SharePoint Credit Union

Financial Statement

Year Ended December 31, 2020

WIPFLI

WIPFLI

Independent Auditor's Report

Supervisory Committee
SharePoint Credit Union
Bloomington, Minnesota

We have audited the accompanying balance sheet of SharePoint Credit Union (the "Credit Union") as of December 31, 2020, and the related notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement are free from material misstatement.

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

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

Opinion
In our opinion, the balance sheet referred to above present fairly, in all material respects, the financial position of SharePoint Credit Union as of December 31, 2020, in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

April 28, 2021
Minneapolis, Minnesota

SharePoint Credit Union
Balance Sheet

As of December 31,	2020
Assets:	
Cash and cash equivalents	$ 28,812,541
Other interest-bearing deposits	5,856,000
Securities available for sale	52,786,860
Loans held for sale	2,915,576
Loans, net	169,291,782
Premises and equipment, net	4,789,184
Other investments	399,707
Accrued interest receivable	390,548
NCUSIF deposit	2,253,188
Cash value of life insurance	4,767,260
Other assets	1,461,628
Total assets	$ 273,724,274
Liabilities:	
Non-interest-bearing shares	$ 48,328,513
Interest-bearing shares	193,934,824
Total members' share and savings accounts	242,263,337
Accrued payroll	187,019
Other liabilities	845,398
Total liabilities	243,295,754
Members' Equity:	
Regular reserve	4,464,762
Undivided earnings	23,113,671
Accumulated other comprehensive income	377,255
Equity acquired in merger	2,472,832
Total members' equity	30,428,520
Total liabilities and members' equity	$ 273,724,274

See accompanying notes to financial statement.

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 statement 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 statement, 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 statement, 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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 statement when they become payable.

New Accounting Pronouncements

The Credit Union recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

ASU No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* – This standard modifies the disclosure requirements on fair value measurements, which includes removing the following disclosures: 1) amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; 2) the policy for timing of transfers between levels; 3) the valuation processes for Level 3 fair value measurements; and 4) changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The standard also modifies the following disclosure requirements: 1) allows the option to disclose transfers into and out of Level 3 of the fair value hierarchy, along with purchases and issues of Level 3 assets and liabilities, in lieu of a rollforward schedule; 2) requires for investments in certain entities that calculate net asset value to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if publicly communicated by the investee; and 3) clarifies the details of information necessary in the disclosure of uncertainties in the measurement of fair value as of the reporting date. The adoption of this new accounting standard did not have a significant effect on the Credit Union's financial statement.

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities* - This standard requires premiums on purchased callable debt securities to be amortized to the earliest call date. The Credit Union adopted this new accounting standard for the year ended December 31, 2020. The adoption of this accounting standard did not have a significant effect on the Credit Union's financial statement.

The following ASUs have been issued by FASB and may impact the Credit Union's financial statement 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 statement issued for annual periods beginning after December 15, 2021. The Credit Union is evaluating what impact this new standard will have on its financial statement.

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 statement 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 statement.

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, 2020.

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 $3,073,982 at December 31, 2020.

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 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 statement.

Note 1: Summary of Significant Accounting Policies (Continued)

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 statement. 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 statement 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.

Subsequent Events

Subsequent events have been evaluated through April 28, 2021, which is the date the financial statement 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, 2020, are as follows:

2021	$ 1,240,000
2022	992,000
2023	1,640,000
2024	992,000
2025	992,000
Total	$ 5,856,000

Note 3: Debt Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2020, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2020				
Securities available for sale:				
U.S. government and agency securities	$ 3,499,905	$ 38,850	$ -	$ 3,538,755
Mortgage-backed securities	47,531,983	385,757	(59,365)	47,858,375
Other debt obligations	1,377,717	32,406	(20,393)	1,389,730
Total securities available for sale	$ 52,409,605	$ 457,013	$ (79,758)	$ 52,786,860

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, 2020, 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
2020						
Mortgage-backed securities	$ 18,000,028	$ (59,358)	$ 2,234	$ (7)	$ 18,002,262	$ (59,365)
Other debt obligations	-	-	1,276,022	(20,393)	1,276,022	(20,393)
Totals	$ 18,000,028	$ (59,358)	$ 1,278,256	$ (20,400)	$ 19,278,284	$ (79,758)

At December 31, 2020, 23 debt securities have unrealized losses with aggregate depreciation of .41% 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, 2020. Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,499,905	$ 3,538,756
Due after one year through five years	-	-
Due after five years through ten years	163,736	160,600
Due after ten years	1,213,981	1,229,129
Subtotal	4,877,622	4,928,485
Mortgage-backed securities	47,531,983	47,858,375
Totals	$ 52,409,605	$ 52,786,860

Note 3: Debt Securities (Continued)

There were no sales of debt securities in 2020.

No securities were pledged at December 31, 2020.

Note 4: Loans

The following table presents total loans at December 31, 2020, by portfolio segment and class of loan:

	2020
Real estate	$ 72,611,678
Auto	52,829,376
Other consumer	15,650,988
Business	30,302,853
Subtotal	171,394,895
Allowance for loan losses	(2,050,871)
Net deferred loan fees	(52,242)
Loans, net	$ 169,291,782

Deposit accounts in an overdraft position and reclassified as loans totaled $28,314 at December 31, 2020.

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 $3,830,911 of loans granted under the PPP. These loans are fully guaranteed by the SBA.

Note 4: Loans (Continued)

The allowance for loan losses by portfolio segment follows:

	Real Estate	Auto	Other Consumer	Business	Total
Balance at December 31, 2020	$ 422,533	$ 484,197	$ 556,529	$ 587,612	$ 2,050,871

Information about how loans were evaluated for impairment and the related allowance for loan losses as of December 31, 2020, follows:

	Real Estate	Auto Loans	Other Consumer	Business	Total
2020					
Loans:					
Individually evaluated for impairment	$ -	$ -	$ -	$ 5,005,389	$ 5,005,389
Collectively evaluated for impairment	72,611,678	52,829,376	15,650,988	25,297,464	166,389,506
Total loans	$ 72,611,678	$ 52,829,376	$ 15,650,988	$ 30,302,853	$ 171,394,895
Related allowance for loan losses:					
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	422,533	484,197	556,529	587,612	2,050,871
Total allowance for loan losses	$ 422,533	$ 484,197	$ 556,529	$ 587,612	$ 2,050,871

Note 4: Loans (Continued)

Information regarding impaired loans for the year ended December 31, 2020, follows:

	Recorded Investment	Principal Balance	Related Allowance
Loans with no related allowance for loan losses:			
Business	$ 5,005,389	$ 5,005,389	N/A
Grand total	$ 5,005,389	$ 5,005,389	$ -

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.

Residential 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, 2020, follows:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Total
2020					
Business	$ 24,657,887	$ 639,577	$ 5,005,389	$ -	$ 30,302,853
Totals	$ 24,657,887	$ 639,577	$ 5,005,389	$ -	$ 30,302,853

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31, 2020, follows:

	Performing	Non performing	Total
2020			
Real estate	$ 71,650,714	$ 960,964	$ 72,611,678
Auto	52,675,126	154,250	52,829,376
Other consumer	15,623,514	27,474	15,650,988
Totals	$ 139,949,354	$ 1,142,688	$ 141,092,042

Loan aging information as of December 31, 2020, follows:

	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Nonaccrual	Total Loans
2020					
Real estate	$ 71,650,714	$ 696,482	$ 179,894	$ 84,588	$ 72,611,678
Auto	52,675,126	124,007	-	30,243	52,829,376
Other consumer	15,623,514	27,474	-	-	15,650,988
Business	30,205,335	-	-	97,518	30,302,853
Totals	$ 170,154,689	$ 847,963	$ 179,894	$ 212,349	$ 171,394,895

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.

Note 4: Loans (Continued)

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, 2020.

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 $1,146,000 at December 31, 2020.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2020, is as follows:

	2020
Land	$ 1,202,810
Land improvements	125,155
Buildings	3,946,111
Leasehold improvements	82,046
Furniture and equipment	2,656,463
Subtotal	8,012,585
Accumulated depreciation	(3,223,401)
Total	$ 4,789,184

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.

Future minimum rental payments under noncancelable lease terms as of December 31, 2020, are as follows:

2021	$ 119,919
2022	102,919
2023	102,969
2024	103,566
2025	99,043
Total	$ 528,416

Note 6: Members' Share and Savings Accounts

Members' share and savings accounts consisted of the following at December 31, 2020:

	2020
Non-interest-bearing shares	$ 48,328,513
Interest-bearing shares	3,420,707
Savings shares	89,017,059
Money market	51,093,502
Individual retirement accounts	4,828,033
Time deposits	45,575,523
Total	$ 242,263,337

Time deposits that meet or exceed the NCUA insurance limit of $250,000 totaled approximately $3,767,100 at December 31, 2020.

The scheduled maturities of time deposits at December 31, 2020, are summarized as follows:

2021	$ 23,278,770
2022	6,566,660
2023	5,117,444
2024	7,658,566
2025	2,954,083
Total	$ 45,575,523

Members' shares and savings accounts from directors, executive officers, and their affiliates totaled approximately $2,330,000 at December 31, 2020.

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, 2020, the outstanding balance was $0.

At December 31, 2020, 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, 2020:

	2020
Commitments to extend credit	$ 13,038,483
Unfunded commitments under lines of credit	1,881,218
Credit card commitments	43,095,027

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.

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 $240,000 as of December 31, 2020.

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, 2020, 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
2020				
Assets:				
Securities available for sale	$ -	$ 52,786,860	$ -	$ 52,786,860

At December 31, 2020, 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 5.33% at December 31, 2020. 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, 2020.

As of December 31, 2020, 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, 2020, are presented in the following table:

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Net worth	$ 30,121,116	10.98 %	≥ $16,453,803	≥ 6.00 %	≥ $19,196,104	≥ 7.00 %
Risk-based net worth requirement (RBNWR)	14,616,462	5.33	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.