment by a method that approximates the interest method.

Management periodically performs analyses to test for impairment of various assets. A significant impairment analysis relates to the other than temporary declines in the value of securities. Management conducts periodic reviews and evaluations of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such a decline is other than temporary. If such decline is deemed other than temporary, Management would adjust the amount of the security by writing it down to fair market value through a charge to current period operations.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of the FHLB of Cincinnati, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock

As part of the restructuring of Visa, Inc., the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. The Credit Union has a balance of 11,433 shares as of December 31, 2020. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union’s financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse.

Loans Receivable

The Credit Union grants mortgage, commercial, and consumer loans to members. The ability of the members to honor their contract is dependent upon the real estate market and general economic conditions. In addition, the Credit Union has purchased commercial, and/or consumer loan participations. The originating lender performs all servicing functions on these loans.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for loan losses and net deferred loan origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due ninety days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are satisfied to where the loan is less than ninety days past due and future payments are reasonably assured.

Consumer and non real estate secured commercial loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

Deferred Loan Fees and Costs

Loan origination fees and costs are deferred and amortized over the estimated life of the loan using a method that approximates the interest method. Deferred fees and costs are recognized as an adjustment to interest income on loans over the average life of the related loan.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, Management’s estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. In addition, the Credit Union’s regulator, as an integral part of its examination process, periodically reviews the Credit Union’s allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Premises and Equipment

Land is carried at cost. Building(s), furniture, and equipment are carried at cost, less accumulated depreciation. Building(s), furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

Assets Acquired in Liquidation

Assets acquired in liquidation in lieu of loan foreclosure are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The Credit Union has approximately $100,000 and $145,000 in foreclosed residential real estate property held for sale as of December 31, 2020 and 2019, respectively. In addition, the Credit Union has approximately $189,000 and $425,000 in loans collateralized by residential real estate in the process of foreclosure as of December 31, 2020 and 2019, respectively.

NCUSIF Deposit

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

Share and Savings Accounts

Shares include savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Shares and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, "regular reserve". The regular reserve, which represents a regulatory restriction of undivided earnings, is not available for the payment of dividends to members.

Equity Acquired in Mergers

Equity acquired in a mergers represents equity accounted for in accordance with the acquisition method of accounting. Under this accounting method regular reserves and undivided earnings, of the acquiree are combined on the acquirer's statement of financial condition as a component of equity called merged equity. This component of equity is considered part of net worth as defined by regulations established by the National Credit Union Administration.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. However, the Credit Union is subject to unrelated business income tax. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. Management has determined there are no material uncertain tax positions. However, the Credit Union is subject to unrelated business income tax.

The Credit Union wholly owns the consolidated CUSO. The income from the CUSO is subject to federal and state income taxes.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 Inputs

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 Inputs

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 Inputs

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Subsequent Events

In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through March 11, 2021, the date on which the financial statements were available to be issued.

Reclassifications

Certain 2019 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13, "Financial Instruments-Credit Losses", (Topic 326)

This ASU requires an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The ASU requires credit unions to measure impairment on their existing loan portfolios on the basis of the current estimate of contractual cash flows not expected to be collected. The estimate of expected credit losses is based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable supportable forecasts that affect the expected collectability of the assets' remaining contractual cash flows. This new model is called the Current Expected Credit Loss (CECL) model.

The transition to the CECL model will bring with it significantly greater data requirements and demand a more complex methodology to accurately account for expected losses under the new parameters. The transition will also require a significant increase in the allowance for loan and lease losses (ALLL) account balance. FASB has allowed for this one-time increase in the ALLL to come directly from undivided earnings, rather than reflected through the provision for loan losses expense account. The increase, or the adjustment to the ALLL, will reduce net worth, however it does spare a negative impact to the income statement. This ASU applies to all financial assets that are not accounted for at fair value and are exposed to potential credit risk.

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2022. Early application of the standard is permitted for fiscal years beginning after December 15, 2018. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2023.

ASU No. 2016-02 "Leases", (Topic 842)

The ASU is intended to improve financial reporting about leasing transactions and affects all companies and other organizations. The ASU will require organizations that lease assets (referred to as "lessees") to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

While the accounting by the lessor will remain largely unchanged from current GAAP, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The effective date for credit unions is for fiscal years beginning after December 15, 2021. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Since all credit union's fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2022.

NOTE 2: INVESTMENTS

Available-for-Sale

Investments classified as available-for-sale securities consist of the following:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency mortgage backed securities	$ 85,101,105	$ 704,285	$ (330,192)	$ 85,475,198

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency and private label mortgage backed securities	$ 32,455,481	$ 71,129	$ (419,679)	$ 32,106,931

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019, are as follows:

	December 31, 2020			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency mortgage backed securities	$ 38,764,640	$ (288,907)	$ 10,707	$ (41,285)

	December 31, 2019			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency and private label mortgage backed securities	$ 8,532,195	$ (77,290)	$ 14,863,691	$ (342,389)

There are a total of 17 and 22 securities with unrealized losses as of December 31, 2020 and 2019, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Proceeds from sales of investment securities classified as available-for-sale and gross realized gains and losses from those are as follows:

	December 31,	
	2020	2019
Sales proceeds	$ 5,267,369	$ -
Gross realized gains	$ 43,753	$ -

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2020	
	Amortized Cost	Fair Value
Mortgage-backed securities	$ 85,101,105	$ 85,475,198

Mortgage-backed securities classified as available-for-sale represent participation interest in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments, and not to the market value of such securities.

Mortgage-backed securities are issued by lenders, such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities, which provide for the periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or on specific dates. Mortgage-backed securities provide periodic payments which are, in effect, a "pass-through" of the interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. A mortgage-backed security will mature when all the mortgages in the pool mature or are prepaid. Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall.

Other-Than-Temporary Impairment

The Credit Union routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are non-agency mortgage-backed securities (MBS). For each non-agency MBS in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are based on default rates and severity.

Other inputs may include the actual collateral attributes, which include geographic concentrations, credit ratings, and other performance indicators of the underlying asset.

To determine if the unrealized loss for non-agency MBS is other-than-temporary, the Credit Union projects total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected loss. The Credit Union also evaluates the current credit enhancement underlying the bond to determine the impact on cash flows. If it is determined that a given MBS position will be subject to a write-down or loss, the Credit Union records the expected credit loss as a charge to earnings while the non-credit portion is recorded to other comprehensive income (OCI).

Held-to-Maturity

Investments classified as held-to-maturity securities consist of the following:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 6,398,000	$ 22,340	$ -	$ 6,420,340

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 3,358,000	$ 4,642	$ (12)	$ 3,362,630

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2019, are as follows:

	December 31, 2019			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 245,988	$ (12)	$ -	$ -

There are a total of zero and one debt securities with unrealized losses as of December 31, 2020 and 2019, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2020	
	Amortized Cost	Fair Value
Within 1 year	$ 3,218,000	$ 3,228,677
1 to 5 years	3,180,000	3,191,663
Total	$ 6,398,000	$ 6,420,340

Other Investments

Other investments consist of the following:

	December 31,	
	2020	2019
Other deposits at corporate credit unions	$ 128,685,398	$ 64,588,904
Perpetual capital at Corporate One Federal Credit Union	1,351,069	1,351,069
Certificates of deposit	844,000	569,075
Total	$ 130,880,467	$ 66,509,048

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31,	
	2020	2019
Residential first mortgage real estate	$ 267,330,964	$ 306,930,808
Residential second mortgage real estate	79,402,446	80,104,391
Consumer secured	384,804,238	347,177,019
Consumer unsecured	58,700,306	67,409,410
Commercial real estate	140,456,250	123,473,285
Other commercial	2,639,118	2,644,655
	933,333,322	927,739,568
Allowance for loan losses	(5,874,000)	(5,833,000)
Loans receivable, net	$ 927,459,322	$ 921,906,568

Included in the amounts above are approximately $2,214,000 and $1,644,000 of deferred loan origination fees/costs as of December 31, 2020 and 2019, respectively. Also, included in the amounts above are approximately $93,000 and $115,000 of premiums/discounts on loans acquired as of December 31, 2020 and 2019, respectively.

Allowance for Loan Losses Account

The following summarizes the activity in the allowance for loan losses account:

	For the year ending December 31, 2020			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 87,439	$ 362,310	$ 5,383,251	$ 5,833,000
Provision for loan losses	828,374	87,969	2,990,812	3,907,155
Recoveries on previous loan losses	463	70,909	987,806	1,059,178
Loans receivable charged off	(258,673)	(184,221)	(4,482,439)	(4,925,333)
Ending balance	$ 657,603	$ 336,967	$ 4,879,430	$ 5,874,000
Loans receivables:				
Individually evaluated for impairment	$ 3,811,519	$ 951,607	$ 446,444	$ 5,209,570
Collectively evaluated for impairment	139,283,849	345,781,803	443,058,100	928,123,752
Total loans receivables	$ 143,095,368	$ 346,733,410	$ 443,504,544	$ 933,333,322
Allowance for loan losses:				
Individually evaluated for impairment	$ 56,049	$ 87,063	$ 41,789	$ 184,901
Collectively evaluated for impairment	601,554	249,904	4,837,641	5,689,099
Total allowance for loan losses	$ 657,603	$ 336,967	$ 4,879,430	$ 5,874,000

	For the year ending December 31, 2019			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 100,835	$ 361,426	$ 5,478,739	$ 5,941,000
Provision for loan losses	72,695	214,027	4,082,500	4,369,222
Recoveries on previous loan losses	664	70,551	1,224,340	1,295,555
Loans receivable charged off	(86,755)	(283,694)	(5,402,328)	(5,772,777)
Ending balance	$ 87,439	$ 362,310	$ 5,383,251	$ 5,833,000
Loans receivables:				
Individually evaluated for impairment	$ 36,530	$ 864,099	$ 619,269	$ 1,519,898
Collectively evaluated for impairment	126,081,410	386,171,100	413,967,160	926,219,670
Total loans receivables	$ 126,117,940	$ 387,035,199	$ 414,586,429	$ 927,739,568
Allowance for loan losses:				
Individually evaluated for impairment	$ 2,059	$ 47,315	$ 72,676	$ 122,050
Collectively evaluated for impairment	85,380	314,995	5,310,575	5,710,950
Total allowance for loan losses	$ 87,439	$ 362,310	$ 5,383,251	$ 5,833,000

Impaired Loans

The Credit Union considers loans impaired when, based on current information, it is probable that the Credit Union will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Credit Union's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual status when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	As of December 31, 2020		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 809,471	$ 78,084	$ 50,592
Residential second mortgage real estate	92,788	8,979	18,558
Consumer secured	272,656	28,603	11,855
Consumer unsecured	121,430	13,186	13,492
Commercial real estate	1,694,187	56,049	423,547
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	49,348	-	49,348
Consumer secured	52,358	-	7,480
Consumer unsecured	-	-	-
Commercial real estate	2,117,332	-	705,777
Other commercial	-	-	-
Total:			
Residential real estate	$ 951,607	$ 87,063	$ 43,255
Consumer	$ 446,444	$ 41,789	$ 11,447
Commercial	$ 3,811,519	$ 56,049	$ 544,503

	As of December 31, 2019		
	Unpaid Principal Balance	Related Allowance	Average Ending Principal Balance
With a related allowance recorded:			
Residential first mortgage real estate	$ 788,000	$ 45,308	$ 41,474
Residential second mortgage real estate	76,099	2,007	10,871
Consumer secured	409,085	17,749	8,704
Consumer unsecured	210,187	54,927	10,509
Commercial real estate	36,530	2,059	18,265
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	-	-	-
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ 864,099	$ 47,315	$ 33,235
Consumer	$ 619,272	$ 72,676	$ 9,243
Commercial	$ 36,530	$ 2,059	$ 18,265

Past Due Loans by Class

The following tables present the aging of the recorded investment in past due loans by class of loans.

	As of December 31, 2020			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 265,738,685	$ 446,389	$ 1,145,890	$ 267,330,964
Residential second mortgage real estate	79,030,605	66,483	305,358	79,402,446
Consumer secured	383,292,670	554,419	957,149	384,804,238
Consumer unsecured	58,339,550	133,416	227,340	58,700,306
Commercial real estate	140,456,250	-	-	140,456,250
Other commercial	2,639,118	-	-	2,639,118
Total	$ 929,496,878	$ 1,200,707	$ 2,635,737	$ 933,333,322

	As of December 31, 2019			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 305,518,619	$ 618,565	$ 793,624	$ 306,930,808
Residential second mortgage real estate	79,826,134	40,020	238,237	80,104,391
Consumer secured	345,466,452	540,630	1,169,937	347,177,019
Consumer unsecured	66,691,635	215,265	502,510	67,409,410
Commercial real estate	123,473,285	-	-	123,473,285
Other commercial	2,644,655	-	-	2,644,655
Total	$ 923,620,780	$ 1,414,480	$ 2,704,308	$ 927,739,568

The accrual of interest income on loans, is discontinued at the time the loan is ninety days past due or when the collection of interest or principal becomes uncertain, unless the credit is well-secured and in the process of collection. Loans on which the accrual of interest has been discontinued approximated $2,636,000 and $2,704,000 as of December 31, 2020 and 2019, respectively. There were no loans ninety days or more past due and still accruing interest as of December 31, 2020 or 2019.

Credit Quality

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

The following is a summary of loans based on credit quality:

	As of December 31, 2020		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 266,185,074	$ 1,145,890	$ 267,330,964
Residential second mortgage real estate	79,097,088	305,358	79,402,446
Consumer secured	383,847,089	957,149	384,804,238
Consumer unsecured	58,472,966	227,340	58,700,306
Commercial real estate	140,456,250	-	140,456,250
Other commercial	2,639,118	-	2,639,118
Total	$ 930,697,585	$ 2,635,737	$ 933,333,322

	As of December 31, 2019		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 306,137,184	$ 793,624	$ 306,930,808
Residential second mortgage real estate	79,866,154	238,237	80,104,391
Consumer secured	346,007,082	1,169,937	347,177,019
Consumer unsecured	66,906,900	502,510	67,409,410
Commercial real estate	123,473,285	-	123,473,285
Other commercial	2,644,655	-	2,644,655
Total	$ 925,035,260	$ 2,704,308	$ 927,739,568

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a TDR. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include interest rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms deemed to be a concession, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit periods:

	For the year ending December 31, 2020					
	Troubled Debt Restructurings			Troubled Debt Restructurings That Subsequently Defaulted		
	Number of Loans		Post-Modification Balance	Number of Loans		Balance
Residential real estate	5	$	137,485	-	$	-
Consumer	17		62,587	10		42,620
Commercial	2		1,673,283	-		-
	24	$	1,873,355	10	$	42,620

	For the year ending December 31, 2019					
	Troubled Debt Restructurings			Troubled Debt Restructurings That Subsequently Defaulted		
	Number of Loans		Post-Modification Balance	Number of Loans		Balance
Residential real estate	3	$	130,660			
Consumer	50		372,226	17		117,906
Commercial	1		30,494			
	54	$	533,380	17	$	117,906

The pre-modification and post-modification balances for trouble debt restructurings are generally the same.

NOTE 4: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31, 2020	December 31, 2019
Land	$ 3,007,339	$ 3,007,339
Building(s)	32,140,033	28,539,385
Furniture and equipment	14,082,297	12,083,652
Construction in process	1,227	592,387
	49,230,896	44,222,763
Less accumulated depreciation	(26,100,133)	(23,697,230)
Premises and equipment, net	$ 23,130,763	$ 20,525,533

NOTE 5: SHARE AND SAVINGS ACCOUNTS

Share and savings accounts consist of the following:

	December 31, 2020	December 31, 2019
Share draft accounts	$ 213,306,353	$ 154,017,829
Money market accounts	234,694,062	196,580,471
Share accounts	428,918,198	336,452,995
Certificate accounts	186,565,814	220,215,492
Total	$ 1,063,484,427	$ 907,266,787

The aggregate amount of certificate accounts in denominations of $250,000 or more were approximately $7,875,000 and $11,393,000 as of December 31, 2020 and 2019, respectively.

The aggregate amount of share and saving accounts maintaining a negative balance that were reclassed to loans receivable were approximately $262,000 and $462,000 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	Amount
2021	$ 136,061,478
2022	36,699,974
2023	9,947,997
2024	1,608,465
2025	2,247,900
Total	$ 186,565,814

The National Credit Union Share Insurance Fund insures members' shares up to $250,000. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional $250,000.

NOTE 6: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a qualified, contributory 401(k) plan (Plan) covering substantially all full-time employees. The Plan allows employees to defer a portion of their salary into the Plan. The Credit Union matches a portion of employees' wage reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately $2,883,000 and $2,495,000 for the years ended December 31, 2020 and 2019, respectively.

Deferred Compensation Plan

The Credit Union maintains non-qualified pension plans for a select group of Management. Participants are eligible based on approval by the Credit Union's Board of Directors. Under this plan, participants defer a portion of their compensation. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation. The balance of the plan approximated $334,000 and $270,000 as of December 31, 2020 and 2019, respectively.

Split Dollar Life Insurance

The Credit Union provides certain individuals with a supplemental executive retirement plan (Plan). The Plan is being funded via life insurance policies and split dollar loan agreements have been entered into with the participants of the executives covered under the Plan. As part of the split dollar loan agreements, the executives have assigned the policies to the Credit Union as collateral. This assignment secures repayment of any advances and accrued interest for the policy premiums and any other advances under any agreement. The loans have a fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually. Total split dollar loans and accrued interest approximated $26,721,000 and $20,967,000 as of December 31, 2020 and 2019, respectively.

Credit Union Owned Life Insurance (COLI)

The Credit Union has Credit Union Owned Life Insurance (COLI) policies that are maintained to provide income to offset the cost of employee benefits. The balance of the COLI policies were approximately $10,124,000 and $9,999,000 as of December 31, 2020 and 2019, respectively.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union has entered into various leasing agreements. The minimum remaining non-cancelable lease obligations are approximately the following as of December 31, 2020:

Year Ending December 31,	Amount
2021	$ 83,000
2022	36,000
2023	36,000
2024	36,000
2025	36,000
Total	$ 227,000

Total rental expenses approximated $102,000 for the years ended December 31, 2020 and 2019.

Legal Contingencies

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate of which, in Management's opinion, would not be material to the Credit Union's financial condition.

Off-Balance-Sheet Risk

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

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

Unfunded loan commitments under lines-of-credit are summarized as follows:

	December 31,	
	2020	**2019**
Credit card	$ 107,222,461	$ 103,680,958
Home equity	60,108,290	51,840,643
Overdraft protection	34,271,621	32,316,652
Other consumer	18,282,626	18,320,280
Commercial	2,784,714	3,246,321
Construction	603,729	1,509,891
Total	$ 223,273,441	$ 210,914,745

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on Management’s credit evaluation of the member.

Unfunded commitments under lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized with the exception of home-equity loans and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Northeast Ohio. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

In addition to the above noted credit risk, the Credit Union may be exposed to an increased credit risk as a result of the COVID-19 virus. Credit Union members are likely to have been affected due to the increase in unemployment and/or business slow down. As a result, increases in loan delinquency and loan losses are likely. The Credit Union is monitoring member loans affected as a result of the pandemic and will make adjustments to the allowance for loan and lease losses account through the provision for loan loss expense as additional information is obtained.

NOTE 8: RENTS UNDER OPERATING LEASES

The Credit Union leases office space to unrelated parties. These leases are classified as operating leases. Certain of these leases contain options to renew. The rental revenue recognized by the Credit Union was approximately $15,000 and $23,000 for the years ended December 31, 2020 and 2019, respectively. The rental revenue includes reimbursement for various operating costs including common area maintenance, property taxes, and parking income.

A summary of the minimum future rents under the operating leases that have remaining noncancelable lease terms in excess of one year are as follows:

Year Ending December 31,	Minimum Future Rents
2021	$ 25,000
2022	17,000
2023	8,000
Total	$ 50,000

NOTE 9: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2020 and 2019, the Credit Union had an unused line-of-credit with Corporate One Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was $10,000,000 as of December 31, 2020 and 2019. There were no outstanding borrowings as of these dates.

Federal Reserve Bank

As of December 31, 2020 and 2019, the Credit Union had an line-of-credit with Federal Reserve Bank. The terms of the agreement require the pledging of qualified auto loans as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was approximately $232,953,000 and $215,893,000 as of December 31, 2020 and 2019, respectively. There were no outstanding borrowings as of these dates.

Federal Home Loan Bank

As a member of the Federal Home Loan Bank (FHLB), and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral for advances. Qualified collateral, as defined in the FHLB Statement of Credit Policy, is free and clear of liens, pledges, and encumbrances. The Federal Home Loan Bank advances are collateralized by the FHLB stock owned by the Credit Union and a blanket lien against the Credit Union's qualified mortgage loan portfolio. Maximum borrowing capacity from the FHLB totaled approximately $621,604,000 and $543,699,000 as of December 31, 2020 and 2019 respectively. As of December 31, 2020 and 2019, the outstanding balances, maturities, and interest rates of these loans were as follows:

Description	Maturity Date	Interest Rate	December 31, 2020	December 31, 2019
Loan No. 14	08/28/20	1.68%	$ -	$ 2,730,000
Loan No. 20	12/01/23	3.49%	-	1,789,717
Loan No. 21	08/16/24	1.64%	-	20,000,000
			$ -	$ 24,519,717

NOTE 10: 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 accounting standards generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Furthermore, credit unions over $50,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. The minimum risk-based net worth ratio to be considered complex under the regulatory framework is 6.00%. If the Credit Union falls under the "complex" category, an additional Risk-Based Net Worth (RBNW) requirement may be imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	Risk Based Net Worth Ratio	
	December 31, 2020	December 31, 2019
Risk Based Net Worth Ratio	5.75%	6.13%
Credit Union considered complex?	No	Yes

	General Capital Requirements			
	December 31, 2020		December 31, 2019	
	Amount	Requirement /Ratio	Amount	Requirement /Ratio
Amount needed to be classified as "well capitalized"	$ 88,145,971	7.00%	$ 78,001,850	7.00%
Regulatory net worth	$ 177,338,952	14.09%	$ 164,445,026	14.76%

NOTE 11: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties as of December 31, 2020 and 2019, were approximately $736,000 and $1,102,000, respectively. Shares from related parties as of December 31, 2020 and 2019, amounted to approximately $1,307,000 and $1,109,000, respectively.

NOTE 12: FAIR VALUE MEASUREMENTS

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 - Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 85,475,198	$ -	$ 85,475,198	$ -

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 32,106,931	$ -	$ 32,106,931	$ -

Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment. The following tables present the balances of the assets and liabilities measured at fair value on a nonrecurring basis:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	$ 100,447	$ -	$ 100,447	$ -

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets acquired in liquidation	$ 145,288	$ -	$ 145,288	$ -

Available-for-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Assets Acquired in Liquidation: Fair value is measured based on the appraised value of the collateral. Collateral may be real estate, vehicles and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Credit Union. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the member and member's business.

NOTE 13: REVENUE RECOGNITION

Revenue is recorded when earned, which is generally over the period services are provided and no contingencies exist. The following summarizes the Credit Union's revenue recognition policies as they relate to certain noninterest income line items in the Consolidated Statement of Income.

Card Income

Card income includes fees such as interchange, cash advance, annual, late, over-limit and other miscellaneous fees. Uncollected fees are included in customer card receivables balances with an amount recorded in the allowance for loan and lease losses for estimated uncollectible card receivables. Uncollected fees are generally written off when a card receivable reaches 180 days past due.

Service Charges

Service charges include fees for insufficient funds, overdrafts and other banking services. Uncollected fees are included in outstanding loan balances with an amount recorded for estimated uncollectible service fees receivable. Uncollected fees are generally written off when a fee receivable reaches 60 days past due. Investment and brokerage services revenue consists primarily of asset management fees and brokerage income.

Other Non-Interest Income

Other non-interest income includes income from various sources. The amounts from these various sources are not significant revenue source and excluded from the scope of FASB's revenue guidance.

Investment and Insurance Commission

Investment and insurance commission income includes commissions the Credit Union earns on insurance products sold to Credit Union members by third parties.

Life Insurance Income

The Credit Union has life insurance plans for a select group of Employees. The Credit Union recognizes income on the gains from these amounts paid as the cash surrender values of these plans increase.

Loan Servicing Income

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.