CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT	**1**
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION	**3**
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME	**4**
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY	**5**
CONSOLIDATED STATEMENTS OF CASH FLOWS	**6**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	**7**

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Supervisory Committee,
Board of Directors, and Members
Cedar Point Federal Credit Union and Subsidiary
Lexington Park, Maryland

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cedar Point Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 of 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 auditors' 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 Cedar Point Federal Credit Union and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Arlington, Virginia
February 7, 2020

CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 32,281,409	$ 42,742,045
Deposits in Other Financial Institutions	57,382,000	41,064,000
Securities - Available for Sale	103,975,794	89,997,370
Securities - Held to Maturity	103,148,406	86,007,151
Other Investments	2,002,870	1,898,846
Loans, Net	234,587,503	226,272,712
Accrued Interest Receivable	1,611,963	1,414,397
Premises and Equipment, Net	9,931,998	9,643,078
NCUSIF Deposit	4,567,143	4,392,897
Other Assets	3,893,674	3,393,055
Total Assets	$ 553,382,760	$ 506,825,551
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 496,697,430	$ 455,386,977
Accrued Expenses and Other Liabilities	2,246,068	2,161,856
Total Liabilities	498,943,498	457,548,833
MEMBERS' EQUITY		
Regular Reserve	3,148,340	3,148,340
Undivided Earnings	50,909,682	47,070,646
Accumulated Other Comprehensive Income (Loss)	381,240	(942,268)
Total Members' Equity	54,439,262 -	49,276,718
Total Liabilities and Members' Equity	$ 553,382,760	$ 506,825,551

See accompanying Notes to Consolidated Financial Statements.

CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Loans	$ 10,592,716	$ 9,671,354
Securities, Interest Bearing Deposits and Cash Equivalents	5,930,182	4,567,955
Total Interest Income	16,522,898	14,239,309
INTEREST EXPENSE		
Members' Share and Savings Accounts	2,896,742	1,805,414
Net Interest Income	13,626,156	12,433,895
PROVISION FOR LOAN LOSSES	255,171	492,254
Net Interest Income After Provision for Loan Losses	13,370,985	11,941,641
NON-INTEREST INCOME		
Service Charges and Fees	3,371,111	3,243,791
Other Non-Interest Income	2,782,316	2,909,003
Total Non-Interest Income	6,153,427	6,152,794
NON-INTEREST EXPENSE		
General and Administrative:		
Employee Compensation and Benefits	8,714,983	8,403,605
Office Occupancy and Operations	5,489,136	4,858,251
Other Operating Expenses	1,481,257	1,323,301
Total Non-Interest Expense	15,685,376	14,585,157
NET INCOME	3,839,036	3,509,278
OTHER COMPREHENSIVE INCOME		
Unrealized Holding Income Arising During the Period	1,323,508	37,868
TOTAL COMPREHENSIVE INCOME	$ 5,162,544	$ 3,547,146

See accompanying Notes to Consolidated Financial Statements.

CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT DECEMBER 31, 2017	$ 3,148,340	$ 43,561,368	$ (980,136)	$ 45,729,572
Net Income	-	3,509,278	-	3,509,278
Other Comprehensive Income	-	-	37,868	37,868
BALANCE AT DECEMBER 31, 2018	3,148,340	47,070,646	(942,268)	49,276,718
Net Income	-	3,839,036	-	3,839,036
Other Comprehensive Income	-	-	1,323,508	1,323,508
BALANCE AT DECEMBER 31, 2019	$ 3,148,340	$ 50,909,682	$ 381,240	$ 54,439,262

See accompanying Notes to Consolidated Financial Statements.

CEDAR POINT FEDERAL CREDIT UNION
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 3,839,036	$ 3,509,278
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	674,825	622,783
Amortization (Accretion) of Security Premiums, Net	275,855	(32,960)
Provision for Loan Losses	255,171	492,254
Gain on Sales of Foreclosed Assets, Net	(124,031)	(51,378)
Gain on Disposal of Assets, Net	-	(2,401)
Changes in:		
Other Investments	(104,024)	(63,425)
Accrued Interest Receivable	(197,566)	(326,656)
Other Assets	(249,870)	426,127
Accrued Expenses and Other Liabilities	84,212	323,301
Net Cash Provided by Operating Activities	4,453,608	4,896,923
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Increase in Deposits in Other Financial Institutions	(16,318,000)	(743,000)
Purchases of Securities:		
Held to Maturity	(59,327,083)	(32,447,156)
Available for Sale	(60,763,144)	(22,000,000)
Proceeds from Maturities of Securities:		
Held to Maturity	42,018,202	14,178,213
Available for Sale	48,000,000	19,000,000
Loan Originations Net of Principal Collected on Loans to Members	(9,105,712)	(12,829,470)
Purchase of Participation Loans	-	(5,000,000)
Net Change in NCUSIF Deposit	(174,246)	(276,126)
Proceeds from Sales of Foreclosed Assets	409,031	184,678
Expenditures for Premises and Equipment	(963,745)	(316,214)
Net Cash Used by Investing Activities	(56,224,697)	(40,249,075)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	41,310,453	30,318,163
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,460,636)	(5,033,989)
Cash and Cash Equivalents at Beginning of Year	42,742,045	47,776,034
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 32,281,409	$ 42,742,045
SUPPLEMENTARY DISCLOSURE OF NON CASH AND CASH FLOW INFORMATION		
Members' Share and Savings Accounts Interest Paid	$ 2,895,736	$ 1,797,476
Transfer of Loans to Foreclosed Assets	$ 535,750	$ 133,300

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cedar Point Federal Credit Union (hereafter “the Credit Union”) is a federally chartered cooperative association headquartered in Lexington Park, Maryland, organized in accordance with the provisions of the Federal Credit Union Act for the purposes of promoting thrift among and creating a source of credit for its members.

Principles of Consolidation

The consolidated financial statements include the accounts of Cedar Point Federal Credit Union and its wholly owned subsidiary, Cedar Point Financial Services (the CUSO), a credit union service organization that provides mortgage and insurance financial services to Credit Union members and non-members. All significant intercompany accounts and transactions have been eliminated.

Membership

The primary field of membership is civilian employees, military personnel, contractors and employees of contractors who work regularly at or are eligible for services at Patuxent River Naval Air Station and immediate family members of qualifying members.

In addition, the Credit Union maintains a community charter status expanding the field of membership to serve persons who live, work, worship, or go to school in, and businesses and other legal entities located in the Maryland counties of Calvert, Charles, and St. Mary’s.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, determination of the allowance for loan losses and the fair value of financial instruments.

Financial Instruments With Concentrations of Risk

Most of the Credit Union’s business activity is with its members who are civilian employees, military personnel, contractors and employees of contractors who work regularly at or are eligible for services at Patuxent River Naval Air Station. Repayment of many of these members' loans on the original scheduled amortization is inherently contingent upon continued employment. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a limited geographical field of membership.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Deposits in Other Financial Institutions

Deposits in other financial institutions consist of share and certificate of deposit accounts in corporate credit unions and other financial institutions. The certificates of deposit are stated at cost and all mature within four years.

Securities

Debt securities are classified as held to maturity when the Credit Union has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss). Realized gains and losses on securities available for sale are included in other non-interest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held to maturity and available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union’s intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Non-Interest Income.

The Credit Union did not record any other than temporary impairment during the years ended December 31, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Investments

Other investments are recorded at cost and are periodically evaluated for credit events resulting in impairment.

Loans, Net

The Credit Union grants residential real estate, consumer, and business loans to members, and purchases loan participations from other financial institutions. A substantial portion of the loan portfolio is represented by mortgage loans to members throughout the State of Maryland. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, adjusted for 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 calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain direct loan origination costs are deferred and recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union expenses certain other direct loan origination costs; however, the amounts have been determined to be immaterial. The Credit Union does not charge commitment fees.

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 uncollectability 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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. Specific allowances for loan losses are established for large impaired loans on an individual basis. The specific allowances established for these loans is based on a thorough 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. 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 (four-year look-back) 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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 a 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.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower’s financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union has concluded that the impairment impact of TDRs on its consumer loans (generally lower balance loans having original maturities of 60 months or less and average lives less than 36 months) is insignificant to the consolidated financial statements. As such these impairments are not individually tracked but rather are adequately included in the loss allowance provided on a pooled basis for the consumer loan portfolio.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than commercial/member business real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Business Mortgage: Business mortgage loans consist of commercial real estate loans which generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Business Other: Business other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union assigns a risk rating to business mortgages and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass or Better: Borrowers in these categories exhibit acceptable operating trends, balance sheet trends, and liquidity. These loans represent an acceptable credit risk and generally have the following characteristics: (1) adequate debt service coverage of 1.20 or higher, (2) adequate loan performance, with no late payments within a 9-month history, (3) borrower and/or guarantor liquidity is equal to or greater than 2 months debt service, (4) borrower and/or guarantor total debt is equal to or less than 70% of net worth, (5) maximum LTV is 80%, and (6) management is considered acceptable, and generally stable operating conditions exist. However, some minor negative trends may be disregarded as long as these characteristics are present. Loans rated as "pass or better" require no specific allowance for loan losses but their reserve, based on historical loss ratios, will be included in the general portfolio allowance for loan and lease losses.

Watch List: Loans in this category exhibit potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Some loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification. Loans rated in this category require a loan loss reserve review with an individual loan loss reserve calculation.

Substandard: A loan classified as "substandard" is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified in this category must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected. A substandard loan requires a loan loss reserve review with an individual loan loss reserve calculation.

Doubtful: A loan classified as "doubtful" has all the weaknesses inherent as a loan classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans rated "doubtful" must be immediately moved to non-accrual status and require a loan loss reserve review with an individual loan loss reserve calculation. The reserve allocation must be supported by a written analysis performed by a senior lending officer, CFO, or CEO that documents collateral values based on current appraisals and contains a resolution plan to be reviewed at least quarterly.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Loss: Loans classified as “loss” are considered uncollectible and of such little value that their continuance as Credit Union assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but instead implies that it is not practical or desirable to defer writing off the loan, which is essentially worthless, even though partial recovery may be affected in the future. Loans rated “loss” require that 100% of the loan amount be reserved and are to be charged off before the end of the quarter in which they are recognized.

Off-Consolidated Statement of Financial Condition 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.

Foreclosed Assets

Assets acquired through, or in lieu of, loan repossession are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession, establishing a new cost basis. Foreclosed assets are included in other assets on the consolidated statements of financial condition. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses as part of noninterest expense. As of December 31, 2019 and 2018, the amount of foreclosed assets included in other assets were immaterial.

Premises and Equipment, Net

Land is carried at cost. Building, furniture, fixtures, equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is shorter.

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the NCUSIF is in accordance with National Credit Union Administration (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.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF. At its February 15, 2018, open meeting, the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was reported within Other Non-Interest Income and totaled approximately $298,000 for the year ending December 31, 2018. There was no distribution for the year ending December 31, 2019.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, 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 established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income (Loss)

Comprehensive income consists of net income and other comprehensive income (loss). Accumulated other comprehensive income (loss), also recognized as a separate component of members’ equity, includes valuation adjustments for available for sale securities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a federal instrumentality, Cedar Point Federal Credit Union is exempt from federal and state income taxes.

The CUSO, however, is subject to federal and state income and taxes. Operations of the CUSO resulted in no income taxes for the years ended December 31, 2019 and 2018.

The Credit Union's CUSO evaluated its tax positions and determined no uncertain tax positions exist as of December 31, 2019 and 2018.

The CUSO's 2016 through 2018 tax years are open for examination by federal and state taxing authorities.

Retirement Plans

401(k) Plan - The Credit Union provides a 401(k) retirement plan for all employees who are eligible as to age and length of service. A participant may elect to make contributions of up to 100 percent of the participant's annual compensation not to exceed IRS limits. The Credit Union makes discretionary contributions into each participant's accounts annually. The total amount contributed to the plan was approximately $313,000 and $301,000 during the years ended December 31, 2019 and 2018, respectively.

Deferred Compensation Plan [Section 457(b)] - The Credit Union offers a non-qualified deferred compensation plan for certain members of management. The Credit Union makes discretionary contributions to the plan, and employees are not allowed to contribute to the plan. The deferred compensation accounts are included in both other assets and other liabilities on the Credit Union's consolidated financial statements and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation arrangement was $1,233,326 and $962,379 as of December 31, 2019 and 2018, respectively. Deferred compensation expense was $79,000 and $78,000 for the years ended December 31, 2019 and 2018, respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $200,000 and $139,000 for the years ended December 31, 2019 and 2018, respectively, are expensed as incurred.

Fair Value Measurement

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

In January 2016, FASB approved Accounting Standards Update (ASU) 2016-01 *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2018, and interim periods within the fiscal year beginning after December 15, 2019. Early adoption is permitted for certain provisions of this ASU. The Credit Union adopted ASU 2016-01 in 2019 retrospectively.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Consolidated Statement of Financial Condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2020, and interim periods within the fiscal year beginning after December 15, 2021. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASUs are effective for the Credit Union for the fiscal year beginning after December 15, 2022, including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the consolidated financial statements.

The Credit Union adopted 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 members 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 foreclosed assets. The majority of the Credit Union’s revenues come from interest income on loans and investment securities, which are outside the scope of ASC 606. The Credit Union’s services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Credit Union satisfies its obligation to the member. Significant services within the scope of ASC 606 include service charges on deposits and interchange income. On January 1, 2019, the Credit Union adopted the accounting guidance in ASC 606 using the modified retrospective method applied to those contracts with members which were not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605, Revenue Recognition. Refer to Note 11 *Revenue from Contracts with Customers* for further discussion on the Credit Union’s accounting policies for revenue sources within the scope of ASC 606. The adoption of this ASU did not have an impact on the consolidated financial statements.

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The guidance requires an entity to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management believes that this standard will not have a material impact on the Credit Union’s consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through February 7, 2020, the date the consolidated financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

AVAILABLE FOR SALE:

The amortized cost and estimated fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
December 31, 2019				
U.S. Government and Federal Agency Securities	$ 90,832,778	$ 508,932	$ (67,419)	$ 91,274,291
Mortgage-Backed Securities	12,761,776	-	(60,273)	12,701,503
Total	$ 103,594,554	$ 508,932	$ (127,692)	$ 103,975,794
December 31, 2018				
U.S. Government and Federal Agency Securities	$ 90,939,638	$ 51,964	$ (994,232)	$ 89,997,370

There were no sales of securities available for sale during the years ended December 31, 2019 and 2018.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

HELD TO MATURITY:

The amortized cost and estimated fair value of securities held to maturity are as follows:

	Amortized Cost (Carrying Value)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Certificates of Deposit	$ 5,750,000	$ -	$ -	$ 5,750,000
U.S. Government and Federal Agency Securities	47,832,464	181,382	(50,826)	47,963,020
Mortgage-Backed Securities	49,565,942	475,391	(48,914)	49,992,419
Total	$ 103,148,406	$ 656,773	$ (99,740)	$ 103,705,439
December 31, 2018				
Certificates of Deposit	$ 4,750,000	$ -	$ -	$ 4,750,000
U.S. Government and Federal Agency Securities	61,815,711	21,152	(591,754)	61,245,109
Mortgage-Backed Securities	19,441,440	23,619	(224,580)	19,240,479
Total	$ 86,007,151	$ 44,771	$ (816,334)	$ 85,235,588

At December 31, 2019 and 2018, securities carried at approximately $32,500,000 and $23,780,000, respectively, were pledged as collateral to secure borrowed funds.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of investment securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value (Carrying Value)	Amortized Cost (Carrying Value)	Fair Value
Certificates of Deposit, U.S. Government and Federal Agency Securities:				
Less Than One Year	$ 23,999,447	$ 23,988,920	$ 11,996,244	$ 11,995,680
One to Five Years	66,833,331	67,285,371	41,586,220	41,717,340
	90,832,778	91,274,291	53,582,464	53,713,020
Mortgage-Backed Securities	12,761,776	12,701,503	49,565,942	49,992,419
Total	$ 103,594,554	$ 103,975,794	$ 103,148,406	$ 103,705,439

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Government and Federal Agency Securities	$ (32,835)	$ (32,835)	$ (34,584)	$ 16,964,190
Mortgage-Backed Securities	(60,273)	12,701,503	-	-
Total Available for Sale	$ (93,108)	$ 12,668,668	$ (34,584)	$ 16,964,190
U.S. Government and Federal Agency Securities	$ (22,736)	$ 3,971,560	$ (28,090)	$ 13,973,960
Mortgage-Backed Securities	(28,822)	14,241,227	(20,092)	2,125,220
Total Held to Maturity	$ (51,558)	$ 18,212,787	$ (48,182)	$ 16,099,180

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. Government and Federal Agency Securities	$ (38,870)	$ 5,958,680	$ (955,362)	$ 70,040,570
Total Available for Sale	$ (38,870)	$ 5,958,680	$ (955,362)	$ 70,040,570
U.S. Government and Federal Agency Securities	$ (23,094)	$ 5,792,188	$ (568,660)	$ 41,432,000
Mortgage-Backed Securities	(33,073)	6,698,549	(191,507)	6,524,552
Total Held to Maturity	$ (56,167)	$ 12,490,737	$ (760,167)	$ 47,956,552

At December 31, 2019, the 45 securities with unrealized losses have depreciated 0.31% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available for sale, no declines are deemed to be other-than-temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

OTHER INVESTMENTS:

Other investments are summarized as follows:

	December 31,	
	2019	2018
Perpetual Contributed Capital Account	$ 250,000	$ 250,000
FHLB Stock	456,300	424,800
Central Liquidity Facility Stock	1,225,633	1,153,109
Investment in CUSO	70,937	70,937
Total	$ 2,002,870	$ 1,898,846

Perpetual Contributed Capital Account

The Credit Union maintains a perpetual contributed capital account with Vizo Financial Corporate Credit Union that is uninsured and usually requires a multi-year advance notice before withdrawal.

This uninsured deposit is part of the corporate credit union's regulatory capital and is subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta, Georgia (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

Central Liquidity Facility Stock

The Credit Union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2019 and 2018, the Credit Union had not borrowed from the Facility.

Investment in CUSO

The Credit Union's ownership interest in Card Services for Credit Unions (CSCU) is stated at cost plus undistributed allocated equity, and totals $70,937 as of December 31, 2019 and 2018. CSCU operates as a cooperative, providing transaction card services on a service-at-cost basis for the mutual benefit of its patrons (credit union owners). CSCU distributes patronage dividends to its members in the form of cash and revolving fund certificates.

NOTE 3 LOANS, NET

The composition of loans to members is as follows:

	December 31, 2019	December 31, 2018
Residential Real Estate:		
First Mortgages	$ 105,194,914	$ 93,350,962
Second Mortgages	473,698	722,225
Home Equity Lines of Credit	6,419,652	7,370,203
Subtotal	112,088,264	101,443,390
Consumer:		
New Autos	36,138,857	38,380,214
Used Autos	21,208,392	18,289,796
Secured	1,054,452	947,827
Unsecured	11,479,371	11,953,297
Credit Cards	12,430,692	11,822,811
Overdraft Protection	266,849	253,001
Subtotal	82,578,613	81,646,946
Business Mortgage	35,914,745	38,904,095
Business Other	5,757,024	6,229,045
	236,338,646	228,223,476
Net Deferred Loan Origination Costs	(837,399)	(771,046)
Allowance for Loan Losses	(913,744)	(1,179,718)
Loans, Net	$ 234,587,503	$ 226,272,712

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union offers non-traditional mortgage loans to its members. These loans include hybrid mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

Non-traditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Non-traditional mortgage loans, which are included in the First Mortgage and Business Mortgage loan captions above, totaled $12,638,324 and $10,073,037 at December 31, 2019 and 2018, respectively.

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2019

	Residential Real Estate	Consumer	Business Mortgage	Business Other	Total
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 644,193	$ 461,614	$ 69,742	$ 4,169	$ 1,179,718
Provision (Credit) for Loan Losses	(77,880)	340,688	(11,331)	3,694	255,171
Loans Charged-Off	(147,790)	(515,322)	-	-	(663,112)
Recoveries of Loans Previously Charged-Off	5,621	134,583	1,763	-	141,967
Balance at End of Year	$ 424,144	$ 421,563	$ 60,174	$ 7,863	$ 913,744
Ending Balance: Individually Evaluated for Impairment	$ 337,659	$ -	$ 20,935	$ -	$ 358,594
Ending Balance: Collectively Evaluated for Impairment	$ 86,485	$ 421,563	$ 39,239	$ 7,863	$ 555,150
Total Allowance for Loan Losses	$ 424,144	$ 421,563	$ 60,174	$ 7,863	$ 913,744
Loans:					
Ending Balance: Individually Evaluated for Impairment	$ 2,347,755	$ -	$ 376,605	$ -	$ 2,724,360
Ending Balance: Collectively Evaluated for Impairment	$ 109,740,509	$ 82,578,613	$ 35,538,140	$ 5,757,024	$ 233,614,286
Total Loans	$ 112,088,264	$ 82,578,613	$ 35,914,745	$ 5,757,024	$ 236,338,646

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows (continued):

December 31, 2018

	Residential Real Estate	Consumer	Business Mortgage	Business Other	Total
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 634,379	$ 447,537	$ 130,999	$ 2,481	$ 1,215,396
Provision (Credit) for Loan Losses	161,915	396,576	(67,925)	1,688	492,254
Loans Charged-Off	(157,268)	(543,258)	-	-	(700,526)
Recoveries of Loans Previously Charged-Off	5,167	160,759	6,668	-	172,594
Balance at End of Year	$ 644,193	$ 461,614	$ 69,742	$ 4,169	$ 1,179,718
Ending Balance: Individually Evaluated for Impairment	$ 554,979	$ -	$ 10,836	$ -	$ 565,815
Ending Balance: Collectively Evaluated for Impairment	$ 89,214	$ 461,614	$ 58,906	$ 4,169	$ 613,903
Total Allowance for Loan Losses	$ 644,193	$ 461,614	$ 69,742	$ 4,169	$ 1,179,718
Loans:					
Ending Balance: Individually Evaluated for Impairment	$ 2,132,112	$ -	$ 393,846	$ -	$ 2,525,958
Ending Balance: Collectively Evaluated for Impairment	$ 99,311,278	$ 81,646,946	$ 38,510,249	$ 6,229,045	$ 225,697,518
Total Loans	$ 101,443,390	$ 81,646,946	$ 38,904,095	$ 6,229,045	$ 228,223,476

The following tables show the commercial loan portfolio segments allocated by management's internal risk ratings:

December 31, 2019

	Commercial Credit Risk Profile by Risk Rating		
Risk Rating:	Business Mortgage	Business Other	Total
Pass or Better	$ 35,396,556	$ 5,757,024	$ 41,153,580
Watch List	518,189	-	518,189
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Not Risk Rated (<$50k) Loans	-	-	-
Total	$ 35,914,745	$ 5,757,024	$ 41,671,769

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2018	Commercial Credit Risk Profile by Risk Rating		
	Business	Business	
Risk Rating:	Mortgage	Other	Total
Pass or Better	$ 38,506,080	$ 6,229,045	$ 44,735,125
Watch List	398,015	-	398,015
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Not Risk Rated (<$50k) Loans	-	-	-
Total	$ 38,904,095	$ 6,229,045	$ 45,133,140

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

December 31, 2019	Payment Activity		
	Performing	Non-Performing	Total
Residential Real Estate:			
First Mortgages	$ 105,194,914	$ -	$ 105,194,914
Second Mortgages	473,698	-	473,698
Home Equity Lines of Credit	6,419,652	-	6,419,652
Consumer:			
New Autos	36,138,857	-	36,138,857
Used Autos	21,192,938	15,454	21,208,392
Secured	1,054,452	-	1,054,452
Unsecured	11,401,099	78,272	11,479,371
Credit Cards	12,365,894	64,798	12,430,692
Overdraft Protection	266,849	-	266,849
Total	$ 194,508,353	$ 158,524	$ 194,666,877

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2018	Payment Activity		
	Performing	Non-Performing	Total
Residential Real Estate:			
First Mortgages	$ 92,966,373	$ 384,589	$ 93,350,962
Second Mortgages	615,719	106,506	722,225
Home Equity Lines of Credit	7,370,203	-	7,370,203
Consumer:			
New Autos	38,282,718	97,496	38,380,214
Used Autos	18,289,796	-	18,289,796
Secured	947,827	-	947,827
Unsecured	11,905,267	48,030	11,953,297
Credit Cards	11,807,265	15,546	11,822,811
Overdraft Protection	253,001	-	253,001
Total	$ 182,438,169	$ 652,167	$ 183,090,336

The following tables show an aging analysis of the loan portfolio classes by time past due:

December 31, 2019	Accruing Interest			Nonaccrual	
	Current	30-89 Days Past Due	90 Days or More Past Due	90 Days or More Past Due	Total Loans
First Mortgages	$ 104,531,434	$ 663,480	$ -	$ -	$ 105,194,914
Second Mortgages	473,698	-	-	-	473,698
Home Equity Lines of Credit	6,419,652	-	-	-	6,419,652
New Autos	36,083,340	55,517	-	-	36,138,857
Used Autos	20,964,241	228,697	-	15,454	21,208,392
Secured	1,054,452	-	-	-	1,054,452
Unsecured	11,259,513	141,586	-	78,272	11,479,371
Credit Cards	12,182,828	183,066	-	64,798	12,430,692
Overdraft Protection	266,849	-	-	-	266,849
Business Mortgage	35,914,745	-	-	-	35,914,745
Business Other	5,757,024	-	-	-	5,757,024
Total	$ 234,907,776	$ 1,272,346	$ -	$ 158,524	$ 236,338,646

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2018	Accruing Interest			Nonaccrual	
	Current	30-89 Days Past Due	90 Days or More Past Due	90 Days or More Past Due	Total Loans
First Mortgages	$ 92,492,496	$ 473,877	$ -	$ 384,589	$ 93,350,962
Second Mortgages	615,719	-	-	106,506	722,225
Home Equity Lines of Credit	7,345,054	25,149	-	-	7,370,203
New Autos	38,141,876	140,842	-	97,496	38,380,214
Used Autos	18,166,499	123,297	-	-	18,289,796
Secured	946,647	1,180	-	-	947,827
Unsecured	11,728,402	176,865	-	48,030	11,953,297
Credit Cards	11,725,633	81,632	-	15,546	11,822,811
Overdraft Protection	253,001	-	-	-	253,001
Business Mortgage	38,510,249	393,846	-	-	38,904,095
Business Other	6,229,045	-	-	-	6,229,045
Total	$ 226,154,621	$ 1,416,688	$ -	$ 652,167	$ 228,223,476

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2019 and 2018.

The following tables present information related to impaired loans:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
First Mortgages	$ 481,333	$ 481,333	$ -	$ 240,666	$ -
With An Allowance Recorded:					
First Mortgages	1,743,722	1,743,722	231,385	1,862,565	59,797
Second Mortgages	96,447	96,447	80,021	111,001	7,628
Home Equity Lines of Credit	26,253	26,253	26,253	25,701	537
Business Mortgage	376,605	376,605	20,935	385,225	21,281
Total Impaired Loans:					
Residential Real Estate	$ 2,347,755	$ 2,347,755	$ 337,659	$ 2,239,933	$ 67,962
Business Mortgage	$ 376,605	$ 376,605	$ 20,935	$ 385,225	$ 21,281

NOTE 3 LOANS, NET (CONTINUED)

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:	$ -	$ -	$ -	$ -	$ -
With An Allowance Recorded:					
First Mortgages	1,981,408	1,981,408	420,790	2,168,134	63,694
Second Mortgages	125,555	125,555	108,585	186,470	3,714
Home Equity Lines of Credit	25,149	25,149	25,604	25,910	1,459
Business Mortgage	393,846	393,846	10,836	773,607	15,950
Total Impaired Loans:					
Residential Real Estate	$ 2,132,112	$ 2,132,112	$ 554,979	$ 2,380,514	$ 68,867
Business Mortgage	$ 393,846	$ 393,846	$ 10,836	$ 773,607	$ 15,950

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

The Credit Union did not enter into any TDRs during the years ended December 31, 2019 and 2018.

NOTE 4 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment are summarized as follows:

	December 31, 2019	December 31, 2018
Land	$ 2,274,882	$ 2,274,882
Buildings and Improvements	10,065,015	10,015,109
Furniture, Fixtures, Equipment and Leasehold Improvements	6,844,232	6,298,241
Construction in Progress	50,108	-
	19,234,237	18,588,232
Less: Accumulated Depreciation and Amortization	(9,302,239)	(8,945,154)
Total	$ 9,931,998	$ 9,643,078

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Maryland. Net rent expense was approximately $232,000 and $230,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lease Commitments (Continued)

The required minimum rental payments under the terms of these noncancelable operating leases at December 31, 2019, are as follows:

Year Ending December 31:	Amount
2020	$ 209,780
2021	209,780
2022	211,613
2023	215,280
2024	215,280
Thereafter	3,902,999
Total	$ 4,964,732

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31,	
	2019	2018
Share Savings	$ 238,400,575	$ 222,380,898
Share Drafts	108,237,248	100,686,281
Money Market Accounts	35,829,127	35,909,137
Other Deposits	5,042,168	5,407,675
IRA Deposits	1,648,268	1,695,859
Share and IRA Certificates	107,540,044	89,307,127
Total	$ 496,697,430	$ 455,386,977

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $9,683,000 and $8,341,000 at December 31, 2019 and 2018, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled approximately $266,849 and $253,000 at December 31, 2019 and 2018, respectively.

NOTE 5 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2019, scheduled maturities of share and IRA certificates are as follows:

Year Ended December 31:	Amount
2020	$ 52,162,891
2021	14,225,619
2022	9,870,861
2023	15,011,121
2024	16,269,552
Total	$ 107,540,044

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 6 BORROWED FUNDS

At December 31, 2019 and 2018, the Credit Union had an available line of credit of $10 million or 20% of risk-based assets, whichever is less, with the Federal Reserve Bank of Richmond. The interest rates applied on any borrowing are determined on the date of borrowing. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit. There were no balances outstanding on this line at December 31, 2019 and 2018.

The Credit Union is a member of the NCUA Central Liquidity Facility, which was formed to assist member credit unions in meeting their short-term liquidity needs. The Credit Union can request any amount of funding it needs, up to its legal borrowing limit.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the Federal Home Loan Bank of Atlanta (FHLB) whereby specific mortgage loans of the Credit Union of approximately $133,675,000 and $124,361,000 at December 31, 2019 and 2018, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. There were no balances outstanding on this line at December 31, 2019 and 2018.

NOTE 7 REGULATORY NET WORTH 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 Consolidated Statement of Financial Condition items as calculated under U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 ratio as of December 31, 2019, the most recent quarterly regulatory filing date, was 6.46%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent Call reporting period, the NCUA categorized the Credit Union initially 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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

NOTE 7 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

The Credit Union's actual capital amounts and ratios are also presented in the following table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Net Worth	$ 54,058,022	9.77%	$ 33,202,966	6.00%	$ 38,736,793	7.00%
Risk-Based Net Worth Requirement	$ 35,748,526	6.46%	N/A	N/A	N/A	N/A
December 31, 2018						
Net Worth	$ 50,218,986	9.91%	$ 30,409,533	6.00%	$ 35,477,789	7.00%
Risk-Based Net Worth Requirement	$ 29,497,247	5.82%	N/A	N/A	N/A	N/A

Because the RBNWR of 6.46% at December 31, 2019, is less than the regulatory net worth ratio of 9.77%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 8 RELATED PARTY TRANSACTIONS

Included in Loans, net receivable at December 31, 2019 and 2018, are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of the Credit Union of approximately $1,066,000 and $1,226,000, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at December 31, 2019 and 2018, are approximately $1,824,000 and $1,580,000, respectively.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

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.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2019	2018
Commitments to Grant Collateralized Loans		
Home Equity Lines of Credit	$ 3,207,134	$ 3,049,274
Residential Construction Loans	748,366	993,000
Outstanding Letters of Credit	165,035	336,248
Other Unfunded Business Loan Commitments	2,068,417	2,436,300
Unfunded Unsecured Commitments		
Lines of Credit	288,259	274,140
Overdraft Protection	11,635,651	11,881,899
Other Unfunded Commitments	5,046,786	4,719,936
Credit Card Commitments	22,355,527	20,591,462
Total	$ 45,515,175	$ 44,282,259

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 revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. 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 9 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Legal Contingencies

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

NOTE 10 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the balances of the assets measured at fair value on a recurring basis:

December 31, 2019	Level 1	Level 2	Level 3	Total
U.S. Government and				
Federal Agency Securities	$ -	$ 91,274,291	$ -	$ 91,274,291
Mortgage-Backed				
Securities	-	12,701,503	-	12,701,503
457(b) Plan Mutual Funds	1,233,326	-	-	1,233,326
Total Assets	$ 1,233,326	$ 103,975,794	$ -	$ 105,209,120

December 31, 2018	Level 1	Level 2	Level 3	Total
Certificates of Deposit				
U.S. Government and				
Federal Agency Securities	$ -	$ 89,997,370	$ -	$ 89,997,370
457(b) Plan Mutual Funds	962,379	-	-	962,379
Total Assets	$ 962,379	$ 89,997,370	$ -	$ 90,959,749

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

NOTE 10 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Deferred Compensation

Benchmarking investments for 457(b) non-qualified plan assets are invested in OneAmerica. 457(b) non-qualified plan assets are invested in mutual funds.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2019 and 2018, consisted of the following:

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 1,884,433	$ 358,594

	Fair Value at December 31 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 1,960,143	$ 565,815

NOTE 10 FAIR VALUE (CONTINUED)

<u>Nonrecurring Basis (Continued)</u>

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	December 31, 2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 1,884,433	Evaluation of Collateral	Estimation of Value	Not Meaningful

	December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 1,960,143	Evaluation of Collateral	Estimation of Value	Not Meaningful

<u>Impaired Loans</u>

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged off.

NOTE 11 REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* and all subsequent amendments. As stated in Note 1, the implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning after January 1, 2019, are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Upon adoption, the Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to Non-Interest Income such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Significant components of Non-Interest Income considered to be within the scope of Topic 606 is discussed below.

Service Charges and Deposit Account Fees
The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

Interchange Fees
When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

NOTE 11 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

The following presents Non-Interest Income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31, 2019:

In scope of ASC 606		
Services charges on deposits	$	2,957,213
Bankcard fees		2,074,336
Other		716,526
Non-Interest Income in scope of ASC 606		5,748,075
Non-Interest Income not within the scope of ASC 606 (a)		405,352
Total Non-Interest Income	$	6,153,427

(a) This revenue is not within the scope of ASC 606, and includes fees related to loan servicing fees, credit card fees, certain service charges on deposits and various other transactions.

The Credit Union does not typically enter into long-term revenue contracts with members, and therefore, does not experience significant contract balances. As of December 31, 2019, the Credit Union did not have any significant contract balances. As of December 31, 2019, the Credit Union did not capitalize any contract acquisition costs.