REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

AMERICA'S CHRISTIAN CREDIT UNION

March 31, 2021 and 2020

MOSSADAMS

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Report of Independent Auditors

Members of the Supervisory Committee and
Board of Directors
America's Christian Credit Union

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of America's Christian Credit Union (Credit Union), which comprise the consolidated statements of financial condition as of March 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of America's Christian Credit Union as of March 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
June 30, 2021

ASSETS

	March 31, 2021	March 31, 2020
ASSETS		
Cash and cash equivalents	$ 103,778,336	$ 86,864,358
Investments		
Available for sale, at fair value	62,836,818	-
Other investments	2,068,611	1,875,270
Federal Home Loan Bank (FHLB) stock, at cost	1,283,200	1,134,500
Loans receivable, net of allowance for loan losses of $4,011,760 and $2,872,721 in 2021 and 2020, respectively	387,065,460	298,582,934
Accrued interest receivable	1,874,980	1,187,010
Premises and equipment, net	13,067,629	13,683,113
Share insurance deposits	3,337,385	2,702,091
Credit Union-owned life insurance	16,819,997	17,329,752
Split Dollar Life Insurance	5,025,000	-
Other assets	4,526,507	3,162,294
	$ 601,683,923	$ 426,521,322

LIABILITIES AND MEMBERS' EQUITY

	March 31, 2021	March 31, 2020
LIABILITIES		
Members' share and savings accounts	$ 541,865,575	$ 367,873,183
Borrowed funds	9,750,000	9,750,000
Deferred compensation payable	321,324	2,373,096
Accrued expenses and other liabilities	3,060,932	2,061,464
	554,997,831	382,057,743
COMMITMENTS AND CONTINGENCIES (Notes 6, 10, and 11)		
MEMBERS' EQUITY		
Regular reserve	7,558,165	7,558,165
Undivided earnings	40,056,085	36,905,414
Accumulated other comprehensive loss	(928,158)	-
	46,686,092	44,463,579
	$ 601,683,923	$ 426,521,322

America's Christian Credit Union
Consolidated Statements of Income and Comprehensive Income

	Years Ended March 31, 2021	2020
Interest income		
Loans to members	$ 18,603,793	$ 15,543,930
Investment securities and cash equivalents	758,689	1,798,186
Total interest income	19,362,482	17,342,116
Interest expense		
Members' share and savings accounts	2,623,070	3,952,698
Borrowed funds	218,523	174,267
Total interest expense	2,841,593	4,126,965
Net interest income	16,520,889	13,215,151
Provision for loan losses	2,169,526	799,647
Net interest income after provision for loan losses	14,351,363	12,415,504
Noninterest income		
Fees and charges	3,515,481	3,217,251
Interchange income	713,862	823,037
Other noninterest income	2,108,493	1,869,551
Total noninterest income	6,337,836	5,909,839
Noninterest expense		
Compensation and benefits	9,748,682	8,915,939
Operations	2,198,076	2,587,009
Professional and outside services	3,615,089	2,363,111
Occupancy	1,202,784	1,145,736
Educational and promotional	504,393	852,332
Other expense	269,504	487,795
Total noninterest expense	17,538,528	16,351,922
Net income	3,150,671	1,973,421
Unrealized holding loss on available for sale securities	(928,158)	-
Comprehensive income	$ 2,222,513	$ 1,973,421

See accompanying notes.

	Total	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss
Balance, March 31, 2019	$ 42,490,158	$ 7,558,165	$ 34,931,993	$ -
Net income	1,973,421	-	1,973,421	-
Balance, March 31, 2020	44,463,579	7,558,165	36,905,414	-
Net income	3,150,671	-	3,150,671	-
Other comprehensive loss	(928,158)	-	-	(928,158)
Balance, March 31, 2021	$ 46,686,092	$ 7,558,165	$ 40,056,085	$ (928,158)

See accompanying notes.

America's Christian Credit Union
Consolidated Statements of Cash Flows

	Years Ended March 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,150,671	$ 1,973,421
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	643,634	737,209
Provision for loan losses	2,169,526	799,647
Amortization of securities, net	132,131	-
Amortization of loan origination fees and costs, net	117,101	63,940
Amortization of loan servicing asset	54,971	70,130
Capitalization of loan servicing asset	(87,277)	(88,368)
Reduction of loan servicing asset due to loan payoffs	37,081	42,351
Loss on disposal of premises and equipment	27,620	3,111
Changes in assets and liabilities		
Accrued interest receivable	(687,970)	(64,818)
Credit Union-owned life insurance	509,755	(505,463)
Other assets	(1,413,163)	(893,308)
Accrued expenses and other liabilities	999,468	(143,447)
Deferred compensation payable	(2,051,772)	283,535
Net cash from operating activities	3,601,776	2,277,940
CASH FLOWS PROM INVESTING ACTIVITIES		
Purchase of investments available for sale	(66,161,744)	-
Proceeds from maturities, prepayments, and calls on investments	2,264,638	-
Increase in loans to members, net of principal collections	(105,530,843)	(20,612,844)
(Increase) decrease in NCUSIF deposit	(635,294)	27,589
Purchase of FHLB stock	(148,700)	(32,800)
Increase in investment of Credit Union Service Organizations (CUSOs)	(193,341)	(138,785)
Proceeds from sale of loan participations	14,805,864	3,421,710
Purchase of Credit Union Owned Life Insurance	(5,025,000)	-
Purchases of premises and equipment	(55,770)	(810,363)
Net cash from investing activities	(160,680,190)	(18,145,493)

See accompanying notes.

	Years Ended March 31, 2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	$ 173,992,392	$ 25,501,614
Advances of borrowed funds	-	3,250,000
Net cash from financing activities	173,992,392	28,751,614
NET CHANGE IN CASH AND CASH EQUIVALENTS	16,913,978	12,884,061
CASH AND CASH EQUIVALENTS, beginning of year	86,864,358	73,980,297
CASH AND CASH EQUIVALENTS, end of year	$ 103,778,336	$ 86,864,358
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest		
Dividends on members' share and savings accounts	$ 2,623,070	$ 3,952,698
Interest on borrowed funds	$ 218,523	$ 174,267
NONCASH TRANSACTIONS		
Assets in process of liquidation	$ 44,174	$ 44,113

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of operations – America's Christian Credit Union (Credit Union), formerly Nazarene Credit Union, is a state chartered credit union organized under the State of California Credit Union Act and administratively responsible to the DFPI Department of Financial Protection and Innovation. In April 2003, the Credit Union expanded its field of membership to include churches and church members, schools, organizations, and affiliates of all Wesleyan-based Christian denominations. The Credit Union's primary source of revenue is interest income from providing loans to its members.

A substantial portion of the Credit Union's loan portfolio is represented by real estate loans secured by real property collateral utilized by Christian organizations. It is management's belief that credit risk within the portfolio is mitigated by low loan-to-value ratios, adequate debt coverage ratios, experienced business lending management and staff, and conservative lending policies.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, ACCU Financial. ACCU Financial is a holding company Credit Union Service Organization (CUSO) created in July 2018. It was created as the parent for ShareTek, a CUSO created by ACCU to facilitate healthcare sharing financial services. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates in preparing financial statements – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

Fair value – Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Cash and cash equivalents – Cash consists of funds due from banks, corporate credit unions, and cash in vaults and on hand. For purposes of the consolidated statements of cash flows, the Credit Union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Investments – During 2021, the Credit Union purchased debt securities. Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Note 1 – Summary of Significant Accounting Policies (continued)

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Declines in the fair value of individual securities available for sale below their cost that are deemed to be other-than-temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses) or (2) noncredit losses (which are recorded in other comprehensive income (loss). In determining whether other-than-temporary impairment exists, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) the current liquidity and volatility of the market for each of the individual security categories; (4) the projected cash flows from the specific security type; (5) the financial guarantee and financial rating of the issuer; and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other investments – Other investments are comprised of uninsured capital investments in other institutions and Credit Union Service Organizations (CUSOs). Ministry Partners is a CUSO that is authorized to issue investor debt securities, notes, and debt obligations to finance capital funding to churches and ministry organizations. PSCU is a CUSO providing payment options, fraud prevention, digital solutions, loyalty rewards, data analytics programs, and call center support to its member credit unions. These investments are classified separately and carried at cost.

Federal Home Loan Bank (FHLB) stock – The Credit Union's investment in FHLB stock is carried at par value ($100 per share), classified as a restricted security, which reasonably approximates its fair value. As a member of the FHLB system, the Credit Union is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of the balance of specified loans and securities as of the measurement date, subject to asset factors as determined by FHLB or 2.70% of outstanding advances from the FHLB. The Credit Union may request redemption at par value of any stock in excess of the amount the Credit Union is required to hold. Stock redemptions are at the discretion of the FHLB. The Credit Union had $1,283,200 and $1,134,500 in Class B stock at March 31, 2021 and 2020, respectively.

Loans to members – The Credit Union grants mortgage, member business, and consumer loans to members, including faith-based organizations. A substantial portion of the loan portfolio is represented by real estate loans and unsecured loans to members. A member's ability to honor their loan agreements is dependent primarily upon the economic stability of the various groups comprising the Credit Union's field of membership.

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

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Loans may be charged off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

Note 1 – Summary of Significant Accounting Policies (continued)

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis 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.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the straight-line method, which approximates the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union’s historical prepayment experience.

Allowance for loan losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

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

The Credit Union’s allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management’s evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans.

General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union’s internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment.

Specific allowances for loan losses are established for large or restructured impaired loans on an individual basis. Loans are considered impaired when the individual evaluation of current information regarding the borrower’s financial condition, loan collateral, and cash flows indicates that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. The specific allowances established for these loans are based on an analysis of the most probable source of repayment, including the present value of the loan’s expected future cash flow, the loan’s estimated market value, or the estimated fair value of the underlying collateral.

Note 1 – Summary of Significant Accounting Policies (continued)

Troubled debt restructurings (TDRs) – Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in an attempt to protect the investment. Examples of such concessions include extending the maturity date(s), providing a lower-than-market interest rate that would normally not be available for a transaction of similar risk, or allowing for interest only payments for a specified period of time. This generally occurs when the financial condition of the borrower needs to be given temporary or permanent relief from the original contractual terms of the loan. A loan restructured in a TDR is an impaired loan and is accounted for as such.

Transfers of financial assets – Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset 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 or the ability to unilaterally cause the holder to return financial assets.

Off-balance-sheet credit related financial instruments – In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Loan servicing assets – Servicing assets are recognized as separate assets when servicing rights are acquired through purchase or through sale of functional assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, loan servicing rights are amortized into noninterest income in proportion to, and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on the fair value annually.

Fair value is based on market prices for comparable loan servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change periodically as market conditions and projected interest rates change and may have an adverse impact on the value of the loan servicing asset and may result in a reduction in noninterest income.

Premises and equipment – Land is carried at cost. Buildings and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Management reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Valuation of long-lived assets – The Credit Union, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated the carrying amount of its assets might not be recoverable. In accordance with current accounting standards, impaired assets are reported at the lower of cost or fair value. At March 31, 2021 and 2020, no assets had been written down for impairment.

Note 1 – Summary of Significant Accounting Policies (continued)

National Credit Union Share Insurance Fund (NCUSIF) deposit – The deposit in the NCUSIF is in accordance with National Credit Union Association (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The balance of the deposit was $3,117,385 and $2,482,091, at March 31, 2021 and 2020, respectively.

American Share Insurance Fund (ASI) deposit – The deposit maintained in ASI is to provide members’ shares additional insurance per account, $100,000 for member business accounts and $200,000 for individual 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 ASI Board. The balance of the deposit was $220,000 at March 31, 2021 and 2020.

Credit Union-owned life insurance – The carrying amount of Credit Union-owned life insurance approximates its fair value. Fair value of Credit Union-owned life insurance is estimated using the cash surrender value, net of surrender charges.

Members’ share and savings accounts – Members’ share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members’ share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members’ share and savings accounts are set 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 statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income taxes – The Credit Union is exempt by statute from federal income taxes under the provisions of Section 501 of the Internal Revenue Code (IRC) of 1954; however, the Credit Union’s unrelated business income and subsidiaries are subject to federal income taxes. There were no significant income taxes for the years ended March 31, 2021 and 2020.

Accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Credit Union had no unrecognized tax positions at March 31, 2021 and 2020. It is the Credit Union’s policy to record any penalties or interest arising from federal or state taxes as a component of noninterest expense.

Advertising costs – Advertising costs are charged to operations when incurred. Advertising expense totaled $433,000 and $724,668, for the years ended March 31, 2021 and 2020, respectively.

Comprehensive income – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income.

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue recognition – In fiscal year 2020, the Credit Union adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, ASC 606), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned (OREO). To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Credit Union performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Credit Union satisfies a performance obligation. The majority of the Credit Union's revenues come from interest income and other sources, including loans, leases and securities that are outside the scope of ASC 606. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Credit Union satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges, debit and ATM interchange income, merchant fee income, credit card and interchange income, and gain (loss) on other real estate owned, net. Refer to Note 17 – Revenue from Contracts with Customers, for further discussion on the Credit Union's accounting policies for revenue sources within the scope of ASC 606.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act) – In conjunction with the passage of the CARES Act in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings (TDRs) for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). As a result, the Credit Union has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Credit Union accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. Accrued interest balances are assessed for collectability on a periodic basis.

Note 2 – Restrictions on Cash

The Credit Union is required to maintain balances with corporate credit unions as membership shares that are uninsured and require a notice before withdrawal. The membership share balance was $502,703 at March 31, 2021 and 2020.

In order to meet the liquidity needs for providing financial services to its members, the Credit Union maintains funds on deposit in various demand and investment accounts in excess of the insured deposit limits. As of March 31, 2021 and 2020, the amount of uninsured deposits and investments totaled approximately $79,197,580 and $70,183,181, respectively.

Note 3 – Investments

Securities held by the Credit Union have been classified in the statements of financial condition according to management's intent. The amortized cost and fair value of securities with gross unrealized gains and losses, and investments classified as available for sale, consist of the following:

	March 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Collateralized mortgage obligations	$ 37,819,395	$ 1,169	$ (345,673)	$ 37,474,891
Mortgage-backed securities	25,945,581	-	(583,654)	25,361,927
	$ 63,764,976	$ 1,169	$ (929,327)	$ 62,836,818

Gross unrealized losses and fair value by length of time the individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale						
Collateralized mortgage obligations	$ 37,474,891	$ (345,673)	$ -	$ -	$ 35,544,094	$ (345,673)
Mortgage-backed securities	25,361,927	(583,654)	-	-	25,361,927	(583,654)
	$ 62,836,818	$ (929,327)	$ -	$ -	$ 60,906,021	$ (929,327)

As of March 31, 2021, there were 25 securities in a loss position. Unrealized losses have not been recognized into income because management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in market conditions rather than credit quality. The fair value is expected to recover as the investments approach the maturity date and market conditions improve. The Credit Union does not intend to sell and does not expect it will be required to sell the investments. Therefore, the Credit Union does not consider these investments to be other than temporarily impaired.

For the years ended March 31, 2021, there were no sales of securities available for sale. Investments by maturity as of March 31, 2021, are summarized as follows:

	Available for Sale	
	Amortized	Fair
Ten years or more maturity	$ 37,819,395	$ 37,474,891
Mortgage-backed securities	25,945,581	25,361,927
	$ 63,764,976	$ 62,836,818

Note 3 – Investments (continued)

Other investment securities at March 31 are summarized as follows:

	2021	2020
Membership capital in Alloya Corporate Credit Union	$ 465,000	$ 465,000
Membership capital in Catalyst Corporate Credit Union	37,703	37,703
Investment in Ministry Partners CUSO	1,230,462	1,053,062
Investment in PSCU CUSO	335,446	319,505
	$ 2,068,611	$ 1,875,270

Note 4 – Loans to Members

The composition of loans to members at March 31 is as follows:

	2021	2020
Automobile	$ 69,091,922	$ 53,149,421
Consumer real estate	46,059,555	34,075,124
Consumer unsecured	12,343,704	13,600,399
Student loans	5,522,624	5,856,290
Member business - real estate	215,100,350	187,371,674
Member business - unsecured	31,800	60,169
Credit card	3,619,058	4,439,734
Share secured	569,007	1,985,317
Other secured	854,968	1,548,152
Paycheck Protection Program	39,339,345	-
	392,532,333	302,086,280
Deferred fees	(1,455,113)	(630,625)
Allowance for loan losses	(4,011,760)	(2,872,721)
	$ 387,065,460	$ 298,582,934

The Credit Union has purchased loan participations originated by various other credit unions. Loan servicing functions were retained by the other credit unions. All these loan participations were purchased without recourse.

Note 4 – Loans to Members (continued)

The interest rates on loans fall into the following fixed and variable components at March 31:

	2021	2020
Fixed	$ 155,967,022	$ 98,998,709
Variable	236,565,311	203,087,571
	$ 392,532,333	$ 302,086,280

The following tables summarize activity related to the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method for the years ended March 31:

2021	Automobile	Consumer Real Estate	Consumer Unsecured and Student Loans	Member Business - Real Estate	Member Business - Unsecured	Credit Card	Share and Other Secured	Total
Allowance for loan losses								
Beginning balance	$ 582,305	$ 150,536	$ 787,856	$ 1,089,085	$ 85,620	$ 123,086	$ 54,233	$ 2,872,721
Charge-offs	(336,187)	(29,733)	(325,915)	(290,790)	(999)	(131,198)	(55,966)	(1,170,788)
Recoveries	41,821	-	56,524	474	-	17,502	23,980	140,301
Provision (recapture)	678,355	199,063	(85,368)	1,324,805	(83,959)	136,549	81	2,169,526
Ending balance	$ 966,294	$ 319,866	$ 433,097	$ 2,123,574	$ 662	$ 145,939	$ 22,328	$ 4,011,760
Ending balance related to specific impairment	$ 62,837	$ 51,630	$ 74,079	$ 218,449	$ -	$ 38,980	$ -	$ 445,975
Ending balance general reserve	$ 903,457	$ 268,236	$ 359,018	$ 1,905,125	$ 662	$ 106,959	$ 22,328	$ 3,565,785

2020	Automobile	Consumer Real Estate	Consumer Unsecured and Student Loans	Member Business - Real Estate	Member Business - Unsecured	Credit Card	Share and Other Secured	Total
Allowance for loan losses								
Beginning balance	$ 411,025	$ 153,587	$ 564,286	$ 1,983,473	$ 24,337	$ 91,728	$ 16,093	$ 3,244,529
Charge-offs	(396,916)	-	(529,566)	(232,994)	-	(82,181)	(17,493)	(1,259,150)
Recoveries	14,562	-	67,505	1,262	-	4,366	-	87,695
Provision (recapture)	553,634	(3,051)	685,631	(662,656)	61,283	109,173	55,633	799,647
Ending balance	$ 582,305	$ 150,536	$ 787,856	$ 1,089,085	$ 85,620	$ 123,086	$ 54,233	$ 2,872,721
Ending balance related to specific impairment	$ 175,673	$ 2,486	$ 329,892	$ 696,665	$ 21,338	$ 52,662	$ 37,501	$ 1,316,217
Ending balance general reserve	$ 406,632	$ 148,050	$ 457,964	$ 392,420	$ 64,282	$ 70,424	$ 16,732	$ 1,556,504

Note 4 – Loans to Members (continued)

The following tables summarize impaired loans by loan class as of March 31:

	2021				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no specific impairment recorded					
Automobile	$ 42,738	$ 42,738	$ -	$ 21,369	$ 568
Consumer real estate	264,283	264,283	-	132,142	5,759
Consumer unsecured and student loans	4,703	4,703	-	2,352	176
Member business - real estate	4,301,727	4,301,727	-	3,346,760	162,279
Member business - unsecured	-	-	-	-	-
Share and other secured	10,791	10,791	-	5,396	334
Credit card	-	-	-	-	-
	4,624,242	4,624,242	-	3,508,017	169,116
With a specific impairment recorded					
Automobile	279,573	279,573	62,837	360,943	9,598
Consumer real estate	74,811	74,811	51,630	92,526	4,032
Consumer unsecured and student loans	89,750	89,750	74,079	236,546	17,750
Member business - real estate	1,552,180	1,552,180	218,449	1,436,473	69,652
Member business - unsecured	-	-	-	10,669	537
Share and other secured	-	-	-	53,241	3,292
Credit card	38,980	38,980	38,980	62,847	4,545
	2,035,294	2,035,294	445,975	2,253,244	109,407
Total					
Automobile	322,311	322,311	62,837	382,312	10,166
Consumer real estate	339,094	339,094	51,630	224,667	9,791
Consumer unsecured and student loans	94,453	94,453	74,079	238,898	17,927
Member business - real estate	5,853,907	5,853,907	218,449	4,783,233	231,931
Member business - unsecured	-	-	-	10,669	537
Share and other secured	10,791	10,791	-	58,637	3,626
Credit card	38,980	38,980	38,980	62,847	-
	$ 6,659,536	$ 6,659,536	$ 445,975	$ 5,761,261	$ 273,978

Note 4 – Loans to Members (continued)

	2020				
	Recorded Investment	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
With no specific impairment recorded					
Automobile	$ -	$ -	$ -	$ -	$ -
Consumer real estate	-	-	-	-	-
Consumer unsecured and student loans	-	-	-	-	-
Member business - real estate	2,391,792	2,391,792	-	2,043,472	101,969
Member business - unsecured	-	-	-	-	-
Share and other secured	-	-	-	-	-
Credit card	-	-	-	-	-
	2,391,792	2,391,792	-	2,043,472	101,969
With a specific impairment recorded					
Automobile	442,312	442,312	175,673	638,970	26,837
Consumer real estate	110,240	110,240	2,486	177,192	8,239
Consumer unsecured and student loans	383,342	383,342	329,892	512,371	41,246
Member business - real estate	1,320,766	1,320,766	696,665	3,755,214	187,385
Member business - unsecured	21,338	21,338	21,338	21,338	1,061
Share and other secured	106,482	106,482	37,501	126,089	10,201
Credit card	86,713	86,713	52,662	95,723	5,064
	2,471,193	2,471,193	1,316,217	5,326,897	280,033
Total					
Automobile	442,312	442,312	175,673	638,970	26,837
Consumer real estate	110,240	110,240	2,486	177,192	8,239
Consumer unsecured and student loans	383,342	383,342	329,892	512,371	41,246
Member business - real estate	3,712,558	3,712,558	696,665	5,798,686	289,354
Member business - unsecured	21,338	21,338	21,338	21,338	1,061
Share and other secured	106,482	106,482	37,501	126,089	10,201
Credit card	86,713	86,713	52,662	95,723	-
	$ 4,862,985	$ 4,862,985	$ 1,316,217	$ 7,370,369	$ 376,938

Troubled debt restructurings (TDRs) – Loans may occasionally be restructured due to economic or legal reasons relating to the borrower's financial condition by granting a concession in an attempt to protect the investment. TDRs are treated as impaired loans and as such are evaluated for specific loss reserves. As of March 31, 2021 and 2020, the Credit Union is not committed to lend additional funds to debtors whose loans have been modified.

The Credit Union may offer a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is changed.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest-only modification – A modification in which the loan is converted to interest-only payments for a period of time.

Combination modification – Any other type of modification, including the use of multiple categories above.

Note 4 – Loans to Members (continued)

Pursuant to the CARES Act passed in March 2020, the Credit Union funded $107,674,079 in loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Credit Union received a fee of 1%-5% from the SBA depending on the loan amount, which was recorded in interest income from loans to members. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at March 31, 2021, was $39,339,345. On June 5, 2020, the PPP Flexibility Act was signed into law, which modified the program numerous times and extended payment deferral dates, as well as maturity dates.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the Coronavirus Relief Act) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Credit Union elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of March 31, 2021, loans totaling $65,405,672 million were modified as CARES Act deferrals and not subject to TDR accounting and reporting.

For the years ended March 31, 2021 and 2020, the Credit Union had approximately $3,709,112 and $3,479,000, respectively, of consumer, real estate, and business loans modified in troubled debt restructurings. There were no TDRs that incurred a payment default within the first 12 months of restructure as of March 31, 2021 and 2020.

The following table summarizes loans on nonaccrual status by loan class as of March 31:

	2021	2020
Automobile	$ 314,539	$ 435,491
Consumer real estate	193,059	29,733
Consumer unsecured	92,937	151,140
Student loans	-	46,353
Member business - real estate	106,403	-
Member business - unsecured	-	7,743
Other secured	-	106,482
Share secured	-	-
Credit card	43,589	90,888
	$ 750,527	$ 867,830

Note 4 – Loans to Members (continued)

The following table presents additional information on troubled debt restructures modified during the years ended March 31:

2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Automobile	1	$ 42,738	$ 42,738
Consumer real estate	2	193,059	193,059
Consumer unsecured and student loans	1	4,703	4,703
Member business - real estate	3	705,566	705,566
Other secured	1	10,791	10,791
Total	8	$ 956,857	$ 956,857

2020	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Consumer unsecured and student loans	1	$ 19,873	$ 19,873
Member business - real estate	2	757,509	757,509
Total	3	$ 777,382	$ 777,382

Credit quality indicators – The Credit Union utilizes internal risk ratings for its credit quality indicators. The Credit Union categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio, (2) promptly identify deterioration of loan quality and the need for remedial action, and (3) emphasize areas requiring upgrading of policies, procedures, or documentation.

Note 4 – Loans to Members (continued)

The internal risk ratings are as follows:

Pass (1–5) – Loans in this category are nonclassified loans in which no impairment is noted. Within this category, Pass 1 loans are the Credit Union's best loans, which exhibit the least risk of default, and Pass 5 are acceptable loans but exhibit higher risk factors than the other pass categories. Pass grade loans generally have adequate cash flows, collateral support, and liquidity.

Special Mention (6) – A Special Mention asset has potential weaknesses that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard 1 (7) – A Substandard 1 asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility the Credit Union will sustain some loss if the deficiencies are not corrected; however, because of circumstances (e.g., guarantor support) are not considered impaired because collection of principal and interest per the then in place contractual terms remains a possibility.

Substandard 2 (8) – A Substandard 2 asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility the Credit Union will sustain some loss if the deficiencies are not corrected. Loans in this category are identified as impaired and specific valuation allowance established or charge-off taken if based on the fair value of the underlying collateral or the present value of the expected future cash flows discounted at the contractual note rate are less than the principal amount of the loan.

Doubtful (9) – An asset classified Doubtful has all the weaknesses inherent in one classified substandard with the added characteristic the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in this category are identified as impaired and specific valuation allowance established or charge-off taken if based on the fair value of the underlying collateral or the present value of the expected future cash flows discounted at the contractual note rate are less than the principal amount of the loan.

Loss (10) – Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Assets in this category are of so little value that to continue to carry the assets on the books at the book value distorts the net worth of the Credit Union.

Note 4 – Loans to Members (continued)

The following table summarizes our internal risk rating by loan class as of March 31:

	2021					
	Pass (Risk Rated 1–5)	Special Mention	Substandard 1	Substandard 2	Doubtful	Total
Automobile	$ 68,694,436	$ 75,175	$ -	$ 322,311	$ -	$ 69,091,922
Consumer real estate	45,720,461	71,224	-	267,870	-	46,059,555
Consumer unsecured	12,249,252	-	-	94,452	-	12,343,704
Student loans	5,522,624	-	-	-	-	5,522,624
Member business - real estate	190,677,388	19,470,182	4,846,377	106,403	-	215,100,350
Member business - unsecured	31,800	-	-	-	-	31,800
Credit card	3,580,078	-	-	38,980	-	3,619,058
Share secured	569,007	-	-	-	-	569,007
Other secured	844,177	10,791	-	-	-	854,968
SBA guaranteed	39,339,345	-	-	-	-	39,339,345
	$ 367,228,568	$ 19,627,372	$ 4,846,377	$ 830,016	$ -	$ 392,532,333

						2,020
	Pass (Risk Rated 1–5)	Special Mention	Substandard 1	Substandard 2	Doubtful	Total
Automobile	$ 52,707,109	$ 92,101	$ -	$ 350,211	$ -	$ 53,149,421
Consumer real estate	33,964,884	110,240	-	-	-	34,075,124
Consumer unsecured	13,370,641	33,169	-	196,589	-	13,600,399
Student loans	5,702,705	-	-	153,585	-	5,856,290
Member business - real estate	165,095,758	17,023,438	4,445,914	806,564	-	187,371,674
Member business - unsecured	60,169	-	-	-	-	60,169
Credit card	4,353,021	-	-	86,713	-	4,439,734
Share secured	1,985,317	-	-	-	-	1,985,317
Other secured	1,441,670	-	-	106,482	-	1,548,152
	$ 278,681,274	$ 17,258,948	$ 4,445,914	$ 1,700,144	$ -	$ 302,086,280

Not all consumer loans are individually risk rated. Consumer loans that are not individually evaluated for impairment are reflected above as “Pass Risk Rated 1–5,” while TDR consumer loans are classified as Special Mention, and impaired consumer loans with a specific reserve are classified as Substandard 2.

Note 4 – Loans to Members (continued)

The following table presents the recorded investment in nonperforming loans and an aging of loans by class as of March 31:

2021	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Automobile	$ 2,539,319	$ 134,148	$ 219,518	$ 2,892,985	$ 66,198,937	$ 69,091,922	$ -
Consumer real estate	4,853,770	529,637	-	5,383,407	40,676,148	46,059,555	-
Consumer unsecured	39,910	9,403	72,316	121,629	12,222,075	12,343,704	-
Student loans	76,443	-	-	76,443	5,446,181	5,522,624	-
Member business - real estate	34,019	-	-	34,019	215,066,331	215,100,350	-
Member business - unsecured	-	-	-	-	31,800	31,800	-
Credit card	23,889	-	43,589	67,478	3,551,580	3,619,058	-
Share secured	-	-	-	-	569,007	569,007	-
Other secured	-	-	-	-	854,968	854,968	-
SBA guaranteed	-	-	-	-	39,339,345	39,339,345	-
	$ 7,567,350	$ 673,188	$ 335,423	$ 8,575,961	$ 383,956,372	$ 392,532,333	$ -

2020	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Automobile	$ 270,925	$ 128,144	$ 296,420	$ 695,489	$ 52,453,932	$ 53,149,421	$ -
Consumer real estate	248,883	-	29,733	278,616	33,796,508	34,075,124	-
Consumer unsecured	128,832	82,296	114,292	325,420	13,274,979	13,600,399	-
Student loans	-	108,736	38,610	147,346	5,708,944	5,856,290	-
Member business - real estate	645,198	-	-	645,198	186,726,476	187,371,674	-
Member business - unsecured	-	-	-	-	60,169	60,169	-
Credit card	31,354	17,164	90,888	139,406	4,300,328	4,439,734	-
Share secured	-	-	-	-	1,985,317	1,985,317	-
Other secured	-	47,521	58,961	106,482	1,441,670	1,548,152	-
	$ 1,325,192	$ 383,861	$ 628,904	$ 2,337,957	$ 299,748,323	$ 302,086,280	$ -

As part of the Credit Union’s asset and liability management and risk management programs, the credit union has sold loan participations to various other credit unions. The Credit Union sells without recourse.

The Credit Union is a national lender with loans in 50 states; the largest concentration of loans is in California. The majority of the Credit Union’s loans are collateralized by church properties. Accordingly, the ultimate collectability of loans is susceptible to changes in market conditions in the area.

The Credit Union sells participating interest in loans to other financial institutions. Participation interest serviced for others is not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of loans serviced for others were $66,969,377 and $64,706,108 at March 31, 2021 and 2020, respectively. The Credit Union receives a servicing fee for servicing the participating interest in the loan.

Note 5 – Premises and Equipment

Premises and equipment at March 31 is summarized as follows:

	2021	2020
Land	$ 3,890,000	$ 3,890,000
Buildings and improvements	15,472,537	15,460,649
Furniture and equipment	3,680,270	3,894,164
	23,042,807	23,244,813
Accumulated depreciation	(9,975,178)	(9,561,700)
	$ 13,067,629	$ 13,683,113

Depreciation expense amounted to $643,634 and $737,209 for the years ended March 31, 2021 and 2020, respectively.

Note 6 – Lease Commitments

The Credit Union leased an office facility under a noncancelable operating lease, which expired during 2020. As of March 31, 2021, there are no future minimum lease payments under this lease.

Rent expense was approximately $33,513 and $70,777 for the years ended March 31, 2021 and 2020, respectively.

Note 7 – Members’ Share and Savings Accounts

Members’ share and savings accounts at March 31 are summarized as follows:

	2021	2020
Regular share accounts	$ 64,314,650	$ 62,054,744
Share draft accounts	270,074,098	125,778,186
Money market accounts	97,218,537	54,394,092
IRA share accounts	1,052,954	671,459
	432,660,239	242,898,481
Share and IRA certificates		
0.00% to 0.99%	47,361,426	311
1.00% to 1.99%	24,889,350	36,376,644
2.00% to 2.99%	31,208,711	80,253,929
3.00% to 3.99%	5,745,849	7,832,609
4.00% to 4.99%	-	511,209
	109,205,336	124,974,702
	$ 541,865,575	$ 367,873,183

Scheduled maturities of term share and IRA certificates at March 31, 2021, are as follows:

Years ending March 31,	
2022	$ 78,847,211
2023	18,166,847
2024	7,636,286
2025	2,972,737
2026	1,582,255
	$ 109,205,336

The NCUSIF insures members’ shares and certain individual retirement and Keogh accounts. Legislation now provides for NCUSIF coverage of $250,000 on member share accounts on a permanent basis. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. IRA and Keogh account coverage remains at up to $250,000 separate from other types of accounts owned.

The aggregate amounts of members’ time deposit accounts in denominations of $250,000 or more were $42,628,354 and $46,609,107 at March 31, 2021 and 2020, respectively.

Note 8 – Borrowings

The Credit Union maintains a line of credit with Alloya Corporate Federal Credit Union. The amount available under the line of credit was $20,000,000 at March 31, 2021. No amounts were outstanding at March 31, 2021 and 2020. The line is collateralized by the Credit Union's property and rights and interest pledged as collateral.

The Credit Union also maintains a line of credit with the Federal Reserve Bank with an amount available of $7,122,774 as of March 31, 2021. The line is collateralized by unsecured consumer loans. Total loans pledged as of March 31, 2021, was $9,145,227. No amounts were outstanding as of March 31, 2021 and 2020.

The Credit Union also pledges collateral to FHLB and has borrowing capacity of $26,434,593 and $16,079,016 as of March 31, 2021 and 2020, respectively. FHLB advances are secured by specifically identified and designated member business real estate loans with principal balances of $64,055,673 and $35,470,869 as of March 31, 2021 and 2020, respectively. The weighted-average rate on these advances on March 31, 2021, was 2.25%.

Scheduled maturities of borrowed funds at March 31 are as follows:

2022	$ 1,750,000
2023	2,000,000
2024	4,000,000
2025	2,000,000
	$ 9,750,000

Note 9 – Off-Balance-Sheet Risk

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit, which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit, and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Note 9 – Off-Balance-Sheet Risk (continued)

At March 31 the following loan commitments were outstanding:

	2021	2020
Commitments to grant loans		
Home equity lines of credit, personal	$ 12,787,514	$ 12,554,973
Commercial real estate lines of credit, business	7,520,674	2,616,120
Construction lines of credit, business	10,032,447	5,078,869
Participation loans, construction lines of credit	-	8,098,253
Participation loans, personal home equity lines of credit	787,864	-
Overdraft/signature lines of credit, personal	4,645,540	4,474,114
Overdraft/signature lines of credit, business	408,094	419,460
VISA credit cards, personal	10,780,773	10,844,918
VISA credit cards, business	4,939,623	4,935,928
Student loans, personal	3,842,359	3,956,855
Business share secured lines of credit	249,009	297,095
	$ 55,993,897	$ 53,276,585

Commitments to extend credit are agreements to lend to a member 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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances. Unfunded commitments under commercial lines of credit, revolving lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Note 10 – Commitments and Contingencies

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

Note 11 – Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined in the regulations) to assets and alternate risk based net worth (RBNW) ratios (as defined). As of March 31, 2021 and 2020, the Credit Union's alternate RBNW requirement is 6.53% and 6.67%, respectively. The minimum ratio to be considered adequately capitalized under the regulatory framework is 6.00%. Management believes that, as of March 31, 2021, the Credit Union meets all capital adequacy requirements to which it is subject. Because the alternate RBNW ratio of 6.67% is greater than 6.00%, the Credit Union was considered complex as of March 31, 2021.

As of March 31, 2021, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%.

The Credit Union's actual capital amounts and ratios as of March 31 are as follows:

Because the alternate RBNW ratio of 6.67% is greater than 6.00%, the Credit Union was considered complex as of March 31, 2021.

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action		To Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2021						
Net worth	$ 47,614,250	7.91%	$ 36,101,035	≥ 6.00%	$ 42,117,875	≥ 7.00%
March 31, 2020						
Net worth	$ 44,463,579	10.42%	$ 25,591,279	≥ 6.00%	$ 29,856,493	≥ 7.00%

Note 12 – Defined Contribution Plan

The Credit Union has a qualified 401(k) Profit Sharing Plan and Trust (Plan) covering substantially all of its employees. The Credit Union makes matching contributions at 50% up to 4% of the employee's base salary and an employee is fully vested in those contributions after six years of qualifying service. Plan administrative expenses and employer matching contributions for the years ended March 31, 2021 and 2020, were $102,314 and $211,181, respectively.

Note 13 – Deferred Compensation Plans

During the 2004 fiscal year, the Credit Union adopted an Executive Retirement Plan (Plan), pursuant to the IRC sections 457(b) and 457(f), which provides retirement benefits to designated executives. The Board of Directors designates those executives who are eligible to participate in the Plan. Benefits under the Plan become payable upon a specified retirement age for each participant.

The Credit Union has purchased life insurance contracts on the participants to finance the cost of these benefits. Assets invested to fund this Plan totaled $16,819,997 and $17,329,752 as of March 31, 2021 and 2020, respectively, and are stated as Credit Union-owned life insurance on the consolidated statements of financial condition.

The Credit Union maintained unfunded, nonqualified Supplemental Executive Retirement Plans (SERP) pursuant to IRC 457(f), which provided retirement benefits to designated executives. The benefit obligations of the SERP provided for stated benefit amounts, each with its own retirement eligibility date. Under the unfunded SERPs, the participants have no rights beyond those of a general creditor of the Credit Union, and there are no specific assets set aside by the Credit Union in connection with the SERP. These plans were disbursed according to plan terms or terminated during the 2021 fiscal year and related salary expenses were reversed. The SERP Plans liability as of March 31, 2021 and 2020, was $0 and $1,477,440, respectively. The liability is included in deferred compensation liability. Deferred compensation expenses were approximately $223,433 and $312,620 for all Plans for the years ended March 31, 2021 and 2020, respectively.

The Credit Union entered into split-dollar life insurance arrangements with certain executive employees during fiscal year 2021, whereby the Credit Union funds the premium payments on the underlying insurance policies and the senior executive officer in turn collaterally assigns the policy to the Credit Union. Premiums funded, representing a loan receivable, are included in prepaid expenses and other assets on the statement of financial condition. The loan receivable is recognized at the lower of the split-dollar loan plus interest balance or the cash surrender value of the life insurance policy. The loan receivable balance was $5,025,000 at March 31, 2021.

Note 14 – Related-Party Transactions

In the normal course of business, the Credit Union extends loans to members of the Board of Directors, Supervisory Committee members, and Senior Management. The aggregate loans to related parties at March 31, 2021 and 2020, were approximately $1,491,345 and $1,590,377, respectively. Loans to related parties are made under the same terms available to other members.

Deposits from related parties at March 31, 2021 and 2020, amounted to approximately $1,232,302 and $1,432,332, respectively.

Note 15 – Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.

Level 3 – Instruments whose significant value drivers are unobservable.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, whereas unobservable inputs reflect the Credit Union's assumptions about market value.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

Impaired loans – Carrying values of certain impaired loans are periodically evaluated to determine if valuation adjustments should be recorded. When a collateral dependent loan is identified as impaired, the impairment is measured using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external valuations. If the determined value of the impaired loan is less than the recorded investment in the loan, impairment is recognized by adjusting the carrying value of the loan to fair value through a charge-off to the allowance for loan losses.

Fair values of assets and liabilities at March 31 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2021				
Nonrecurring basis				
Impaired loans	$ 6,213,561	$ -	$ -	$ 6,213,561
March 31, 2020				
Nonrecurring basis				
Impaired loans	$ 3,546,768	$ -	$ -	$ 3,546,768

Note 15 – Fair Value Measurement (continued)

The following table presents quantitative information about Level 3 fair value instruments measured at fair value on a nonrecurring basis:

	2021				
		Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Impaired loans	$	6,213,561	Market approach	Adjusted for differences between comparable sales	5–10%

	2020				
		Fair Value	Valuation Techniques	Unobservable Inputs	Range of Inputs
Impaired loans	$	3,546,768	Market approach	Adjusted for differences between comparable sales	5–10%

Note 16 – Subsequent Events

Subsequent events are events or transactions that occur after the date of the consolidated statement of financial condition but before the consolidated financial statements are issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Credit Union's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial condition but arose after the date of the consolidated statements of financial condition and before the consolidated financial statements are issued.

The Credit Union has evaluated subsequent events through June 30, 2021, which is the date the consolidated financial statements are available to be issued. Other than the disclosure below, there were no other subsequent events that occurred requiring such transactions to be recorded or disclosed in these consolidated financial statements.

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