USSCO JOHNSTOWN FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(With Independent Auditor's Report Thereon)

USSCO JOHNSTOWN FEDERAL CREDIT UNION

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Independent Auditor's Report

June 15, 2021

To the Supervisory Committee and Board of Directors
of USSCO Johnstown Federal Credit Union

Report on the Financial Statements

We have audited the accompanying financial statements of USSCO Johnstown Federal Credit Union, which comprise the statement of financial condition as of December 31, 2020, and the related statements of income, comprehensive income, members' equity and cash flows for the year 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 audit. We conducted our audit 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 USSCO Johnstown Federal Credit Union, as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of December 31, 2019, were audited by other auditors, whose report dated July 13, 2020, expressed an unmodified opinion on those statements.

Doeren Mayhew

Doeren Mayhew
Miami, FL

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2020 AND 2019

Assets	2020	2019
Cash and cash equivalents	$6,853,916	$2,420,152
Interest-bearing deposits	4,181,000	9,747,000
Available-for-sale investments (Note 2)	61,984,433	36,051,300
Loans to members, net of allowance for loan losses (Note 3)	68,975,501	70,042,151
Accrued interest receivable	344,884	384,221
Prepaid and other assets	1,556,530	1,711,809
Property and equipment, net (Note 4)	1,864,891	1,989,779
National Credit Union Share Insurance Fund (NCUSIF) deposit	1,196,036	1,077,047
Total assets	$146,957,191	$123,423,459
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (Note 5)	$128,454,726	$106,804,665
Accrued expenses and other liabilities	511,014	486,150
Total liabilities	128,965,740	107,290,815
Commitments and contingent liabilities		
Members' equity:		
Undivided earnings	12,845,793	11,707,581
Equity acquired through merger	2,518,597	2,518,597
Regular reserve	1,477,420	1,477,420
Accumulated other comprehensive income	1,149,641	429,046
Total members' equity	17,991,451	16,132,644
Total liabilities and members' equity	$146,957,191	$123,423,459

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income:		
Loans to members	$3,383,234	$3,372,633
Investment securities	1,096,967	1,135,181
Total interest income	4,480,201	4,507,814
Interest expense:		
Members' shares and savings accounts	299,367	242,980
Borrowed funds	1,101	4,002
Total interest expense	300,468	246,982
Net interest income	4,179,733	4,260,832
Provision for loan losses	156,552	108,770
Net interest income after provision for loan losses	4,023,181	4,152,062
Non-interest income:		
Interchange income	621,539	630,811
Fees and charges	462,847	649,444
Gain on sale of available-for-sale investments	221,274	138,442
Gain on sale of credit card portfolio	108,639	—
Other operating revenue	141,082	172,037
Total non-interest income	1,555,381	1,590,734
Non-interest expenses:		
Compensation and benefits	1,769,344	1,748,108
Legal and professional services	1,149,443	1,313,568
Loan servicing	516,863	382,551
Office operations	493,902	620,375
Office occupancy	263,696	321,513
Miscellaneous expenses	247,102	316,276
Total non-interest expenses	4,440,350	4,702,391
Net income	$1,138,212	$1,040,405

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income	$1,138,212	$1,040,405
Other comprehensive income:		
Available-for-sale investments:		
Net unrealized holding gains on available-for-sale investments	941,869	835,287
Reclassification adjustment for net gains on the sale of available-for-sale investments included in net income	(221,274)	(138,442)
Net change in available-for-sale investments	720,595	696,845
Other comprehensive income	720,595	696,845
Comprehensive income	$1,858,807	$1,737,250

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Regular Reserve	Undivided Earnings	Equity Acquired Through Merger	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2018	$1,477,420	$10,667,176	$2,518,597	($267,799)	$14,395,394
Net income	—	1,040,405	—	—	1,040,405
Other comprehensive income	—	—	—	696,845	696,845
Balance, December 31, 2019	1,477,420	11,707,581	2,518,597	429,046	16,132,644
Net income	—	1,138,212	—	—	1,138,212
Other comprehensive income	—	—	—	720,595	720,595
Balance, December 31, 2020	$1,477,420	$12,845,793	$2,518,597	$1,149,641	$17,991,451

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Net income	$1,138,212	$1,040,405
Adjustments to net cash provided from operating activities:		
Provision for loan losses	156,552	108,770
Depreciation and amortization	208,159	226,154
Gain on sale of available-for-sale investments	(221,274)	(138,442)
Gain on sale of credit card portfolio	(108,639)	—
(Increase)/decrease in:		
Prepaid and other assets	155,279	1,090,465
Accrued interest receivable	39,337	(98,160)
Increase/(decrease) in:		
Accrued expenses and other liabilities	24,864	(149,543)
Total adjustments	254,278	1,039,244
Net cash provided from operating activities	1,392,490	2,079,649

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

Cash Flows (Continued)

	2020	2019
Cash flows from investing activities:		
Maturities of interest-bearing deposits	5,566,000	4,684,000
Net change in loans to members	(447,889)	(1,219,150)
Proceeds from the sale of credit card portfolio	1,466,626	—
Proceeds from the sale or maturity of available-for-sale investments	24,840,728	33,525,985
Purchase of available-for-sale investments	(49,831,992)	(41,537,157)
(Increase)/decrease in NCUSIF deposit	(118,989)	24,551
Purchase of property and equipment	(83,271)	(238,165)
Net cash used in investing activities	(18,608,787)	(4,759,936)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	21,650,061	697,580
Net cash provided from financing activities	21,650,061	697,580
Net change in cash and cash equivalents	4,433,764	(1,982,707)
Cash and cash equivalents - beginning	2,420,152	4,402,859
Cash and cash equivalents - ending	$6,853,916	$2,420,152

Supplemental Information

Interest paid	$303,369	$246,559

See accompanying notes to the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

USSCO Johnstown Federal Credit Union (the Credit Union) is a cooperative association 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. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

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

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work for or reside in Cambria and Somerset Counties in central Pennsylvania. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers work and reside.

Comprehensive Income

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

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

Cash and Cash Equivalents

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

Interest-Bearing Deposits

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

Available-for-Sale Investments:

Investments are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on available-for-sale investments are recognized as direct increases or decreases in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the estimated fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (1) the length of time and the extent which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding.

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

Loans to Members (Continued)

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent. Interest income on non-accrual loans is recognized only to the extent cash payments are received. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

Management has an established methodology to determine the adequacy of the allowance that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: real estate, consumer and commercial. The Credit Union further disaggregates real estate, consumer and commercial segments into classes based on the associated risks within those segments. Real estate loans are divided into two classes: first mortgage and home equity. Consumer loans are divided into four classes: automobile, share secured, unsecured and education. Commercial loans are divided into two classes: real estate and other.

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

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component covers impaired loans and specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors.

This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Real Estate and Consumer Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors, credit quality of the assets comprising the portfolio and the ongoing evaluation process based on the risks present for each portfolio segment or class of loans. As of December 31, 2020 and 2019, the historical loss time frame for each class was the previous two years.

Commercial Segment Allowance Methodology

For commercial loans not identified as impaired or otherwise individually evaluated, the Credit Union determines the allowance on a collective basis utilizing peer group historical losses to represent the best estimate of inherent losses at the measurement date. Based on historical losses and management's credit risk assessment and analysis of leading predictors of losses existing as of the measurement date, loan losses are estimated. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends.

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

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings (TDRs)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a TDR if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR activity was immaterial for disclosure for the years ended December 31, 2020 and 2019.

TDR Designation and COVID-19 Loan Modifications

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provided financial institutions the option to temporarily suspend certain requirements under GAAP related to TDRs until December 31, 2020 to account for the effects of COVID-19. On December 27, 2020, the *2021 Consolidated Appropriations Act* was signed into law, extending this option until January 1, 2022.

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

TDR Designation and COVID-19 Loan Modifications (Continued)

On April 7, 2020, regulatory agencies issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" (Statement), to encourage financial institutions to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under Accounting Standards Codification (ASC) 310-40, "Troubled Debt Restructurings by Creditors," apply to certain COVID-19-related modifications. The regulatory agencies have confirmed with staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs.

Under the guidance, modifications should be short term in nature (e.g., six-months or less) and COVID-19 related. Subsequent modifications should be re-evaluated. The presumption is that the borrower would not be experiencing financial difficulty had it not been for COVID-19. Therefore, if the borrower is not current for reasons other than COVID-19 or is requesting a long term modification, the traditional TDR designation may apply. Further, the agencies' examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs. The Statement also provides guidance on past due reporting, non-accrual loans and charge-offs among other items. Given the uncertainty in general related to the ultimate impact of COVID-19, the impact of loans modified under this guidance is unknown.

Consumer and Real Estate Credit Quality Indicators

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

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

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

Commercial Credit Quality Indicators

The Credit Union assigns a risk rating to all loans, except pools of homogeneous loans, and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into eight major categories based on loan quality. Risk ratings range from 1 or excellent, representing the highest loan quality, to and 8, or loss, representing the lowest loan qualify.

Loan Charge-off Policies

Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Loans are typically charged off no later than 180 days past due, unless they are in foreclosure. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Property and Equipment

Land is carried at cost. Building and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the 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 insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

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

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Vizo Financial Corporate Credit Union (VFCCU). The Credit Union maintained approximately $690,000 in PCC at VFCCU as of December 31, 2020 and 2019. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. PCC is uninsured and cannot be withdrawn; however, it is required to be a member of VFCCU. PCC can be used by VFCCU to absorb any operating losses that exceed the balance of retained earnings. The PCC is included with prepaid and other assets in the statements of financial condition.

Members’ Shares and Savings Accounts

Members’ shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members’ shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members’ shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members’ share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

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

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this method, undivided earnings of the acquired credit union is combined on the acquirer’s statement of financial conditions as a separate component of equity. This component of equity is considered part of net worth as defined by the regulations established by the NCUA.

Fees and Charges

The Credit Union earns fee and commission income from a range of services it provides to its members. Deposit fee income and interchange fee income are earned on the execution of financial services performed. This includes fees arising from 1) Participating in transactions with members and third-party financial intuitions, such as interchange fee income for debit card transaction handling and member use a third-party’s ATM; 2) Certain services initiated or requested by the member, including paper statement delivery fees, overdrawn account charges, insufficient funds charges, and stop payment fees.

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

Income Taxes

The Credit Union is exempt, by statute Internal Revenue Code Section 501(c)(14), from federal and state income taxes.

Reclassification

Certain amounts reported in the 2019 financial statements have been reclassified to conform with the 2020 presentation. Members' equity and net income are unchanged due to these reclassifications.

Recent Accounting Pronouncements

Accounting for Financial Instruments – Credit Losses

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses*. The ASU introduces a new accounting model, the Current Expected Credit Losses (CECL) model, which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2023. Early application is permitted for annual periods beginning January 1, 2019.

Subsequent Events

Management has evaluated subsequent events through June 15, 2021, the date the financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investments

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$30,074,594	$625,798	($3,979)	$30,696,413
Collateralized mortgage obligations (CMOs)	15,479,514	165,743	(11,892)	15,633,365
Negotiable certificates of deposit	10,845,000	312,494	(13,289)	11,144,205
Federal agency securities	3,000,000	28,450	—	3,028,450
SBA securities	940,506	31,559	—	972,065
Corporate bonds	495,178	14,757	—	509,935
Total	$60,834,792	$1,178,801	($29,160)	$61,984,433

The following table presents the amortized cost and estimated fair value of investments as of December 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$27,266,254	$289,893	($107,566)	$27,448,581
Negotiable certificates of deposit	8,356,000	247,022	(303)	8,602,719
Total	$35,622,254	$536,915	($107,869)	$36,051,300

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of December 31, 2020, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized Cost	**Fair Value**
Within one year	$1,985,178	$2,023,160
1 to 5 years	9,106,000	9,388,998
5 to 10 years	3,249,000	3,270,432
CMOs	15,479,514	15,633,365
SBA securities	940,506	972,065
Mortgage-backed securities	30,074,594	30,696,413
Total	$60,834,792	$61,984,433

Information pertaining to investments with gross unrealized losses as of December 31, 2020, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		**12 Months or Longer**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale:						
Negotiable certificates of deposit	$982,711	($13,289)	$—	$—	$982,711	($13,289)
CMOs	1,985,040	(11,892)	—	—	1,985,040	(11,892)
Mortgage-backed securities	4,086,047	(3,979)	—	—	4,086,047	(3,979)
Total	$7,053,798	($29,160)	$—	$—	$7,053,798	($29,160)

Note 2 - Investments (Continued)

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$11,070,845	($85,417)	$1,759,537	($22,149)	$12,830,382	($107,566)
Negotiable certificates of deposit	—	—	247,696	(303)	247,696	(303)
Total	$11,070,845	($85,417)	$2,007,233	($22,452)	$13,078,078	($107,869)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Unrealized losses on negotiable certificates of deposit have not been recognized into income because they are all 100% insured as no deposit to one individual institution exceeds $250,000. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

Proceeds from the sales of investments classified as available-for-sale approximated $12,213,000 and $33,082,000 during the years ended December 31, 2020 and 2019, respectively. Gross gains of approximately $221,000 and $138,000 were realized from these sales during the years ended December 31, 2020 and 2019, respectively.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2020 and 2019 is as follows:

	2020	2019
Real estate:		
First mortgage	$2,029,861	$2,762,871
Home equity	11,427,170	12,266,273
	13,457,031	15,029,144
Consumer:		
Automobile	46,700,742	43,481,228
Share secured	503,873	570,651
Unsecured	2,335,511	4,475,008
Education	385,953	655,815
	49,926,079	49,182,702
Commercial:		
Real estate	4,465,789	4,664,511
Other	1,595,008	1,636,444
	6,060,797	6,300,955
	69,443,907	70,512,801
Less: Allowance for loan losses	(468,406)	(470,650)
Loans to members, net	$68,975,501	$70,042,151

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2020:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning balance	$130,503	$321,244	$18,903	$470,650
Charge-offs	(83,327)	(131,237)	—	(214,564)
Recoveries	17,932	37,836	—	55,768
Provision for loan losses	39,907	105,862	10,783	156,552
Ending balance	$105,015	$333,705	$29,686	$468,406
Ending balance, individually evaluated for impairment	$8,500	$22,087	$—	$30,587
Ending balance, collectively evaluated for impairment	96,515	311,618	29,686	437,819
Ending allowance	$105,015	$333,705	$29,686	$468,406

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2020:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance, individually evaluated for impairment	$19,490	$45,821	$—	$65,311
Ending balance, collectively evaluated for impairment	13,437,541	49,880,258	6,060,797	69,378,596
Total loans	$13,457,031	$49,926,079	$6,060,797	$69,443,907

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2019:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$92,930	$334,894	$20,842	$448,666
Charge-offs	(36,332)	(148,989)	—	(185,321)
Recoveries	10,776	73,020	14,739	98,535
Provision for loan losses	63,129	62,319	(16,678)	108,770
Ending allowance	$130,503	$321,244	$18,903	$470,650
Ending balance, individually evaluated for impairment	$61,000	$42,606	$—	$103,606
Ending balance, collectively evaluated for impairment	69,503	278,638	18,903	367,044
Ending allowance	$130,503	$321,244	$18,903	$470,650

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2019:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance, individually evaluated for impairment	$140,864	$50,629	$—	$191,493
Ending balance, collectively evaluated for impairment	14,888,280	49,132,073	6,300,955	70,321,308
Total loans	$15,029,144	$49,182,702	$6,300,955	$70,512,801

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Real Estate:				
First mortgage	$19,490	$19,490	$8,500	$19,490
Consumer:				
Automobile	45,821	45,821	22,087	48,225
Total	$65,311	$65,311	$30,587	$67,715

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Real Estate:				
First mortgage	$140,864	$140,864	$61,000	$140,864
Consumer:				
Automobile	50,629	50,629	42,606	63,124
Total	$191,493	$191,493	$103,606	$203,988

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
First mortgage	$—	$142,695	$24,513	$167,208	$1,862,653	$2,029,861
Home equity	136,299	—	22,519	158,818	11,268,352	11,427,170
	136,299	142,695	47,032	326,026	13,131,005	13,457,031
Consumer:						
Automobile	283,961	39,927	33,655	357,543	46,343,199	46,700,742
Share secured	—	—	—	—	503,873	503,873
Unsecured	12,154	7,504	—	19,658	2,315,853	2,335,511
Education	—	—	—	—	385,953	385,953
	296,115	47,431	33,655	377,201	49,548,878	49,926,079
Commercial:						
Real estate	—	—	—	—	4,465,789	4,465,789
Other	—	—	—	—	1,595,008	1,595,008
	—	—	—	—	6,060,797	6,060,797
Total	$432,414	$190,126	$80,687	$703,227	$68,740,680	$69,443,907

Loans on which the accrual of interest has been discontinued or reduced approximated $81,000 as of December 31, 2020. There were no loans 90 days or more past due and still accruing interest as of December 31, 2020.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
First mortgage	$74,207	$20,379	$92,003	$186,589	$2,576,282	$2,762,871
Home equity	17,739	—	25,844	43,583	12,222,690	12,266,273
	91,946	20,379	117,847	230,172	14,798,972	15,029,144
Consumer:						
Automobile	423,947	44,351	11,978	480,276	43,000,952	43,481,228
Share secured	5,691	—	—	5,691	564,960	570,651
Unsecured	56,599	22,702		79,301	4,395,707	4,475,008
Education	—	—	—	—	655,815	655,815
	486,237	67,053	11,978	565,268	48,617,434	49,182,702
Commercial:						
Real estate	—	—	—	—	4,664,511	4,664,511
Other	—	—	—	—	1,636,444	1,636,444
	—	—	—	—	6,300,955	6,300,955
Total	$578,183	$87,432	$129,825	$795,440	$69,717,361	$70,512,801

Loans on which the accrual of interest has been discontinued or reduced approximated $130,000 as of December 31, 2019. There were no loans 90 days or more past due and still accruing interest as of December 31, 2019.

Note 3 - Loans to Members (Continued)

Real Estate and Consumer Credit Quality

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

The following tables present the recorded investment based on performance indication as of December 31, 2020 and 2019:

	As of December 31, 2020		As of December 31, 2019	
	Performing Loans	**Non-performing Loans**	**Performing Loans**	**Non-performing Loans**
Real estate:				
First mortgage	$2,005,348	$24,513	$2,670,868	$92,003
Home equity	11,404,651	22,519	12,240,429	25,844
	13,409,999	47,032	12,240,429	117,847
Consumer:				
Automobile	46,667,087	33,655	43,469,250	11,978
Share secured	503,873	—	570,651	—
Unsecured	2,335,511	—	4,475,008	—
Education	385,953	—	655,815	—
	49,892,424	33,655	49,170,724	11,978
Total	$63,302,423	$80,687	$61,411,153	$129,825

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2020:

Credit Grade:	**Real Estate**	**Other**	**Total**
3 - Good	$1,125,022	$466,179	$1,591,201
4 - Pass	1,768,816	732,951	2,501,767
5 - Watch	402,407	166,747	569,154
Not rated	1,169,544	229,131	1,398,675
	$4,465,789	$1,595,008	$6,060,797

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2019:

Credit Grade:	**Real Estate**	**Other**	**Total**
3 - Good	$1,175,084	$478,290	$1,653,374
4 - Pass	1,847,526	751,992	2,599,518
5 - Watch	420,314	171,078	591,392
Not rated	1,221,587	235,084	1,456,671
Pass	$4,664,511	$1,636,444	$6,300,955

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2020 and 2019 by major classification as follows:

	2020	2019
Land	$325,989	$325,989
Building and improvements	3,116,118	3,116,118
Furniture and equipment	1,104,677	1,125,177
Leasehold improvements	9,307	9,307
	4,556,091	4,576,591
Less accumulated depreciation and amortization	(2,691,200)	(2,586,812)
	$1,864,891	$1,989,779

Depreciation and amortization charged to operations was approximately $208,000 and $226,000 for the years ended December 31, 2020 and 2019, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2020 and 2019:

	2020	2019
Share accounts	$70,905,366	$58,601,887
Share draft accounts	31,924,290	24,826,793
Share certificates	12,199,042	11,734,408
Money market	9,967,491	8,500,796
Individual retirement account (IRA) shares	3,458,537	3,140,781
	$128,454,726	$106,804,665

As of December 31, 2020, scheduled maturities of share certificates are as follows:

	2020
Within one year	$5,207,163
1 to 2 years	3,215,155
2 to 3 years	1,614,497
3 to 4 years	720,958
4 to 5 years	1,441,269
	$12,199,042

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $258,000 as of December 31, 2020.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union maintains a 401(k) plan covering substantially all employees. Each pay period, participants may make salary deferred contributions to the Plan. The Credit Union has the ability to make discretionary matching contributions based on approval by the board of directors. As of December 31, 2020 and 2019, the Credit Union matched 25% of the employee's contributions not to exceed 10% of the employee's compensation. Participants become fully vested in the Credit Union's contributions after five years of credited service. The related matching contributions approximated \$18,000 and \$16,000 for the years ended December 31, 2020 and 2019, respectively.

Note 7 - Borrowed Funds

The Credit Union has an open-ended revolving credit agreement with Vizo Financial Corporate Credit Union with an approved credit limit of \$7,500,000 and \$3,500,000, as of December 31, 2020 and 2019, respectively. In order to access the unused portion of the line of credit, the Credit Union has granted Vizo Financial Corporate Credit Union a first priority security interest in the Credit Union's loan portfolio, in accordance with the terms of the agreement. There was no balance outstanding under this line-of-credit agreement or pledged assets as of December 31, 2020 or 2019.

Note 8 - Contingent Liabilities

Off Balance-Sheet Risk

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

Commitments to extend credit are agreements to lend to a member if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2020, the total unfunded commitments under such lines of credit was approximately \$7,550,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2020 and 2019 was 6.51% and 6.45%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2020 and 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

Note 9 - Regulatory Capital (Continued)

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

	As of December 31, 2020		As of December 31, 2019	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$16,841,810	11.46%	$15,703,598	12.72%
Amount needed to be classified as "adequately capitalized"	$8,817,431	6.00%	$7,405,407	6.00%
Amount needed to be classified as "well capitalized"	$10,287,003	7.00%	$8,639,642	7.00%
Amount needed to meet the minimum RBNWR	$9,566,913	6.51%	$7,960,813	6.45%

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

Note 10 - Fair Values Measurements

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

Basis of Fair Value Measurements

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

Note 10 - Fair Values Measurements (Continued)

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

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

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

	Assets at Fair Value as of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$30,696,413	$—	$30,696,413
CMOs	—	15,633,365	—	15,633,365
Negotiable certificates of deposit	—	11,144,205	—	11,144,205
Federal agency securities	—	3,028,450	—	3,028,450
SBA securities	—	972,065	—	972,065
Corporate bonds	—	509,935	—	509,935
	$—	$61,984,433	$—	$61,984,433

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$27,448,851	$—	$27,448,851
Negotiable certificates of deposit	—	8,602,719	—	8,602,719
	$—	$36,051,300	$—	$36,051,300

Note 11 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately $722,000 and $1,383,000 as of December 31, 2020 and 2019, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately $821,000 and $1,315,000 as of December 31, 2020 and 2019, respectively.

* * * End of Notes * * *