# SharePoint Credit Union

Financial Statements

Year Ended December 31, 2021

WIPFLI

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# Independent Auditor's Report

Supervisory Committee
SharePoint Credit Union
Bloomington, Minnesota

***Opinion***

We have audited the accompanying financial statements of SharePoint Credit Union (the "Credit Union"), which comprise the balance sheet as of December 31, 2021, and the related statements of operations, comprehensive income, changes in members' equity, and cash flows for the year 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 SharePoint Credit Union as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

***Basis for Opinion***

We conducted our audit 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 SharePoint Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 SharePoint Credit Union's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

***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.

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 SharePoint Credit Union's internal control. 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 SharePoint 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.

Wipfli LLP

Wipfli LLP

Minneapolis, Minnesota
May 10, 2022

# SharePoint Credit Union
## Balance Sheet

| *As of December 31,* | 2021 |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | $ 24,520,046 |
| Other interest-bearing deposits | 6,352,000 |
| Securities available for sale | 95,075,657 |
| Loans held for sale | 157,000 |
| Loans, net | 164,873,414 |
| Premises and equipment, net | 4,563,327 |
| Other investments | 399,707 |
| Accrued interest receivable | 412,873 |
| NCUSIF deposit | 2,457,741 |
| Cash value of life insurance | 4,910,436 |
| Other assets | 1,316,567 |
| Total assets | $ 305,038,768 |
| **Liabilities:** | |
| Non-interest-bearing shares | $ 20,890,412 |
| Interest-bearing shares | 251,582,053 |
| Total members' share and savings accounts | 272,472,465 |
| Accrued payroll | 194,107 |
| Other liabilities | 754,371 |
| Total liabilities | 273,420,943 |
| **Members' Equity:** | |
| Regular reserve | 4,464,762 |
| Undivided earnings | 25,774,806 |
| Accumulated other comprehensive loss | (1,094,575) |
| Equity acquired in merger | 2,472,832 |
| Total members' equity | 31,617,825 |
| Total liabilities and members' equity | $ 305,038,768 |

See accompanying notes to financial statements.

# SharePoint Credit Union
## Statement of Operations

| *Year Ended December 31* | **2021** |
| --- | --- |
| Interest and dividend income: | |
| Loans, including fees | $ 8,521,647 |
| Securities | 586,371 |
| Other | 346,724 |
| Total interest and dividend income | 9,454,742 |
| Interest expense: | |
| Members' share and savings accounts | 1,089,836 |
| Total interest expense | 1,089,836 |
| Net interest income | 8,364,906 |
| Provision for loan losses | 3,682 |
| Net interest income after provision for loan losses | 8,361,224 |
| Noninterest income: | |
| Service fees | 1,500,358 |
| Net gain on sale of securities | 21,671 |
| Other noninterest income | 1,777,600 |
| Total noninterest income | 3,299,629 |
| Noninterest expense: | |
| Salaries and employee benefits | 4,774,941 |
| Occupancy and equipment | 1,241,471 |
| Advertising and promotions | 284,797 |
| Professional fees | 306,709 |
| Other noninterest expense | 2,391,800 |
| Total noninterest expense | 8,999,718 |
| Net income | $ 2,661,135 |

See accompanying notes to financial statements.

# SharePoint Credit Union
## Statement of Comprehensive Income

| *Year Ended December 31* | **2021** |
|---|---|
| Net income | $ 2,661,135 |
| Other comprehensive income (loss): | |
| Unrealized gain (loss) on securities | (1,450,159) |
| Reclassification adjustment for (gains) losses realized in net income | (21,671) |
| Other comprehensive income (loss) | (1,471,830) |
| Total comprehensive income | $ 1,189,305 |

See accompanying notes to financial statements.

# SharePoint Credit Union

## Statement Changes in Members' Equity

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Acquired Equity | Total Members' Equity |
|---|---|---|---|---|---|
| Balances at January 1, 2021 | $ 4,464,762 | $ 23,113,671 | $ 377,255 | $ 2,472,832 | $ 30,428,520 |
| Net income | - | 2,661,135 | - | - | 2,661,135 |
| Other comprehensive loss | - | - | (1,471,830) | - | (1,471,830) |
| Balances at December 31, 2021 | $ 4,464,762 | $ 25,774,806 | $ (1,094,575) | $ 2,472,832 | $ 31,617,825 |

See accompanying notes to financial statements.

# SharePoint Credit Union

## Statement of Cash Flows

| *Year Ended December 31, 2021* | **2021** |
|---|---|
| Increase (decrease) in cash and cash equivalents: | |
| Cash flows from operating activities: | |
| Net income | $ 2,661,135 |
| Adjustments to reconcile net income to net cash from operating activities: | |
| Gain on sale of securities available for sale | (21,671) |
| Provision for loan losses | 3,682 |
| Provision for depreciation | 346,402 |
| Net amortization of security premium and discount | 667,047 |
| Increase in cash value of life insurance, net | (143,176) |
| Changes in operating assets and liabilities: | |
| Loans held for sale | 2,758,576 |
| Accrued interest receivable | (22,325) |
| NCUSIF Deposit | (204,553) |
| Other assets | 145,061 |
| Accrued payroll | 7,088 |
| Other liabilities | (91,027) |
| Net cash from operating activities | 6,106,239 |
| Cash flows from investing activities: | |
| Increase in other interest-bearing deposits | (496,000) |
| Purchases of securities available for sale | (63,014,811) |
| Proceeds from sales, calls, and maturities of securities available for sale | 18,608,808 |
| Net decrease in loans | 4,414,686 |
| Capital expenditures | (120,545) |
| Net cash from investing activities | (40,607,862) |
| Cash flows from financing activities: | |
| Net increase in members' share and savings accounts | 30,209,128 |
| Net cash from financing activities | 30,209,128 |
| Net decrease in cash and cash equivalents | (4,292,495) |
| Cash and cash equivalents at beginning of year | 28,812,541 |
| Cash and cash equivalents at end of year | $ 24,520,046 |
| **Supplemental cash flow information:** | |
| Cash paid during the year for: | |
| Interest | $ 1,089,836 |

See accompanying notes to financial statements.

## Note 1: Summary of Significant Accounting Policies

### Organization

SharePoint Credit Union (the "Credit Union") is a full-service state-charted cooperative association headquartered in Bloomington, Minnesota. The main loan and share accounts offered by the Credit Union are fully disclosed in Notes 4 and 6. Substantially, all of the loans are made within the Minnesota geographic area and are secured by specific items of collateral including consumer assets, commercial, and residential real estate.

Membership in the Credit Union is available to persons who live, work, workship, attend school, or conduct business in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, or Wright Counties.

The significant risks associated with Credit Union include interest rate risk, credit risk, concentration risk, and liquidity risk.

### Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

### Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less and are utilized in the daily operations of the Credit Union.

In the normal course of business, the Credit Union maintains cash and due from bank balances with a corporate credit union. Balances in these accounts may exceed the NCUA's insured limit of $250,000. Management believes this financial institution has a strong credit rating and that the credit risk related to these deposits is minimal.

### Interest-Bearing Deposits

Interest-bearing deposits consist of certificates of deposit at insured financial institutions. The interest-bearing deposits are carried at cost.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Debt Securities

Debt securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of debt securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the  to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

### Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses on the sale of loans held for sale are determined using the specific-identification method.

### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, deferred loan fees and costs, charge-offs, and an allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan-origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on a loan is discontinued when the loan becomes 90 days delinquent or whenever management believes the borrower will be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis or using the cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Allowance for Loan Losses

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated so that the loan net of the specific allocation equals the present value of estimated future cash flows using the loan’s existing rate or the fair value of underlying collateral less applicable estimated selling costs if repayment is expected solely from the collateral.

TDRs are individually evaluated for impairment and included in the impaired loan disclosures. TDRs are measured at the present value of estimated future cash flows using the loan’s original effective rate. If a TDR is considered to be a collateral dependent loan, the loan is measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently default, the Credit Union determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not included in the impaired loan disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated, but are not considered impaired.

## Note 1: Summary of Significant Accounting Policies (Continued)

**Allowance for Loan Losses** (Continued)

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class and is based on the actual loss history experienced by the Credit Union. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment or loan class. These qualitative factors include: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and employees; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Management considers the following when assessing risk in the Credit Union's loan portoflio segments:

- Real estate loans are affected by the local real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Credit Union evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flow sufficiency to service debt at the time of origination.

- Auto loans are extended to individuals for the purchase of a personal vehicle. At the time of origination, the Credit Union evaluates the borrower's repayment ability through review of debt to income ratios and credit scores.

- Other consumer loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Credit Union evaluates the borrower's repayment ability through a review of debt to income ratios and credit scores.

- Business loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other purposes. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flow of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

### Other Investments

Other investments include equity securities without a readily determinable fair value, contributed capital. The Credit Union has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Credit Union is required to hold Alloya stock, and transfer of the stock is substantially restricted. The Alloya stock is pledged as collateral for outstanding Alloya advances. Alloya stock are evaluated for impairment on an annual basis.

### NCUSIF Deposit

Member savings accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF). Membership in the NCUSIF requires that the Credit Union place on deposit an amount equivalent to 1% of insured members' savings accounts. 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 National Credit Union Administration (NCUA) Board.

### Off-Balance-Sheet Instruments

In the ordinary course of business, the Credit Union has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

### Members' Share and Savings Account

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

### Members' Equity

The Credit Union is required by regulation to maintain a regular reserve. This reserve, which represents a regulatory restriction of members' equity or undivided earnings, is not available for the payment of interest.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. There were no foreclosed assets as of December 31, 2021.

### Life Insurance

The Credit Union has purchased life insurance policies on certain key executives. Life insurance is measured at the amount that could be realized under the insurance contract as of the balance sheet date, which generally is the cash surrender value of the policy.

### Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to a select group of senior management personnel. The loans are collateralized by the assignment of the cash surrender value of the respective life insurance policies. The policies are owned by the executives and they have sole control over the listed beneficiaries. At the time of retirement, the loan becomes due and payable and can be paid with the cash value of the life insurance policies, or with other personal funds at the executive's discretion. The total value of the loans is included in Loans, net on the balance sheet and was $3,101,505 at December 31, 2021.

### Revenue from Contracts with Members

The Credit Union records revenue from contracts with members in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Members* (ASC 606). Under ASC 606, the Credit Union must identify the contract with a member, identify the performance obligation(s) within the contract, determine the transaction price, allocate the transaction price to the performance obligation(s) within the contract, and recognize revenue when (or as) the performance obligation(s) are/is satisfied. The core principle under ASC 606 requires the Credit Union to recognize revenue to depict the transfer of services or products to members in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The Credit Union generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The majority of the Credit Union's revenue is not subject to ASC 606, including net interest income, loan servicing income, fees related to loans and loan commitments, increase in cash surrender value of life insurance, and gain on sales of loans and securities.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Revenue from Contracts with Members (Continued)

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the statement of income as components of noninterest income:

Service fees – The Credit Union earns fees from its share members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Credit Union's performance obligation.

Interchange fees – Customers use a credit union-issued debit card to purchase goods and services, and the Credit Union earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Credit Union is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Credit Union that could be subject to a claw-back in future periods.

Insurance commissions – Insurance agency commissions are received from insurance carriers for the agency's share of commissions from customer premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the customer, but the time lag is insignificant and does not impact the revenue recognition process. The Credit Union has evaluated the potential amount of premium refunds due to customers when policies are cancelled and has determined such amounts are insignificant.

Net gain (loss) on sales of foreclosed assets – The Credit Union records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Credit Union finances the sale to the buyer, the Credit Union assesses whether the buyer is committed to perform their obligations under the contract and whether the Credit Union expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Credit Union adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

### Transfer of Finanical Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective

## Note 1: Summary of Significant Accounting Policies (Continued)

### Transfer of Finanical Assets (Continued)

control over the transferred assets through an agreement to repurchase them before their maturity.

### Rate Lock Commitments

The Credit Union enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the financial statements.

### Income Taxes

The Credit Union is generally exempt, by statute, from federal income taxes and state corporate business tax. However, the Credit Union is subject to federal tax on net unrelated business income.

The Credit Union may recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income tax expense.

### Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of unrealized gain (loss) on securities available for sale and is shown on the balance sheet.

### Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the financial statements of the Credit Union.

### Risks and Uncertainties

The United States and world economies continue to suffer adverse effects from the COVID-19 virus pandemic ("CV19 pandemic"). The Credit Union has responded throughout the CV19 pandemic as guided by governmental authorities and regulatory agencies with necessary operational and procedural modifications. The Credit Union has not experienced a material adverse impact to the financial statements. Future potential impacts to the Credit Union may include disruptions or restrictions on employees and contracted agents ability to work, reduced demand for new loans, and increased repurchase risk or loan defaults. The future impact of the CV19 pandemic on the Credit Union cannot be reasonably estimated at this time.

## Note 1: Summary of Significant Accounting Policies (Continued)

### Advertising

Advertising costs are expensed as incurred.

### New Accounting Pronouncements

The following ASUs have been issued by FASB and may impact the Credit Union's financial statements in future reporting periods:

ASU No. 2016-02, *Leases* - When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. This new standard is effective for financial statements issued for annual periods beginning after December 15, 2021. The Credit Union is evaluating what impact this new standard will have on its financial statements.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for financial statements issued for interim and annual periods beginning after December 15, 2022. The Credit Union is evaluating what impact this new standard will have on its financial statements.

### Subsequent Events

Subsequent events have been evaluated through May 10, 2022, which is the date the financial statements were available to be issued.

## Note 2: Interest-Bearing Deposits

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of $250,000 or less and are fully insured by the NCUA.

Maturities of other interest-bearing deposits with stated maturities as of December 31, 2021, are as follows:

| | |
|---|---|
| 2022 | $ 992,000 |
| 2023 | 2,136,000 |
| 2024 | 1,736,000 |
| 2025 | 1,240,000 |
| 2026 | 248,000 |
| Total | $ 6,352,000 |

## Note 3: Debt Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2021, follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **2021** | | | | |
| Securities available for sale: | | | | |
| U.S. treasury | $ 47,675,836 | $ - | $ (544,378) | $ 47,131,458 |
| U.S. government and agency securities | 4,508,642 | 148 | (10,472) | 4,498,318 |
| Mortgage-backed securities | 42,850,140 | 121,818 | (680,011) | 42,291,947 |
| Other debt obligations | 1,135,614 | 23,500 | (5,180) | 1,153,934 |
| Total securities available for sale | $ 96,170,232 | $ 145,466 | $ (1,240,041) | $ 95,075,657 |

Fair values of debt securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

### Note 3: Debt Securities (Continued)

The following table shows the fair value and gross unrealized losses of securities with unrealized losses at December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **2021** | | | | | | |
| U.S. treasury | $ 47,120,668 | $ (544,378) | $ - | $ - | $ 47,120,668 | $ (544,378) |
| U.S. government and agency securities | - | - | 2,971,192 | (10,472) | 2,971,192 | (10,472) |
| Mortgage-backed securities | 25,525,471 | (530,740) | 9,066,124 | (149,271) | 34,591,595 | (680,011) |
| Other debt obligations | - | - | 684,542 | (5,180) | 684,542 | (5,180) |
| Totals | $ 72,646,139 | $ (1,075,118) | $ 12,721,858 | $ (164,923) | $ 85,367,997 | $ (1,240,041) |

At December 31, 2021, 85 debt securities have unrealized losses with aggregate depreciation of 1.43% from the Credit Union's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2021. Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties.

## Note 3: Debt Securities (Continued)

| | Available for Sale | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 37,051,074 | 36,646,944 |
| Due after five years through ten years | 11,070,655 | 10,953,906 |
| Due after ten years | 5,198,363 | 5,182,860 |
| Subtotal | 53,320,092 | 52,783,710 |
| Mortgage-backed securities | 42,850,140 | 42,291,947 |
| Totals | $ 96,170,232 | $ 95,075,657 |

The following is a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses for the years ended December 31, 2021

| *Year Ended December 31, 2021* | 2021 |
|---|---|
| Proceeds from sales of securities | $ 104,328 |
| Gross gains on sales | $ 21,671 |

No securities were pledged at December 31, 2021.

## Note 4: Loans

The following table presents total loans at December 31, 2021, by portfolio segment and class of loan:

| | 2021 |
|---|---|
| Real estate | $ 69,433,748 |
| Auto | 50,136,004 |
| Other consumer | 16,531,558 |
| Business | 30,840,477 |
| Subtotal | 166,941,787 |
| Allowance for loan losses | (2,047,249) |
| Net deferred loan fees | (21,124) |
| Loans, net | $ 164,873,414 |

### **Note 4: Loans** (Continued)

Share accounts in an overdraft position and reclassified as loans totaled $20,795 at December 31, 2021.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), is an economic stimulus bill signed into law on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States. The creation of the Paycheck Protection Program (PPP) enacted under the CARES Act provides forgivable loans to small businesses for payroll obligations, emergency grants to cover immediate operating costs, and a mechanism for loan forgiveness by the Small Business Administration (SBA) should all criteria be met. Included in commercial loans are approximately $1,182,373 of loans granted under the PPP at December 31, 2021. These loans are fully guaranteed by the SBA.

The allowance for loan losses by portfolio segment follows:

| | Real Estate | Auto | Other Consumer | Business | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2021 | $ 422,533 | $ 484,197 | $ 556,529 | $ 587,612 | $ 2,050,871 |
| Provision for loan losses | (87,519) | (79,693) | (26,682) | 197,576 | 3,682 |
| Loans charged off | - | - | (127,949) | - | (127,949) |
| Recoveries of loans previously charged off | 19,586 | 16,138 | 81,407 | 3,514 | 120,645 |
| Balance at December 31, 2021 | $ 354,600 | $ 420,642 | $ 483,305 | $ 788,702 | $ 2,047,249 |

## Note 4: Loans (Continued)

Information about how loans were evaluated for impairment and the related allowance for loan losses as of December 31, 2021, follows:

| | Real Estate | Auto Loans | Other Consumer | Business | Total |
|---|---|---|---|---|---|
| **2021** | | | | | |
| Loans: | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ 4,818,083 | $ 4,818,083 |
| Collectively evaluated for impairment | 69,433,748 | 50,136,004 | 16,531,558 | 26,022,394 | 162,123,704 |
| Total loans | $ 69,433,748 | $ 50,136,004 | $ 16,531,558 | $ 30,840,477 | $ 166,941,787 |
| Related allowance for loan losses: | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ - | $ - | $ - |
| Collectively evaluated for impairment | 354,600 | 420,642 | 483,305 | 788,702 | 2,047,249 |
| Total allowance for loan losses | $ 354,600 | $ 420,642 | $ 483,305 | $ 788,702 | $ 2,047,249 |

### **Note 4: Loans** (Continued)

Information regarding impaired loans for the year ended December 31, 2021, follows:

| | Recorded Investment | Principal Balance | Related Allowance | Average Investment | Interest Recognized |
|---|---|---|---|---|---|
| Loans with no related allowance for loan losses: | | | | | |
| Business | $ 4,818,083 | $ 4,818,083 | N/A | $ 4,911,736 | $ 209,978 |
| Grand total | $ 4,818,083 | $ 4,818,083 | $ - | $ 4,911,736 | $ 209,978 |

No additional funds are committed to be advanced in connection with impaired loans.

The Credit Union regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The credit quality indicators monitored differ depending on the class of loan.

Business loans are generally evaluated using the following internally prepared ratings:

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectibility of the contractual loan payments is highly probable.
- "Watch/special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectibility of the contractual loan payments is still probable.
- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectibility of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectibility of the contractual loan payments is unlikely.

Real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan.

### **Note 4: Loans** (Continued)

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31, 2021, follows:

| | Pass | Special Mention/ Watch | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **2021** | | | | | |
| Business | $ 25,325,591 | $ 696,803 | $ 4,818,083 | $ - | $ 30,840,477 |
| Totals | $ 25,325,591 | $ 696,803 | $ 4,818,083 | $ - | $ 30,840,477 |

Information regarding the credit quality indicators most closely monitored for real estate and consumer loans by class as of December 31, 2021, follows:

| | Performing | Non performing | Total |
|---|---|---|---|
| **2021** | | | |
| Real estate | $ 69,348,980 | $ 84,768 | $ 69,433,748 |
| Auto | 50,108,806 | 27,198 | 50,136,004 |
| Other consumer | 16,528,109 | 3,449 | 16,531,558 |
| Totals | $ 135,985,895 | $ 115,415 | $ 136,101,310 |

Loan aging information as of December 31, 2021, follows:

| | Current Loans | Loans Past Due 30-89 Days | Loans Past Due 90+ Days | Nonaccrual | Total Loans |
|---|---|---|---|---|---|
| **2021** | | | | | |
| Real estate | $ 69,348,980 | $ - | $ - | $ 84,768 | $ 69,433,748 |
| Auto | 50,108,806 | 27,198 | - | - | 50,136,004 |
| Other consumer | 16,528,109 | 3,449 | - | - | 16,531,558 |
| Business | 30,709,957 | 113,613 | - | 16,907 | 30,840,477 |
| Totals | $ 166,695,852 | $ 144,260 | $ - | $ 101,675 | $ 166,941,787 |

## Note 4: Loans (Continued)

When, for economic or legal reasons related to the borrower's financial difficulties, the Credit Union grants a concession to the borrower that the Credit Union would not otherwise consider, the modified loan is classified as a TDR. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, interest-only payments for a period of time, and/or extending amortization terms.

The following presents information regarding new modifications of loans classified as troubled debt restructurings during the years ended December 31, 2021. The recorded investment presented in the following tables does not include specific reserves for loan losses recognized for these loans, which totaled $ 0 at December 31, 2021

| *Year Ended December 31, 2021* | Number of contracts | Pre Modificaiton Adjustment | Post Modification Adjustment |
|---|---|---|---|
| Real estate | $ 1 | $ 29,595 | $ 29,595 |
| Total | $ 1 | $ 29,595 | $ 29,595 |

The Credit Union considers a TDR in default if it becomes past due more than 120 days. No TDRs defaulted within 12 months of their modification date during the years ended December 31, 2021.

Directors and executive officers of the Credit Union, including their families and firms in which they are principal owners, are considered related parties. Substantially, all loans to these related parties were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectibility or present other unfavorable features. Total loans to directors and executive officers of the Credit Union totaled approximately $934,307 at December 31, 2021.

### Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2021, is as follows:

| | 2021 |
|---|---|
| Land | $ 1,202,810 |
| Land improvements | 125,155 |
| Buildings | 3,995,580 |
| Leasehold improvements | 99,189 |
| Furniture and equipment | 2,710,395 |
| Subtotal | 8,133,129 |
| Accumulated depreciation | (3,569,802) |
| Total | $ 4,563,327 |

Depreciation of premises and equipment charged to noninterest expense totaled $346,402 during 2021.

The Credit Union also leases several branch facilities under noncancelable operating leases. The Credit Union has an option to renew one of the leases for two additional five-year terms upon expiration of the initial lease. The Credit Union pays for real estate taxes, insurance, and maintenance under these leases. Rent expense for all operating leases was $128,719 during 2021.

Future minimum rental payments under noncancelable lease terms as of December 31, 2021, are as follows:

| | |
|---|---|
| 2022 | $ 102,919 |
| 2023 | 102,969 |
| 2024 | 103,566 |
| 2025 | 99,043 |
| 2026 | 21,600 |
| Total | $ 430,097 |

## Note 6: Members' Share and Savings Accounts

Members' share and savings accounts consisted of the following at December 31, 2021:

| | 2021 |
|---|---|
| Non-interest-bearing shares | $ 20,890,412 |
| Interest-bearing shares | 41,541,049 |
| Savings shares | 100,564,417 |
| Money market | 60,284,455 |
| Individual retirement accounts | 5,303,445 |
| Time deposits | 43,888,687 |
| Total | $ 272,472,465 |

Time deposits that meet or exceed the NCUA insurance limit of $250,000 totaled $5,425,719 at December 31, 2021.

The scheduled maturities of time deposits at December 31, 2021, are summarized as follows:

| | |
|---|---|
| 2022 | $ 21,964,791 |
| 2023 | 8,364,653 |
| 2024 | 8,519,369 |
| 2025 | 3,075,467 |
| 2026 | 1,958,788 |
| Thereafter | 5,619 |
| Total | $ 43,888,687 |

Members' shares and savings accounts from directors, executive officers, and their affiliates totaled approximately $1,524,000 at December 31, 2021.

## Note 7: Borrowed Funds

The Credit Union has a line of credit agreement with the Alloya Credit Union that provides for borrowing up to $16,650,000. The line of credit has a interest rate of 1.27% and the maximum borrowing ability is based on a multiple of 50 times the balance of contributed capital. As a of December 31, 2021, the outstanding balance was $0.

At December 31, 2021, the Credit Union's available and unused portion of this borrowing agreement totaled approximately $16,650,000.

## Note 8: Commitments, Contingencies, and Credit Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Credit Union's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31, 2021:

| | 2021 |
|---|---|
| Commitments to extend credit | $ 13,576,684 |
| Unfunded commitments under lines of credit | 1,846,870 |
| Credit card commitments | 44,749,657 |

Commitments to extend credit are agreements to lend to a member at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the member. Collateral held varies, but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds.

Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit may or may not require collateral and may or may not contain a specific maturity date.

Credit card commitments are commitments on credit cards issued by the Credit Union and serviced by other companies. These commitments are unsecured.

## Note 9: Employee Benefit Plan

The Credit Union sponsors a 401(k) plan that covers substantially all employees. To be eligible to participate, an employee must be employed by the Credit Union for at least one year and be 18 years of age or older. The Credit Union matches contributions to the Plan equal to 50% of the employees elective deferral not to exceed 3%. The Credit Union may also make nonelective contributions to the plan at the discretion of the Board of Directors. Expense charged to operations was approximately $79,000 during 2021.

Deferred Compensation Plan Section 457(b) – The Credit Union provides a nonqualified 457(b) deferred compensation plan to certain employees who elect to participate. The Credit Union does not contribute to this plan. The deferred compensation accounts are shown as offsetting assets and liabilities on the Credit Union financial statements and are available to creditors in the event of the Credit Union’s liquidation. The balance of the deferred compensation arrangement was approximately $254,000 as of December 31, 2021.

## Note 10: Fair Value Measurements

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under GAAP. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy:

*Debt securities available for sale* - Securities available for sale may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy. Level 1 securities include debt securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage-backed securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data. Level 3 securities include trust preferred securities that are not traded in a market. The fair value measurements of Level 3 securities are determined by the Credit Union's Chief Financial Officer (CFO), reviewed by the Chief Executive Officer (CEO), and then reported to the Credit Union's Investment Committee. Fair values are calculated using discounted cash flow models that incorporate various assumptions, including expected cash flows and market credit spreads. When comparable sales are available, these are used to validate the models used. Other available industry data, such as information regarding defaults and deferrals, are incorporated into the expected cash flows.

*Loans held for sale* - Loans held for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. The fair value measurement of a loan held for sale is based on current secondary market prices for similar loans, which is considered a Level 2 measurement.

*Loans* - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements.

## Note 10: Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31, 2021, follows:

| | Recurring Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **2021** | | | | |
| Assets: | | | | |
| Securities available for sale | $ 47,131,458 | $ 47,944,199 | $ - | $ 95,075,657 |
| Total | $ 47,131,458 | $ 47,944,199 | $ - | $ 95,075,657 |

At December 31, 2021, there were no impaired loans with a related allowance.

## Note 11: Members' Equity and Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR was 6.33% at December 31, 2021. The minimum ratio to be considered complex under the regulatory framework is 6.0%. Management believes the Credit Union meets all capital adequacy requirements to which it is subject as of December 31, 2021.

As of December 31, 2021, the most recent notification from the NCUA categorized the Credit Union as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio as set forth in the table. There are no conditions or events since notification that management believes have changed the Credit Union's category.

### Note 11: Members' Equity and Regulatory Matters (Continued)

The Credit Union's actual net worth and ratios as of December 31, 2021, are presented in the following table:

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **2021** | | | | | | |
| Net worth | $ 32,782,250 | 10.7 % | ≥ $18,334,411 | ≥ 6.0 % | ≥ 21,390,146 | ≥ 7.0 % |
| Risk-based net worth requirement (RBNWR) | 14,616,462 | 6.3 | N/A | N/A | N/A | N/A |

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. The Credit Union used the quarter-end balance option when calculating total assets, as permitted by regulation.