Lillie & Company

Telhio Credit Union

Annual Financial Reports
December 31, 2021

Adding insight... Not just numbers.

Telhio Credit Union
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December 31, 2021 and 2020

Lillie & Company

CPAs for Credit Unions

Independent Auditor's Report

To the Board of Directors of
Telhio Credit Union

Opinion

We have audited the financial statements of Telhio Credit Union, which comprise the statements of financial condition as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Telhio Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Telhio Credit Union's ability to continue as a going concern for 12 months beyond the issuance of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 controls. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Telhio Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lillie & Company LLC

Sunbury, Ohio
April 28, 2022

Telhio Credit Union
Statements of Financial Condition
December 31, 2021 and 2020

ASSETS

	2021	2020
Cash and cash equivalents (Note 6)	$ 200,724,887	$ 79,786,601
Investments (Note 2)		
Available for sale	123,161,742	110,585,810
Held to maturity	0	50,000
Other investments	30,595,604	5,120,968
Equity investments	2,232,530	1,980,080
Loans to members - less allowance for loan losses (Note 3)	847,494,195	688,930,697
Mortgage loans held for sale	3,554,969	12,539,180
Property and equipment - net (Note 4)	39,145,833	29,956,453
Other assets		
Accrued interest receivable - loans	1,978,187	1,783,243
Accrued interest receivable - investments	454,447	379,526
Mortgage and SBA servicing rights (Note 1)	1,007,492	1,120,200
Prepaid expenses	3,484,846	1,634,900
Other assets	4,992,390	5,528,705
Share insurance deposits	10,844,065	8,058,698
Total other assets	22,761,427	18,505,272
Total assets	**$ 1,269,671,187**	**$ 947,455,061**

LIABILITIES AND MEMBERS' EQUITY

	2021	2020
Share accounts (Note 5)	$ 1,117,793,379	$ 826,663,516
Borrowings (Note 7)	16,809,524	17,952,381
Accounts payable and accrued liabilities	10,602,878	9,612,465
Total liabilities	**1,145,205,781**	**854,228,362**
Members' equity - substantially restricted		
Statutory reserve	9,228,409	9,228,409
Undivided earnings	82,947,428	70,226,720
Equity acquired through merger	32,762,741	11,847,537
Accumulated other comprehensive income	(473,172)	1,924,033
Total members’ equity	**124,465,406**	**93,226,699**
Total liabilities and members’ equity	**$ 1,269,671,187**	**$ 947,455,061**

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, 2021 and 2020

	2021	2020
Interest income		
Interest on loans	$ 39,332,736	$ 32,449,951
Interest on investments	1,789,375	1,813,277
Total interest income	41,122,111	34,263,228
Dividend and interest expense		
Dividends on share accounts (Note 5)	4,188,312	5,913,672
Interest expense on borrowings (Note 7)	479,109	495,108
Total dividend and interest expense	4,667,421	6,408,780
Net interest income	36,454,690	27,854,448
Provision for loan losses (Note 3)	931,843	2,716,400
Net interest income after provision for loan losses	35,522,847	25,138,048
Non-interest income (Note 11)	21,798,830	15,415,407
Non-interest expense (Note 11)	44,600,969	34,160,930
Net income	**12,720,708**	**6,392,525**
Change in market value of investments	(2,356,199)	1,848,563
Comprehensive income	**$ 10,364,509**	**$ 8,241,088**

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

Telhio Credit Union

Statements of Members’ Equity
For the Years Ended December 31, 2021 and 2020

	Statutory Reserve	Undivided Earnings	Equity Acquired through Merger	Accumulated Other Comprehensive Income	Total
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
Realized gain on sale of AFS investments	0	0	0	(36,003)	(36,003)
Change in market value of investments - 2020	0	0	0	1,848,563	1,848,563
Balance – December 31, 2020	**$ 9,228,409**	**$ 70,226,720**	**$ 11,847,537**	**$ 1,924,033**	**$ 93,226,699**
Net income - for the year ended December 31, 2021	0	12,720,708	0	0	12,720,708
Realized gain on sale of AFS investments	0	0	0	(41,006)	(41,006)
Change in market value of investments - 2021	0	0	0	(2,356,199)	(2,356,199)
Equity acquired in merger (Note 14)	0	0	20,915,204	0	20,915,204
Balance – December 31, 2021	**$ 9,228,409**	**$ 82,947,428**	**$ 32,762,741**	**$ (473,172)**	**$ 124,465,406**

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

Telhio Credit Union
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 12,720,708	$ 6,392,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,748,995	1,457,736
Provision for loan losses	931,843	2,716,400
Amortization/accretion of premium/discount on investments	1,137,741	570,728
(Gain) loss on valuation of equity securities	289,531	(434,768)
(Gain) loss on sale of equity securities	(668,107)	273,014
Gain on sale of available for sale investments	(41,006)	(36,003)
Amortization of core deposit intangible	267,515	148,735
Amortization/accretion of premium/discount on purchased loans	1,018,855	(880,093)
Amortization of deferred loan fees	144,110	388,497
Recognition of deferred revenue	(357,264)	(163,910)
Receipt of deferred revenue	0	1,017,072
Change in servicing asset-net of amortization	112,708	(198,009)
Gain on sale of other real estate owned	0	(31,033)
Proceeds from sale of mortgages held for sale	152,860,177	177,055,360
Mortgages originated and held for sale	(140,019,381)	(182,511,373)
Gain on sale of mortgages	(3,856,585)	(3,215,054)
Proceeds from the sale of SBA loan guarantees	4,542,882	8,380,202
SBA loans originated and held for sale	(4,053,094)	(7,596,568)
Gain on the sale of SBA loans	(489,788)	(783,633)
Loss on write down of property held for sale	198,343	0
Amortization of premium on shares acquired	(836,697)	0
Change in interest receivable	155,022	(478,903)
Change in prepaid expenses	(1,798,519)	(355,727)
Change in accrued and other liabilities	(2,648,925)	1,356,448
Total adjustments	8,638,356	(3,320,882)
Net cash provided by operating activities	21,359,064	3,071,643
Cash flows from investing activities		
Cash obtained from business combination	31,221,889	0
Proceeds from available for sale investments	25,462,857	14,879,037
Proceeds from held to maturity investments	50,000	1,190,000
Purchase of available for sale investments	(41,532,728)	(87,304,519)
Maturities of other investments – net of purchases	10,910,410	367,194
Purchase of equity securities	(3,719,052)	(7,710,088)
Proceeds from sale of equity securities	3,845,179	5,891,761
Purchase of fixed assets	(5,714,219)	(4,519,859)
Purchase of other real estate owned	0	(115,094)
Proceeds from the sale of other real estate owned	0	263,206
Loans made to members – net of repayments	48,380,612	(95,801,006)
Increase in participation loans - net of repayments	(27,896,557)	18,276,562
Change in insurance deposit	(505,078)	(866,404)
Change in other assets	2,381,780	(3,611,739)
Net cash provided (used) by investing activities	42,885,093	(159,060,949)

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, 2021 and 2020

	2021	2020
Cash flows from financing activities		
Repayments of borrowings	(1,142,857)	(2,246,143)
Net increase in members shares	57,762,982	97,261,829
Net change in escrow balances	74,004	392,382
Net cash provided (used) by financing activities	56,694,129	95,408,068
Net increase (decrease) in cash and cash equivalents	120,938,286	(60,581,238)
Cash and cash equivalents		
Beginning of year	79,786,601	140,367,839
End of year	**$ 200,724,887**	**$ 79,786,601**
Supplemental cash flow information		
Dividend paid on shares and interest paid on borrowed funds	**$ 4,815,205**	**$ 6,571,851**

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.

Pending Accounting Pronouncements – 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 – The Credit Union follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes 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).

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:

	2021	2020
Beginning balance	$ 1,120,200	$ 922,191
New Loans	145,401	343,416
Valuation adjustment-net of amortization	(258,109)	(145,407)
Ending balance	$ 1,007,492	$ 1,120,200

The balance of mortgage loans being serviced by the Credit Union for the benefit of the Federal Home Loan Bank totaled $66,124,606 and $83,733,087 at December 31, 2021 and 2020. The balance of SBA loans being serviced was $19,393,949 and $16,876,450 at December 31, 2021 and 2020, 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.

Property and Equipment - 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, 2021 there were deposits with Corporate One Federal Credit Union totaling $137,291,201, the Federal Reserve Bank totaling $38,087,507, Federal Home Loan Bank totaling $7,040,486, Silicon Valley Bank totaling $2,326,062, Huntington National Bank totaling $332,110, CitiBank totaling $317,762 and Fifth Third Bank totaling $300,413.

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 2021 and 2020 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 2020 calendar year and will be filed by the applicable extended due date for the 2021 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.

Off-Balance-Sheet Credit Related Financial Instruments – In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Revenue Recognition – In the ordinary course of business, the Credit recognizes income from various revenue generating activities. Certain revenues are generated from contracts with members where such revenues are recognized when, or as, services or products are transferred to members for amounts to which the Credit Union expects to be entitled. Certain specific policies related to revenue recognition from contracts with members include:

Service fees
Services fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

Credit and Debit Card Revenue
Credit and debit card revenue includes interchange fees from credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Credit Union records interchange fees as services are provided. Transaction and account management fees are recognized as services are provided, except for annual fees which are recognized over the applicable period.

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, 2020 financial statements to be consistent with the December 31, 2021 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 April 28, 2022, 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, 2021 and 2020 were:

Available for Sale - 2021

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 42,582,124	$ 177,911	$ (349,325)	$ 42,410,710
Corporate debt securities	22,388,561	148,700	(369,649)	22,167,612
Municipal debt securities	19,202,754	132,726	(121,600)	19,213,880
Negotiable certificates of deposit	16,666,000	264,691	(3,551)	16,927,140
Government sponsored entities	13,434,928	177	(191,019)	13,244,086
Collateralized mortgage obligations	5,960,334	18,549	(95,014)	5,883,869
U.S. treasury obligations	3,400,213	0	(85,768)	3,314,445
Total	**$ 123,634,914**	**$ 742,754**	**$(1,215,926)**	**$123,161,742**

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**

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**

Other Investments - 2021

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 24,211,000	$ 0	$ 0	$ 24,211,000
FHLB capital stock (restricted)	3,164,400	0	0	3,164,400
Corporate One – PCC	1,950,255	0	0	1,950,255
Cooperative Business Solutions	1,131,612	0	0	1,131,612
PSCU member stock	138,337	0	0	138,337
Total	**$ 30,595,604**	**$ 0**	**$ 0**	**$ 30,595,604**

Other Investments - 2020

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

The amortized cost and estimated fair value of investment securities at December 31, 2021 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		**Other Investments**	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$ 11,155,740	$ 11,221,096	$11,477,000	$11,477,000
Due in 1-5 years	94,991,991	94,657,322	12,484,000	12,484,000
Due in 5-10 years	13,622,987	13,524,046	0	0
Due after 10 years	3,864,196	3,759,278	0	0
No specific maturity	0	0	6,634,604	6,634,604
Total	**$123,634,914**	**$123,161,742**	**$30,595,604**	**$30,595,604**

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, 2021 and 2020 are summarized as follows:

2021

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale						
MBS	$ 35,153,930	$ (349,325)	$ 0	$ 0	$ 35,153,930	$ (349,325)
Corporate bonds	14,545,535	(369,649)	0	0	14,545,535	(369,649)
Municipal bonds	9,357,468	(99,468)	666,907	(22,131)	10,024,375	(121,600)
Negotiable CD's	494,449	(3,551)	0	0	494,449	(3,551)
GSE	11,271,959	(163,087)	972,067	(27,933)	12,244,026	(191,019)
CMOs	4,676,196	(95,014)	0	0	4,676,196	(95,014)
US treasury	3,314,444	(85,758)	0	0	3,314,444	(85,758)
Total	**$ 78,813,981**	**$(1,165,862)**	**$ 1,638,974**	**$ (50,064)**	**$ 80,452,955**	**$(1,215,926)**

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)**

Fair values of assets and liabilities measured on a recurring basis at December 31, 2021 and 2020 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)**
2021				
Available for sale securities	**$ 123,161,742**	**$ 0**	**$123,161,742**	**$ 0**
Equity securities	**$ 2,232,530**	**$ 2,232,530**	**$ 0**	**$ 0**
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**

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 unrealized losses on equity securities of $289,531 during the year ended December 31, 2021, and unrealized gains of $434,768 during the year ended December 31, 2020. The Credit Union sold investments classified as equity securities with proceeds received from these sales totaling $3,845,179 and $5,891,761 for the years ended December 31, 2021 and 2020. The Credit Union recognized realized gains of $668,107 for the year ended December 31, 2021 and realized losses of $273,014 for the year ended December 31, 2020 from these sales.

The Credit Union sold investments classified as available for sale with proceeds received from these sales totaling $7,818,432 and $2,921,421 for the years ended December 31, 2021 and 2020. These sales resulted in net gains of $41,006 and $36,003 for the years ended December 31, 2021 and 2020.

Note 3 - Loans to members

The loans to members at December 31, 2021 and 2020 consist of the following:

	2021	2020
Business		
Real estate	$ 149,412,169	$ 99,179,592
SBA	26,013,441	44,910,479
Real estate – participation	11,290,417	9,395,227
Secured	6,667,823	6,008,061
Unsecured	10,796	16,102
Other secured - participation	2,076	4,047
Line of credit – participation	0	25,147
Total business	$ 193,396,722	$ 159,538,655
Consumer		
First mortgage	$ 302,848,176	$ 249,569,721
Indirect auto	126,337,769	86,982,876
Second mortgage	55,595,969	57,140,152
Direct auto	55,463,492	57,372,418
Unsecured	52,806,675	40,012,915
Secured – participation	39,883,184	17,150,230
Other secured	29,830,882	26,508,116
Total consumer	$ 662,766,147	$ 534,736,428
Total loans	856,162,869	694,275,083
Unamortized discounts on purchased loans net of premiums	(3,491,111)	(952,075)
Net origination fees	537,004	730,043
Allowance for loan losses	(5,714,567)	(5,122,354)
Total loans - net	**$ 847,494,195**	**$ 688,930,697**

The interest rates on the loans range from 0.00% to 19.00% at December 31, 2021.

Loans on which the accrual of interest has been discontinued amounted to $1,254,467 and $1,392,223 at December 31, 2021 and 2020.

The Credit Union has loaned a total of $16,900,012 to certain current and former 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 or other collateral. 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, 2021 and 2020 is as follows:

	2021		
	Business	Consumer	Total
Allowance for loan losses			
Beginning balance	$ 1,781,563	$ 3,340,791	$ 5,122,354
Charge-offs	(16,970)	(1,144,528)	(1,161,498)
Recoveries	9,629	812,239	821,868
Provision	319,845	611,998	931,843
Ending balance	$ 2,094,067	$ 3,620,500	$ 5,714,567
Ending balance, individually evaluated for impairment	$ 1,749,379	$ 184,907	$ 1,934,286
Ending balance, collectively evaluated for impairment	$ 344,688	$ 3,435,593	$ 3,780,281
Loan balances			
Ending balance	$ 193,396,722	$ 662,766,147	$ 856,162,869
Outstanding balance of acquired loans not in ALLL	$ 1,505,720	$ 132,092,340	$ 133,598,060
Ending balance, individually evaluated for impairment	$ 191,891,002	$ 2,048,657	$ 193,939,659
Ending balance, collectively evaluated for impairment	$ 0	$ 528,625,150	$ 528,625,150

	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

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, 2021 and 2020:

2021
Business Loans

	Current or 0-29	Days Past Due 30-59	Days Past Due 60-89	Nonaccrual	Total
Real estate	$ 148,900,735	$ 511,434	$ 0	$ 0	$ 149,412,169
SBA	25,215,338	517,903	0	280,200	26,013,441
Real estate – part.	11,135,961	154,456	0	0	11,290,417
Secured	6,667,823	0	0	0	6,667,823
Unsecured	10,796	0	0	0	10,796
Other secured - part.	2,076	0	0	0	2,076
Total loans	**$ 191,932,729**	**$ 1,183,793**	**$ 0**	**$ 280,200**	**$ 193,396,722**

2020
Business Loans

	Current or 0-29	Days Past Due 30-59	Days Past Due 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**

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, 2021 and 2020:

2021
Consumer Loans

	Days Past Due				
	Current or 0-29	30-59	60-89	Nonaccrual	Total
First mortgage	$ 300,946,335	$ 1,231,590	$ 95,209	$ 575,042	$ 302,848,176
Indirect auto	126,053,329	112,871	85,453	86,116	126,337,769
Second mortgage	55,431,968	126,826	37,175	0	55,595,969
Direct auto	55,152,828	203,881	14,044	92,739	55,463,492
Unsecured	52,306,394	224,579	59,347	216,355	52,806,675
Secured – part.	39,821,473	6,637	55,074	0	39,883,184
Other secured	29,804,638	22,229	0	4,015	29,830,882
Total loans	**$ 659,516,965**	**$ 1,928,613**	**$ 346,302**	**$ 974,267**	**$ 662,766,147**

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	26,419,359	50,410	35,592	2,755	26,508,116
Total loans	**$ 532,310,456**	**$ 1,293,194**	**$ 191,911**	**$ 940,867**	**$ 534,736,428**

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, 2021 and 2020:

2021

	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	5	248,402	0	0	0	0
SBA	2	115,875	0	0	0	0
Consumer						
First mortgage	13	1,590,093	125,943	0	0	0
Indirect auto	32	185,398	3,039	0	0	0
Direct auto	18	89,670	910	0	0	0
Unsecured	13	110,030	55,015	0	0	0
Other Unsecured	1	73,466	0	0	0	0
Total						
Business	7	364,277	0	0	0	0
Consumer	77	2,048,657	184,907	0	0	0
Total loans	**84**	**$ 2,412,934**	**$ 184,907**	**0**	**$ 0**	**$ 0**

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
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**

Note 4 - Property and equipment

Property and equipment at December 31, 2021 and 2020 consists of the following:

	2021	2020
Land	$ 10,748,521	$ 8,321,940
Building and improvements	27,713,025	23,943,952
Furniture and fixtures	18,183,843	16,986,466
Construction in progress	6,128,698	2,725,559
Total	62,774,087	51,977,917
Less accumulated depreciation	(23,628,254)	(22,021,464)
Total property - net	**$ 39,145,833**	**$ 29,956,453**

Note 5 - Share accounts

Share accounts as of December 31, 2021 and 2020 are as follows:

	2021	2020
Money market	$ 305,730,219	$ 218,100,315
Shares – regular	297,587,734	199,598,902
Shares – certificates	268,754,982	217,452,493
Share draft	225,931,646	173,200,546
IRA shares	19,236,866	12,264,717
Club accounts	551,932	176,543
Non-member certificates	0	5,870,000
Total	**$ 1,117,793,379**	**$ 826,663,516**

A summary of share certificates by maturity as of December 31, 2021 is as follows:

2022	$ 158,796,119
2023	45,477,284
2024	29,753,530
2025	17,060,345
2026 and thereafter	17,667,704
Total	**$ 268,754,982**

All remaining share accounts have no contractual maturity.

Dividend expense on share accounts is summarized as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Share certificates	$ 3,235,332	$ 4,563,724
Money market	691,958	926,479
Non-member certificates	131,653	306,877
Shares - regular	90,197	79,354
Share drafts	33,827	31,704
IRA shares	5,031	5,393
Club accounts	314	141
Total	**$ 4,188,312**	**$ 5,913,672**

There were share accounts which exceeded the insured limit of $500,000 by an aggregate amount of $23,868,655 as of December 31, 2021.

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:

	2021	2020
Cash on hand	$ 7,443,566	$ 6,404,205
Deposits in financial institutions – interest bearing	189,486,937	69,880,599
Deposits in financial institutions – non-interest bearing	3,794,384	3,501,797
Total cash and cash equivalents	**$ 200,724,887**	**$ 79,786,601**

Note 7 - Borrowings

The Credit Union had FHLB advances totaling $16,809,524 and $17,952,381 at December 31, 2021 and 2020, 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 $175,241,340 under this arrangement at December 31, 2021.

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, 2021 and 2020.

The Credit Union maintains a line of credit borrowing arrangement with Corporate One Federal Credit Union (Corporate One). The arrangement calls for advances to be made at variable or fixed rates of interest. The arrangement also calls for advances to be paid on demand. The arrangement is secured by substantially all the Credit Union's assets. The arrangement has two borrowing options. One option is a settlement loan, which is automatically drawn upon when the balance in the Credit Union's settlement share account is not sufficient to cover the daily settlement activity. The second option is a demand loan, which is drawn upon when the Credit Union specifically requests a short-term loan from the entity. The effective interest rate for the demand loan is established based on the prevailing market rates at the time of borrowing. The borrowing limit at December 31, 2020 was $25,000,000. In conjunction with the acquisition of Columbus Metro Federal Credit Union on February 28, 2021, an additional arrangement with Corporate One was obtained. The limit of this arrangement is $10,000,000, resulting in a total borrowing limit of $35,000,000 at December 31, 2021. There were no advances under either arrangement at December 31, 2021 and 2020.

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 $172,588,772 at December 31, 2021 and may borrow up to $129,935,415 of this outstanding balance.

Interest expense on these arrangements totaled $479,109 and $495,108 for the years December 31, 2021 and 2020, 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:

	2021	2020
Loans	$ 24,094,531	$ 21,299,456
Shares	$ 4,726,983	$ 2,568,147

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 $805,436 and $579,445 for the years ended December 31, 2021 and 2020.

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, 2021 and 2020. The available credit to members that has not been reflected in the financial statements is as follows:

	Available Credit	
	2021	2020
Home equity line of credit	$ 56,069,629	$ 35,829,640
Signature line of credit	8,912,904	6,826,458
Business line of credit	9,186,494	6,474,529
Overdraft line of credit	1,954,571	1,371,617
Total	**$ 76,123,598**	**$ 50,502,244**

Note 11 - Other non-interest income and expense

Other non-interest income and expense amounts for the years ended December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Non-interest income		
Debit card and credit card income	$ 6,901,787	$ 3,828,072
Fees and charges	6,650,161	6,073,126
Gain on sale of mortgages	3,856,585	3,215,054
Grant income	2,002,160	29,316
Gain(loss) on sale of investments	709,113	(237,011)
Gain on sale of SBA loans	489,788	783,634
MSR loan servicing	349,060	495,102
Commission income	124,538	80,986
Gain on sale of other real estate owned	0	31,033
Gain(loss) on valuation of equity investments	(289,531)	434,768
Miscellaneous income	1,005,169	681,327
Total non-interest income	**$ 21,798,830**	**$ 15,415,407**
Non-interest expenses		
Compensation and benefits	$ 24,636,762	$ 18,713,872
Office operations	5,658,608	4,362,969
Occupancy	3,491,309	2,927,364
Loan servicing	3,308,834	2,625,996
Card processing and bank charge	2,505,891	1,610,026
Promotional	2,016,256	1,624,846
Professional fees	1,348,455	1,121,733
Director and employee training	265,889	331,059
Insurance expense	203,390	194,649
Loss on write down of fixed assets	198,343	0
Travel and education	121,786	74,946
Members insurance	3,364	0
Other	842,082	573,470
Total non-interest expense	**$ 44,600,969**	**$ 34,160,930**

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, 2021, 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, 2021	$ 124,938,578	9.84%	$ 88,876,983	7.00%
December 31, 2020	$ 91,302,666	9.64%	$ 66,321,854	7.00%

Note 13 - Leases

The Credit Union leased branch locations in Fairfield Township and West Chester, which were obtained in the acquisition of Chaco Credit Union. 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 provided 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 lease term was extended for a period of twelve months to expire on June 1, 2021 with no renewal option. The branch office was vacated at the expiration of this lease. Minimum rent for the current term was $6,391 per month. The Credit Union was 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 benefitted the Credit Union.

Rent expense was $61,719 and $113,400 for the years ended December 31, 2021 and 2020, respectively.

Note 14 - Business combination

On February 28, 2021, the Credit Union acquired the assets, liabilities and operations of Columbus Metro Federal Credit Union. This business combination was accounted for using the acquisition method of accounting. Accordingly, any identifiable assets acquired, or liabilities assumed have been recognized by the Credit Union at fair value as of the acquisition date. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed from the Credit Union are included below:

Cash	$ 31,221,889
Investments	36,385,046
Loans	181,142,356
Fixed assets	5,422,500
Other assets	1,950,402
Prepaid assets	51,426
NCUSIF	2,280,289
Accrued income	424,888
Member shares	234,203,578
Accrued liabilities	3,922,546
Equity acquired	20,915,204
Goodwill	162,577