Lillie & Company

Telhio Credit Union

Annual Financial Reports

December 31, 2020

Adding insight... Not just numbers.

CPAs for Credit Unions

Independent Auditor's Report

To the Board of Directors of
Telhio Credit Union

Report on the Financial Statements

We have audited the accompanying statements of financial condition of Telhio Credit Union as of December 31, 2020 and 2019 and the related statements of income and comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 controls relevant to the credit union's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the credit union's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telhio Credit Union 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.

Lillie & Company LLC

Sunbury, Ohio
March 16, 2021

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Telhio Credit Union
Statements of Financial Condition
December 31, 2020 and 2019

ASSETS

	2020	2019
Cash and cash equivalents (Note 6)	$ 79,786,601	$ 140,367,839
Investments (Note 2)		
Available for sale	110,585,810	36,882,493
Held to maturity	50,000	1,240,000
Other investments	5,120,968	5,488,162
Equity investments	1,980,080	0
Loans to members - less allowance for loan losses (Note 3)	688,930,697	613,631,057
Mortgage loans held for sale (Note 1)	12,539,180	3,868,112
Property and equipment - net (Note 4)	29,956,453	26,894,330
Other assets		
Accrued interest receivable - loans	1,783,242	1,587,706
Accrued interest receivable - investments	379,526	96,160
Other real estate owned	0	117,079
Mortgage and SBA servicing rights (Note 1)	1,120,200	922,191
Prepaid expenses	1,935,361	1,579,634
Other assets	5,228,245	1,765,241
Share insurance deposits	8,058,698	7,192,294
Total other assets	18,505,272	13,260,305
Total assets	**$ 947,455,061**	**$ 841,632,298**

LIABILITIES AND MEMBERS' EQUITY

	2020	2019
Share accounts (Note 5)	$ 826,663,516	$ 729,401,687
Borrowings (Note 7)	17,952,381	20,198,524
Accounts payable and accrued liabilities	9,612,465	7,010,473
Total liabilities	**854,228,362**	**756,610,684**
Members' equity - substantially restricted (Note 12)		
Statutory reserve	9,228,409	9,228,409
Undivided earnings	70,226,720	63,834,195
Equity acquired through merger	11,847,537	11,847,537
Accumulated other comprehensive income	1,924,033	111,473
Total members’ equity	**93,226,699**	**85,021,614**
Total liabilities and members’ equity	**$ 947,455,061**	**$ 841,632,298**

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Income and Comprehensive Income
For the Years Ended December 31, 2020 and 2019

	2020	2019
Interest income		
Interest on loans	$ 30,930,972	$ 31,686,491
Interest on investments	1,899,928	2,571,876
Total interest income	32,830,900	34,258,367
Dividend and interest expense		
Dividends on share accounts (Note 5)	5,913,672	6,761,020
Interest expense on borrowings (Note 7)	495,108	621,435
Total dividend and interest expense	6,408,780	7,382,455
Net interest income	26,422,120	26,875,912
Provision for loan losses (Note 3)	2,716,400	1,642,270
Net interest income after provision for loan losses	23,705,720	25,233,642
Non-interest income (Note 11)	16,934,386	13,203,036
Non-interest expense (Note 11)	34,247,581	32,300,419
Net income	**6,392,525**	**6,136,259**
Change in market value of investments	1,812,560	498,013
Comprehensive income	**$ 8,205,085**	**$ 6,634,272**

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Members' Equity
For the Years Ended December 31, 2020 and 2019

	Statutory Reserve	Undivided Earnings	Equity Acquired through Merger	Accumulated Other Comprehensive Income	Total
Balance – December 31, 2018	**$ 9,228,409**	**$ 57,697,936**	**$ 11,847,537**	**$ (386,540)**	**$ 78,387,342**
Net income - for the year ended December 31, 2019	0	6,136,259	0	0	6,136,259
Change in market value of investments - 2019	0	0	0	498,013	498,013
Balance – December 31, 2019	**$ 9,228,409**	**$ 63,834,195**	**$ 11,847,537**	**$ 111,473**	**$ 85,021,614**
Net income - for the year ended December 31, 2020	0	6,392,525	0	0	6,392,525
Change in market value of investments - 2020	0	0	0	1,812,560	1,812,560
Balance – December 31, 2020	**$ 9,228,409**	**$ 70,226,720**	**$ 11,847,537**	**$ 1,924,033**	**$ 93,226,699**

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 6,392,525	$ 6,136,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,457,736	1,372,561
Provision for loan losses	2,716,400	1,642,270
Amortization/accretion of discount/premium on investments	570,728	140,870
Gain on valuation of equity securities	(434,768)	0
Loss on sale of equity securities	273,014	0
Gain on sale of available for sale investments	(36,003)	0
Amortization of core deposit intangible	148,735	148,735
Accretion of discount on purchased loans	(880,093)	(517,707)
Amortization of deferred loan fees	388,497	988,589
Recognition of deferred revenue	(163,910)	(134,595)
Receipt of deferred revenue	1,017,072	0
Increase in servicing asset-net of amortization	(198,009)	(246,919)
Gain on sale of other real estate owned	(31,033)	(21,792)
Proceeds from sale of mortgages held for sale	177,055,360	64,390,484
Mortgages originated and held for sale	(182,511,373)	(65,940,140)
Gain on sale of mortgages	(3,215,054)	(893,908)
Proceeds from the sale of SBA loan guarantees	8,380,202	4,906,241
SBA loans originated and held for sale	(7,596,568)	(4,452,575)
Gain on the sale of SBA loans	(783,633)	(453,666)
Change in interest receivable	(478,903)	1,310,914
Change in prepaid expenses	(355,727)	762,940
Change in accrued and other liabilities	1,356,448	395,491
Total adjustments	(3,320,882)	3,397,793
Net cash provided by operating activities	3,071,643	9,534,052
Cash flows from investing activities		
Proceeds from available for sale investments	14,879,037	8,960,019
Proceeds from held to maturity investments	1,190,000	296,000
Purchase of available for sale investments	(87,304,519)	(26,036,825)
Maturities of other investments – net of purchases	367,194	60,666
Purchase of equity securities	(7,710,088)	0
Proceeds from sale of equity securities	5,891,761	0
Purchase of fixed assets	(4,519,859)	(4,793,686)
Purchase of other real estate owned	(115,094)	(342,953)
Proceeds from the sale of other real estate owned	263,206	201,384
Loans made to members – net of repayments	(95,801,006)	93,133,505
Increase in participation loans - net of repayments	18,276,562	(853,474)
Change in insurance deposit	(866,404)	(93,992)
Change in other assets	(3,611,739)	(462,486)
Net cash provided (used) by investing activities	(159,060,949)	70,068,158

The accompanying notes are an integral part of the financial statements.

Telhio Credit Union
Statements of Cash Flows (continued)
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from financing activities		
Repayments of borrowings	(2,246,143)	(18,505,028)
Net increase in members shares	97,261,829	16,637,074
Net change in escrow balances	392,382	1,293,242
Net cash provided (used) by financing activities	95,408,068	(574,712)
Net increase (decrease) in cash and cash equivalents	(60,581,238)	79,027,498
Cash and cash equivalents		
Beginning of year	140,367,839	61,340,341
End of year	**$ 79,786,601**	**$ 140,367,839**
Supplemental cash flow information		
Dividend paid on shares and interest paid on borrowed funds	**$ 6,571,851**	**$ 7,187,410**

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of significant accounting policies

Basis of Presentation - The Credit Union is a state chartered credit union, tax-exempt under Section 501 of the Internal Revenue Code.

Recent Accounting Pronouncements – In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the “ASU”).

Included in the ASU was an exemption for entities that are not public business entities to omit disclosure of the fair value of financial instruments carried at amortized cost. The ASU also eliminated the requirement to disclose the methods and significant assumptions used to estimate the fair value.

The guidance in the ASU was generally effective for years beginning after December 15, 2018 for entities that are not public business entities. However, entities that are not public business entities were permitted to early adopt the provisions of the ASC omitting the fair value disclosures for financial instruments at amortized cost. The Credit Union elected to early adopt these disclosure requirements. Accordingly, the Credit Union removed the disclosures related to the fair value of these financial instruments.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Credit Union expects to be entitled in exchange for those goods or services. This ASU was effective for the annual reporting period beginning after December 15, 2018.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which was effective for annual reporting periods beginning after December 15, 2018. The ASU required that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions.

In March 2017, the FASB issued ASU 2017-08, Receivables—Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, effective for annual reporting periods beginning after December 15, 2019, which shortens the amortization period for certain callable debt securities held at a premium. The amendment does not require a change for securities held at a discount.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, effective for annual reporting periods beginning after December 15, 2019. The amendments in this ASU either removed or modified disclosure requirements related to fair value measurements in accordance with Topic 820.

The following accounting pronouncements have been issued by the FASB, but are not yet effective:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires a lessee to recognize assets and liabilities on financing and operating leases with terms exceeding 12 months. This is a change from current GAAP, which requires only capital leases to be recognized on the balance sheet. The ASU will also require additional disclosures to help financial statement readers better understand the amount, timing and uncertainty of cash flows arising from leases. This ASU is effective for the annual reporting periods beginning after December 15, 2021. The Credit Union is currently evaluating this ASU to determine the impact on its financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, effective for annual reporting periods beginning after December 15, 2022. This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses of assets carried at amortized cost. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which clarified that receivables arising from operating leases are not within the scope of Subtopic 326-20. While it is expected that the adoption of these ASUs will increase the provision for credit losses, the Credit Union is currently assessing the impact on its financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, effective for annual reporting periods beginning after December 15, 2021. This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which a reporting unit's carrying amount exceeds its fair value, but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis. The Credit Union believes this guidance will not have a material impact on its financial statements.

Investments **-** The investment securities portfolio was comprised of securities classified as **available for sale** and **held to maturity**. This results in **available for sale** investment securities being carried at market value. **Held to maturity** investments are carried at cost, adjusted for amortization of premiums and accretion of discounts. In addition, the Credit Union holds non-negotiable certificates of deposit, Corporate capital shares and certain other investments. They are accounted for at cost, adjusted for amortization of premiums and accretion of discounts and categorized as **other investments**. The unrealized gain or loss on **available for sale** investments is carried as a separate component of members' equity. Declines in the fair value of **available for sale** securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The Credit Union also holds **Equity investments**, which include mutual funds and common stock. Equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, are measured at fair value with changes in fair value recognized in earnings. 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. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

The Credit Union does not maintain a trading portfolio.

Fair Value Measurements **–** Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Credit Union determines the fair values of its financial instruments based on a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This framework describes three levels of inputs that may be used to measure fair value. Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are generally valued using quoted prices for similar assets. Level 3 financial instruments are valued using unobservable inputs representing management's assumptions of how market participants would price the assets or liabilities.

Restrictions on Investments – The Credit Union is required to maintain balances with a corporate credit union as membership shares. The balance of the membership shares account is based upon .90 percent of the Credit Union's year-end total asset balance and is adjusted annually. These membership shares represent perpetual contributed capital (PCC). PCC is a perpetual capital instrument. It is not subject to share insurance coverage. The dividends are not guaranteed and are noncumulative. PCC is available to cover losses that exceed retained earnings and previous forms of Capital contributions. PCC is redeemable by the Credit Union only if certain conditions and restrictions are met.

Federal Home Loan Bank (FHLB) Stock – The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. 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.

Loans to Members and Allowance for Loan Losses - Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Loan fees and certain direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expenses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Subsequent recoveries, if any, are credited to the allowance. The allowance is evaluated on a regular basis by management and is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrower's ability to pay.

The allowance for loan losses is management's estimate of probable credit losses inherent in the loan portfolio, at the balance sheet date. The Credit Union's allowance for loan losses process involves procedures to appropriately consider the unique risk characteristics of its business and consumer loan portfolio segments. For each portfolio segment, impairment is measure collectively for groups of smaller loans with similar characteristics and individually for larger impaired loans

Business Portfolio Segment Allowance for Loan Losses Methodology

Generally, business loans are assessed for estimated losses by grading each loan using various risk factors as identified through periodic reviews. The Credit Union applies historic grade-specific loss factors to the aggregation of each funded risk category. In the development of statistically derived loan grade factors, historical losses are observed over a relevant period for each loan grade. 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. The business allowance for loan losses also includes an amount for the estimated losses on individually evaluated impaired loans.

Consumer Portfolio Segment Allowance for Loan Losses Methodology

For consumer loans not identified as impaired, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent loss at the measurement date. Loans are pooled, generally by loan types with similar risk characteristics, such as residential real estate mortgages and credit cards. As appropriate, to achieve greater accuracy, further stratification of selected portfolios may occur such as by year of origination, geographic location and other predictive characteristics. The consumer allowance for loan losses model primarily uses historic delinquency and default experience, loss severity, home price trends, unemployment trends, and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment. The consumer allowance also includes an amount for the estimated losses on individually evaluated impaired loans.

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.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. 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 reasonable assured.

<u>Mortgage Loans Held for Sale</u> – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold servicing released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

<u>Mortgage and SBA Servicing Rights</u> – The cost of acquiring the rights to service mortgage and SBA loans is capitalized and amortized in proportion to, and over the period of, estimated net servicing income. The following summarizes the activity in this account:

	2020	2019
Beginning balance	$ 922,191	$ 675,272
New Loans	343,416	350,657
Valuation adjustment-net of amortization	(145,407)	(103,738)
Ending balance	**$ 1,120,200**	**$ 922,191**

The balance of mortgage loans being serviced by the Credit Union for the benefit of the Federal Home Loan Bank totaled $83,733,087 and $68,386,394 at December 31, 2020 and 2019. The balance of SBA loans being serviced was $16,876,450 and $10,436,979 at December 31, 2020 and 2019, respectively.

The credit union allocates servicing assets from a calculation by an outside party. It is based on an analysis of the servicing portfolio. Risks in these servicing balances are present if related balances become impaired through loan loss or reduction in fair value. The related assets will then be reversed to expense. All servicing income is recorded to other non-interest income.

<u>Property and Equipment</u> - Property and equipment are stated at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets.

Valuation of Long-Lived Assets - Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

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

Statutory Reserve - Federal Insurance Regulations require reserves for losses to be established by appropriations of undivided earnings. The reserves are not related to amounts of losses actually anticipated and the appropriations have not been charged against income.

Comprehensive Income – Comprehensive income or loss consists of net income or loss and other comprehensive income or loss that includes unrealized gains and losses on securities available for sale.

Cash and Cash Equivalents - Cash and cash equivalents include money market accounts, Federal funds or any highly liquid debt-instruments purchased with a maturity of three months or less.

From time to time, the Credit Union maintains deposit balances in financial institutions exceeding insured balances by the Federal Deposit Insurance Corporation or other insuring body up to $250,000 in aggregate. At December 31, 2020 there were deposits with Huntington National Bank totaling $330,226, Silicon Valley Bank totaling $3,165,490, the Federal Home Loan Bank totaling $3,230,912, Federal Reserve Bank totaling $38,368,697 and Corporate One Federal Credit Union totaling $28,447,335.

Share Insurance Deposits - The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with 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. In addition, the Credit Union has a deposit with Excess Share Insurance Corporation (ESI). The deposit is required by this insurer related to share insurance coverage above the base insured amount up to $500,000.

NCUSIF Premiums – The Credit Union is required to pay an annual insurance premium equal to one twelfth of one percent of its total insured shares, unless it is waived or reduced by the NCUA board. Additionally, the NCUA can assess a premium as necessary to maintain the NCUSIF at its normal operating level. The NCUA board waived the 2020 and 2019 assessments.

Concentration of Credit Risk - The Credit Union's business activity is primarily with members who live, work or worship in central and southwest Ohio. This creates a concentration of credit risk from members with loans from the Credit Union, since they are primarily located within the same geographical area.

Income Taxes – The Credit Union is exempt by statute from federal and state income taxes except for certain charges such as non-member ATM fees which have been deemed by the Internal Revenue Service (IRS), in technical advice memorandums released in March 2007, to be unrelated to the specific entity’s exempt purpose. As presented in the technical advice memorandums, the net taxable income from these charges is subject to income taxes under the Unrelated Business Income Tax (UBIT) regulations.

Tax returns were filed timely for the 2019 calendar year and will be filed by the applicable extended due date for the 2020 calendar year. An estimated liability has not been recognized in the financial statements because the taxes due are not expected to have a material effect on the Credit Union's financial condition or results of operations.

Advertising Costs - It is the policy of the Credit Union to expense all advertising costs as incurred. The total advertising cost is insignificant.

Share Accounts – Share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

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

Reclassifications - Certain items have been reclassified in the December 31, 2019 financial statements to be consistent with the December 31, 2020 presentation. There was no effect on net income as a result of these reclassifications.

Subsequent Events – In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 16, 2021, the date the financial statements were available to be issued.

Note 2 - Investments

The amortized cost and fair values of investment securities at December 31, 2020 and 2019 were:

Available for Sale - 2020

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed securities	$ 37,051,856	$ 429,730	$ (15,989)	$ 37,465,597
Negotiable certificates of deposit	18,893,000	681,585	0	19,574,585
Municipal debt securities	16,577,100	259,138	0	16,836,238
Corporate debt securities	16,536,874	524,062	(34,450)	17,026,486
Government sponsored entities	12,607,664	40,616	(3,034)	12,645,246
Collateralized mortgage obligations	6,040,809	59,387	(4,740)	6,095,456
U.S. treasury obligations	954,473	1,044	(13,315)	942,202
Total	**$ 108,661,776**	**$1,995,562**	**$ (71,528)**	**$110,585,810**

Available for Sale - 2019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed securities	$ 14,748,762	$ 42,635	$ (50,161)	$ 14,741,236
Negotiable certificates of deposit	12,279,000	122,528	(3,887)	12,397,641
Collateralized mortgage obligations	5,118,075	10,505	(12,139)	5,116,441
Municipal debt securities	2,593,248	1,496	(1,443)	2,593,301
Corporate debt securities	2,031,936	1,938	0	2,033,874
Total	**$ 36,771,021**	**$ 179,102**	**$ (67,630)**	**$ 36,882,493**

Held to Maturity - 2020

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit-negotiable	$ 50,000	$ 275	$ 0	$ 50,275
Total	**$ 50,000**	**$ 275**	**$ 0**	**$ 50,275**

Held to Maturity - 2019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit-negotiable	$ 1,240,000	$ 2,368	$ (15)	$ 1,242,353
Total	**$ 1,240,000**	**$ 2,368**	**$ (15)**	**$ 1,242,353**

Other Investments - 2020

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 246,000	$ 0	$ 0	$ 246,000
FHLB capital stock (restricted)	2,767,500	0	0	2,767,500
Corporate One – PCC	1,050,255	0	0	1,050,255
PSCU member stock	115,894	0	0	115,894
Cooperative Business Solutions	941,319	0	0	941,319
Total	**$ 5,120,968**	**$ 0**	**$ 0**	**$ 5,120,968**

Other Investments - 2019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 940,000	$ 0	$ 0	$ 940,000
FHLB capital stock (restricted)	2,558,300	0	0	2,558,300
Corporate One – PCC	1,050,255	0	0	1,050,255
PSCU member stock	121,421	0	0	121,421
Cooperative Business Solutions	818,186	0	0	818,186
Total	**$ 5,488,162**	**$ 0**	**$ 0**	**$ 5,488,162**

The amortized cost and estimated fair value of investment securities at December 31, 2020 by expected maturity are shown below. Expected maturities 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		Held to Maturity		Other Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$ 8,017,362	$ 8,072,361	$ 50,000	$ 50,275	$ 246,000	$ 246,000
Due in 1-5 years	81,569,816	83,178,643	0	0	0	0
Due in 5-10 years	16,057,680	16,301,217	0	0	0	0
Due after 10 years	3,016,918	3,033,589	0	0	0	0
No specific maturity	0	0	0	0	4,874,968	4,874,968
Total	**$108,661,776**	**$110,585,810**	**$ 50,000**	**$ 50,275**	**$ 5,120,968**	**$ 5,120,968**

The gross unrealized losses on investment securities that have been in loss positions less than 12 months and longer than 12 months at December 31, 2020 and 2019 are summarized as follows:

	2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
GSE	$ 1,996,966	$ (3,034)	$ 0	$ 0	$ 1,996,966	$ (3,034)
MBS	8,178,478	(15,989)	0	0	8,178,478	(15,989)
Corporate bonds	1,040,720	(34,450)	0	0	1,040,720	(34,450)
US treasury	629,590	(13,315)	0	0	629,590	(13,315)
CMOs	442,028	(4,740)	0	0	442,028	(4,740)
Total	**$ 12,287,782**	**$ (71,528)**	**$ 0**	**$ 0**	**$ 12,287,782**	**$ (71,528)**

	2019					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
Negotiable CDs	$ 1,490,113	$ (3,887)	$ 0	$ 0	$ 1,490,113	$ (3,887)
MBS	1,897,971	(3,632)	6,322,701	(46,528)	8,220,672	(50,161)
MDS	1,423,556	(1,444)	0	0	1,423,556	(1,443)
CMOs	1,896,505	(4,731)	1,493,483	(7,408)	3,389,988	(12,139)
Total	**$ 6,708,145**	**$ (13,694)**	**$ 7,816,184**	**$ (53,936)**	**$ 14,524,329**	**$ (67,630)**
Held to Maturity						
Negotiable CDs	$ 49,985	$ (15)	$ 0	$ 0	$ 49,985	$ (15)
Total	**$ 49,985**	**$ (15)**	**$ 0**	**$ 0**	**$ 49,985**	**$ (15)**
Total	**$ 6,758,130**	**$ (13,709)**	**$ 7,816,184**	**$ (53,936)**	**$ 14,574,314**	**$ (67,645)**

Fair values of assets and liabilities measured on a recurring basis at December 31, 2020 and 2019 are as follows:

	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2020				
Available for sale securities	**$ 110,585,810**	**$ 0**	**$110,585,810**	**$ 0**
Held to maturity securities	**$ 50,275**	**$ 0**	**$ 50,275**	**$ 0**
Equity securities	**$ 1,980,080**	**$ 1,980,080**	**$ 0**	**$ 0**
2019				
Available for sale securities	**$ 36,882,493**	**$ 0**	**$ 36,882,493**	**$ 0**
Held to maturity securities	**$ 1,242,353**	**$ 0**	**$ 1,242,353**	**$ 0**

The Credit Union's equity securities consist of investments in mutual funds and common stock. Unrealized gains and losses on these investments are recognized in investment income in the Statements of Income and Comprehensive Income, regardless of whether such gains and losses are realized. The Credit Union recognized approximately $434,768 of unrealized gains on equity securities during the year ended December 31, 2020. The Credit Union also sold investments classified as equity securities with proceeds received from these sales totaling $5,891,761 resulting in net losses of $273,014 for the year ended December 31, 2020.

The Credit Union sold investments classified as available for sale with proceeds received from these sales totaling $2,921,421 resulting in net gains of $36,003 for the year ended December 31, 2020.

Note 3 - Loans to members

The loans to members at December 31, 2020 and 2019 consist of the following:

	2020	2019
Business		
Real estate	$ 99,179,592	$ 57,481,510
SBA	44,910,479	10,352,179
Real estate – participation	9,395,227	15,705,710
Secured	6,008,061	4,512,993
Line of credit – participation	25,147	37,060
Unsecured	16,102	62,967
Other secured - participation	4,047	49,752
Total business	$ 159,538,655	$ 88,202,171
Consumer		
First mortgage	$ 249,569,721	$ 210,688,700
Indirect auto	86,982,876	141,317,330
Direct auto	57,372,418	63,253,985
Second mortgage	57,140,152	64,827,753
Unsecured	40,012,915	24,008,420
Secured – participation	17,150,230	0
Other secured	26,508,116	25,174,026
Total consumer	$ 534,736,428	$ 529,270,214
Total loans	694,275,083	617,472,385
Unamortized discounts on purchased loans net of premiums	(952,075)	(1,832,167)
Net origination fees	730,043	1,118,542
Allowance for loan losses	(5,122,354)	(3,127,703)
Total loans - net	**$ 688,930,697**	**$ 613,631,057**

The interest rates on the loans range from 0.00% to 19.99% at December 31, 2020.

Loans on which the accrual of interest has been discontinued amounted to $1,392,223 and $1,586,006 at December 31, 2020 and 2019.

The Credit Union has loaned a total of $14,471,929 to certain key management employees related to the purchase of life insurance policies. The Credit Union is the beneficiary of these policies. The cash value of the policies is pledged as collateral to secure the loans. The loans are included with other secured loans above.

The Credit Union has purchased participation loans originated by various other credit unions to other businesses and individuals. All of these loan participations were purchased without recourse and are secured by real property. The originating credit unions perform all servicing functions on these loans.

Activity in the allowance for loan losses and recorded investment in loans, by portfolio segment, as of and for the years ended December 31, 2020 and 2019 is as follows:

	2020		
	Business	Consumer	Total
Allowance for loan losses			
Beginning balance	$ 999,673	$ 2,128,030	$ 3,127,703
Charge-offs	(109,318)	(1,580,076)	(1,689,394)
Recoveries	36,611	931,034	967,645
Provision	854,597	1,861,803	2,716,400
Ending balance	$ 1,781,563	$ 3,340,791	$ 5,122,354
Ending balance, individually evaluated for impairment	$ 1,007,360	$ 189,183	$ 1,196,543
Ending balance, collectively evaluated for impairment	$ 774,203	$ 3,151,608	$ 3,925,811
Loan balances			
Ending balance	$ 159,538,655	$ 534,736,428	$ 694,275,083
Outstanding balance of acquired loans not in ALLL	$ 2,295,536	$ 30,102,577	$ 32,398,113
Ending balance, individually evaluated for impairment	$ 157,243,119	$ 1,393,080	$ 158,636,199
Ending balance, collectively evaluated for impairment	$ 0	$ 503,240,771	$ 503,240,771

	2019		
	Business	Consumer	Total
Allowance for loan losses			
Beginning balance	$ 987,850	$ 2,754,940	$ 3,742,790
Charge-offs	(276,392)	(3,054,366)	(3,330,758)
Recoveries	6,280	1,067,121	1,073,401
Provision	281,935	1,360,335	1,642,270
Ending balance	$ 999,673	$ 2,128,030	$ 3,127,703
Ending balance, individually evaluated for impairment	$ 999,673	$ 211,459	$ 1,211,132
Ending balance, collectively evaluated for impairment	$ 0	$ 1,916,571	$ 1,916,571
Loan balances			
Ending balance	$ 88,202,171	$ 529,270,214	$ 617,472,385
Outstanding balance of acquired loans not in ALLL	$ 4,918,408	$ 46,429,909	$ 51,348,317
Ending balance, individually evaluated for impairment	$ 83,283,763	$ 1,356,828	$ 84,640,591
Ending balance, collectively evaluated for impairment	$ 0	$ 481,483,477	$ 481,483,477

The Credit Union monitors past due status for the purpose of managing credit risk for business loans. The following table provides past due information for each class of business loans as of December 31, 2020 and 2019:

2020
Business Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
Real estate	$ 99,179,592	$ 0	$ 0	$ 0	$ 99,179,592
SBA	44,609,738	0	0	300,741	44,910,479
Real estate – part.	8,985,310	0	259,302	150,615	9,395,227
Secured	6,008,061	0	0	0	6,008,061
Line of credit – part.	25,147	0	0	0	25,147
Unsecured	16,102	0	0	0	16,102
Other secured - part.	4,047	0	0	0	4,047
Total loans	**$ 158,827,997**	**$ 0**	**$ 259,302**	**$ 451,356**	**$ 159,538,655**

2019
Business Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
Real estate	$ 57,481,510	$ 0	$ 0	$ 0	$ 57,481,510
Real estate – part.	15,690,878	14,832	0	0	15,705,710
Secured	10,309,431	0	0	42,748	10,352,179
SBA	4,506,235	0	0	6,758	4,512,993
Unsecured	62,967	0	0	0	62,967
Line of credit – part.	37,060	0	0	0	37,060
Other secured - part.	49,752	0	0	0	49,752
Total loans	**$ 88,137,833**	**$ 14,832**	**$ 0**	**$ 49,506**	**$ 88,202,171**

The Credit Union has several classes of consumer loans which carry distinct credit risks. Loan delinquency, FICO credit scores and loan-to-value (LTV) ratios for loan classes are common credit quality indicators that the Credit Union monitors and utilizes in the evaluation of the adequacy of the allowance for loan losses for the consumer portfolio segment.

A significant variable in the loss estimation of the consumer allowance for loan losses are delinquency levels. The follow table presents the outstanding balances from each class within the consumer portfolio by delinquency status as of December 31, 2020 and 2019:

2020
Consumer Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
First mortgage	$ 248,848,435	$ 469,014	$ 10,891	$ 241,381	$ 249,569,721
Indirect auto	86,265,176	460,231	76,350	181,119	86,982,876
Direct auto	57,071,336	141,215	11,137	148,730	57,372,418
Second mortgage	56,925,975	51,620	0	162,557	57,140,152
Unsecured	39,629,945	120,704	57,941	204,325	40,012,915
Secured – part.	17,150,230	0	0	0	17,150,230
Other secured	26,421,359	50,410	35,592	2,755	26,510,116
Total loans	**$ 532,312,456**	**$ 1,293,194**	**$ 191,911**	**$ 940,867**	**$ 534,738,428**

2019
Consumer Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
First mortgage	$ 208,336,874	$ 1,704,625	$ 67,238	$ 579,963	$ 210,688,700
Indirect auto	140,058,821	585,220	294,518	378,771	141,317,330
Second mortgage	64,485,515	10,733	224,110	107,395	64,827,753
Direct auto	62,550,655	329,372	192,613	181,345	63,253,985
Unsecured	23,520,345	133,015	124,307	230,753	24,008,420
Other secured	25,090,760	9,211	15,782	58,273	25,174,026
Total loans	**$ 524,042,970**	**$ 2,772,176**	**$ 918,568**	**$ 1,536,500**	**$ 529,270,214**

A summary of loans, presented by class, that were modified as troubled debt restructurings and those restructurings for which there was a payment default subsequent to restructuring, but within twelve months of the restructuring, are as follows as of December 31, 2020 and 2019:

2020

	Troubled Debt Restructurings			Troubled Debt Restructurings which Subsequently Defaulted		
	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance	Allowance Impact
Business						
Real estate	0	$ 0	$ 0	0	$ 0	$ 0
Secured	1	321,658	0	0	0	0
SBA	2	141,762	0	0	0	0
Consumer						
First mortgage	4	673,267	97,943	0	0	0
Second mortgage	1	74,261	0	0	0	0
Indirect auto	30	238,939	4,449	0	0	0
Direct auto	17	164,910	82,455	0	0	0
Unsecured	25	241,703	4,337	0	0	0
Other Unsecured	0	0	0	0	0	0
Total						
Business	3	463,420	0	0	0	0
Consumer	77	1,393,080	189,183	0	0	0
Total loans	**80**	**$ 1,856,500**	**$ 189,183**	**0**	**$ 0**	**$ 0**

2019

	Troubled Debt Restructurings			Troubled Debt Restructurings which Subsequently Defaulted		
	Number of Loans	Principal Balance	Allowance Impact	Number of Loans	Principal Balance	Allowance Impact
Business						
Real estate	0	$ 0	$ 0	0	$ 0	$ 0
Secured	0	0	0	0	0	0
SBA	4	261,564	0	0	0	0
Consumer						
First mortgage	8	1,088,381	104,886	0	0	0
Second mortgage	1	75,856	0	0	0	0
Indirect auto	39	371,448	8,560	0	0	0
Direct auto	35	364,462	11,484	0	0	0
Unsecured	21	173,059	86,529	0	0	0
Other Unsecured	0	0	0	0	0	0
Total						
Business	4	261,564	0	0	0	0
Consumer	104	2,073,206	211,459	0	0	0
Total loans	**108**	**$ 2,334,770**	**$ 211,459**	**0**	**$ 0**	**$ 0**

Note 4 - Property and equipment

Property and equipment at December 31, 2020 and 2019 consists of the following:

	2020	2019
Land	$ 8,321,940	$ 7,126,130
Building and improvements	23,943,952	19,056,209
Furniture and fixtures	16,986,466	16,046,000
Construction in progress	2,725,559	4,786,100
Total	51,977,917	47,014,439
Less accumulated depreciation	(22,021,464)	(20,120,109)
Total property - net	**$ 29,956,453**	**$ 26,894,330**

Note 5 - Share accounts

Share accounts as of December 31, 2020 and 2019 are as follows:

	2020	2019
Shares – certificates	$ 217,452,493	$ 232,634,626
Money market	218,100,315	186,267,388
Shares – regular	199,598,902	154,487,561
Share draft	173,200,546	131,761,629
IRA shares	12,264,717	12,234,374
Non member certificates	5,870,000	11,852,000
Club accounts	176,543	164,109
Total	**$ 826,663,516**	**$ 729,401,687**

A summary of share certificates by maturity as of December 31, 2020 is as follows:

2021	$ 137,268,279
2022	39,688,197
2023	13,955,028
2024	19,652,523
2025	12,758,466
Total	**$ 223,322,493**

All remaining share accounts have no contractual maturity.

Dividend expense on share accounts is summarized as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Share certificates	$ 4,563,724	$ 4,789,050
Money market	926,479	1,445,427
Non - member certificates	306,877	347,048
Shares - regular	79,354	143,137
Share drafts	31,704	22,944
IRA shares	5,393	13,210
Club accounts	141	204
Total	**$ 5,913,672**	**$ 6,761,020**

There were share accounts which exceeded the insured limit of $500,000 by an aggregate amount of $18,401,950 as of December 31, 2020.

Note 6 - Cash and cash equivalents

For purposes of the statement of financial condition classification and the statement of cash flows, the Credit Union considers all highly liquid debt instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents. The composition of these investments is as follows:

	2020	2019
Cash on hand	$ 6,404,205	$ 5,745,735
Deposits in financial institutions – interest bearing	68,957,006	125,443,852
Deposits in financial institutions – non-interest bearing	4,425,390	9,178,252
Total cash and cash equivalents	**$ 79,786,601**	**$ 140,367,839**

Note 7 - Borrowings

The Credit Union had received FHLB advances totaling $17,952,381 and $20,198,524 at December 31, 2020 and 2019, consisting of fixed rate borrowings with an interest rate ranging from 1.23% to 3% with maturities in 2023.

FHLB advances are collateralized by all shares of FHLB stock owned by the Credit Union and eligible first mortgage loans under a blanket arrangement. The Credit Union had additional borrowing capacity of $129,916,385 under this arrangement at December 31, 2020.

The Credit Union also can borrow $40,000,000 through the FHLB Cash Management Advance program. There were no advances under this program at December 31, 2020 and 2019.

At December 31, 2020, the Credit Union had a $25,000,000 line of credit with Corporate One Federal Credit Union. There were no advances under this arrangement at December 31, 2020 and 2019.

The Credit Union also participates in the Borrower-in-Custody program through the Federal Reserve Bank. The Credit Union has pledged a portion of the auto loan portfolio totaling $128,670,203 at December 31, 2020 and may borrow up to $100,589,392 of this outstanding balance.

Interest expense on these arrangements totaled $495,108 and $621,435 for the years December 31, 2020 and 2019, respectively.

Note 8 - Related party transactions

The official family of the Credit Union includes employees, board members, audit committee and credit committee members. The official family loan and share totals are as follows:

	2020	2019
Loans	$ 21,299,456	$ 16,995,171
Shares	$ 2,568,147	$ 2,501,997

Note 9 - Employee benefit plan

Employee 401(k) and Profit Sharing Plan

The Credit Union offers a 401(k) and profit sharing plan to all eligible employees. Eligible employees may contribute a percentage of their compensation subject to a maximum statutory limitation. The Credit Union also provides a matching contribution on behalf of participants who make elective compensation deferrals up to a 5% maximum. Employee and employer contributions are always 100% vested. The expenses under this plan totaled $579,445 and $496,602 for the years ended December 31, 2020 and 2019.

Note 10 - Commitments and contingent liabilities

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

Loan Commitments

The Credit Union has extended lines of credit to members which have not been entirely drawn at December 31, 2020 and 2019. The available credit to members that has not been reflected in the financial statements is as follows:

	Available Credit	
	2020	2019
Home equity line of credit	$ 35,829,640	$ 31,406,811
Signature line of credit	6,826,458	6,619,342
Business line of credit	6,474,529	3,956,469
Overdraft line of credit	1,371,617	1,189,798
Total	**$ 50,502,244**	**$ 43,172,420**

Note 11 - Other non-interest income and expense

Other non-interest income and expense amounts for the years ended December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Non-interest income		
Fees and charges	$ 7,592,105	$ 6,567,755
Debit card and credit card income	3,828,072	3,758,993
Gain on sale of mortgages	3,215,054	1,047,288
Gain on sale of SBA loans	783,634	453,666
MSR loan servicing	495,102	439,678
Gain on valuation of equity investments	434,768	0
Commission income	80,986	71,486
Gain on sale of other real estate owned	31,033	21,793
Gain(loss) on sale of investments	(237,011)	0
Miscellaneous income	710,643	842,377
Total non-interest income	**$ 16,934,386**	**$ 13,203,036**
Non-interest expenses		
Compensation and benefits	$ 18,713,872	$ 16,956,401
Office operations	4,362,969	3,940,446
Occupancy	2,927,364	2,912,474
Loan servicing	2,625,996	2,512,525
Promotional	1,624,846	1,583,936
Card processing and bank charge	1,610,026	1,979,417
Professional fees	1,208,384	956,556
Director and employee training	331,059	392,405
Insurance expense	194,649	172,496
Travel and education	74,946	133,344
Other	573,470	760,419
Total non-interest expense	**$ 34,247,581**	**$ 32,300,419**

Note 12 - Regulatory capital

The Credit Union is subject to regulatory net worth requirements administered by the NCUA. Failure to meet minimum net worth 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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under Generally Accepted Accounting Principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth below) of net worth to assets (as defined in the regulations). Credit Unions are also required to calculate a Risk Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. Management believes, as of December 31, 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

The Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth as follows:

	Actual		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
December 31, 2020	$ 91,302,666	9.64%	$ 66,321,854	7.00%
December 31, 2019	$ 84,910,141	10.09%	$ 58,914,261	7.00%

Note 13 - Leases

The Credit Union leases branch locations in Fairfield Township, West Chester and Oxford, OH. Each of these leases was obtained in the acquisition of Chaco Credit Union. The Fairfield Township lease was entered into on October 7, 2004 and was subsequently been renewed several times, the last of which occurred effective June 1, 2014 for a five-year term ending May 31, 2019. Minimum rent for the term was $4,141 per month and the Credit Union paid an ATM transaction fee of $500 per month, per ATM. The Credit Union elected not to exercise the lease option at the commencement of the current term and the branch was closed.

The West Chester lease was entered into on May 4, 2010 for a five-year term and was subsequently extended for an additional five years ending May 31, 2020. The lease provides the Credit Union with the option to extend the lease for five additional five year terms. During 2020, the Credit Union renegotiated the lease option. Under the new lease addendum, the current lease term is extended for a period of twelve months to expire on June 1, 2021 with no renewal option. Minimum rent for the current term is $6,391 per month. The Credit Union is also responsible for paying its proportionate share of the cost of common expenses incurred by the Lessor for the building, property and common areas that benefit the Credit Union. The Credit Union's prorated share of common area expenses total $2,395 per month.

Rent expense was $113,400 and $149,789 for the years ended December 31, 2020 and 2019, respectively. Future commitments under the lease agreements totaled $47,593 at December 31, 2020.

Note 14 – Subsequent events

On February 28, 2021, the Credit Union acquired the assets, liabilities and operations of Columbus Metro Federal Credit Union. This business combination will be accounted for using the acquisition method of accounting. Accordingly, any identifiable assets acquired, or liabilities assumed will be recognized by the Credit Union at fair value as of the acquisition date. At December 31, 2020, Columbus Metro Federal Credit Union had total assets of $258,960,173, which included loan balances of $185,120,624. The Credit Union also had share balances of $230,813,161 and total equity of $25,495,314 at December 31, 2020. The February 28, 2021 balances closely approximated the December 31, 2020 balances, although adjustments will be made to record the balances at fair value as of February 28, 2021.