Consolidated Financial Statements

Directions Credit Union, Inc. and Subsidiary

December 31, 2019 and 2018

CONTENTS

230 West Street
Suite 700
Columbus, OH 43215
tel 614.221.1120
fax 614.227.6999
www.gbq.com

GBQ Partners

Supervisory Committee of
Directions Credit Union, Inc. and Subsidiary
Toledo, Ohio

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of Directions Credit Union, Inc. and its subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, 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.

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 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 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 controls 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 controls. 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 Directions Credit Union, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GBQ Partners LLC

Columbus, Ohio
March 12, 2020

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 61,817,726	$ 39,505,813
Investments		
Investments - available-for-sale	14,838,332	10,507,559
Investments - held-to-maturity	24,431,312	35,281,620
Investments - other	8,087,494	8,119,239
Total investments	47,357,138	53,908,418
Loans to Members and Participations, less allowance for loan losses	740,638,130	719,909,270
Other Real Estate Owned	217,396	442,053
Property and Equipment, net	16,150,653	17,389,563
Other Assets		
Accrued interest receivable on investments	113,089	109,555
Accrued interest receivable on loans	2,027,779	2,218,589
Share insurance capitalization deposit	7,809,494	7,613,653
Prepaid expenses and other assets	13,494,240	13,472,941
Total other assets	23,444,602	23,414,738
TOTAL ASSETS	$ 889,625,645	$ 854,569,855
LIABILITIES AND MEMBERS' EQUITY		
Members' Share Accounts	$ 791,553,471	$ 743,185,932
Notes Payable	1,000,000	16,926,000
Accrued Expenses and Other Liabilities	8,051,042	10,962,754
Total liabilities	800,604,513	771,074,686
Members' Equity, substantially restricted	89,021,132	83,495,169
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 889,625,645	$ 854,569,855

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

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Interest on loans	$ 31,370,702	$ 27,063,309
Interest on investments	2,382,563	1,636,930
Total interest income	33,753,265	28,700,239
Interest Expense		
Dividend expense on share accounts	4,768,620	3,392,118
Borrowed funds	114,647	117,906
Total interest expense	4,883,267	3,510,024
Net interest income	28,869,998	25,190,215
Provision for Loan Losses	3,120,600	2,565,115
Net interest income after provision for loan losses	25,749,398	22,625,100
Loss on Student Loan Settlement	-	1,004,345
Net interest income after student loan loss	25,749,398	21,620,755
Non-Interest Income		
Lending-related income	1,265,995	1,352,614
Card income	5,954,426	5,618,940
Deposit-related income	3,968,452	4,059,124
Mortgage-related income	1,776,296	1,518,154
Other income	192,520	595,129
Total non-interest income	13,157,689	13,143,961
Non-Interest Expenses		
Compensation and benefits	15,641,417	15,372,203
Office operations	10,416,481	9,364,597
Occupancy	4,020,092	3,171,657
Insurance and assessments	143,857	125,007
Education and promotion	1,277,824	1,237,843
Travel and conference	346,633	274,357
Professional fees	499,051	579,610
Other	1,262,755	599,625
Total non-interest expenses	33,608,110	30,724,899
Net Income	$ 5,298,977	$ 4,039,817

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

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements Comprehensive Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	**$ 5,298,977**	$ 4,039,817
Other comprehensive income:		
Change in unrealized gain on investments - available-for-sale	**226,986**	14,761
Comprehensive Income	**$ 5,525,963**	$ 4,054,578

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

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2019 and 2018

	Appropriated Statutory Reserve	Unappropriated Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired in Mergers	Total Members' Equity
Balance, December 31, 2017	**$ 11,380,528**	**$ 45,339,309**	**$(186,869)**	**$ 222,635**	**$ 56,755,603**
Net income for the year ended December 31, 2018	-	4,039,817	-	-	4,039,817
Equity acquired in merger	-	-	-	22,684,988	22,684,988
Change in unrealized gain on investments - available-for-sale	-	-	14,761	-	14,761
Total comprehensive income	-	4,039,817	14,761	22,684,988	26,739,566
Balance, December 31, 2018	**11,380,528**	**49,379,126**	**(172,108)**	**22,907,623**	**83,495,169**
Net income for the year ended December 31, 2019	-	5,298,977	-	-	5,298,977
Change in unrealized gain on investments - available-for-sale	-	-	226,986		226,986
Total comprehensive income	-	5,298,977	226,986	-	5,525,963
Balance, December 31, 2019	**$ 11,380,528**	**$ 54,678,103**	**$ 54,878**	**$ 22,907,623**	**$ 89,021,132**

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

[This page left intentionally blank]

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Interest income received	$ 36,234,884	$ 30,988,450
Dividends paid on share accounts and interest paid	(4,883,267)	(3,510,024)
Non-interest income received	12,042,088	12,860,294
Cash paid to suppliers and employees	(35,258,625)	(27,955,966)
Net cash and cash equivalents provided by operating activities	8,135,080	12,382,754
Cash Flows from Investing Activities		
Cash acquired in merger	-	9,389,784
Purchases of available-for-sale investments	(7,000,000)	(4,000,000)
Maturities of available-for-sale investments	2,919,003	10,237,863
Maturities of held-to-maturity investments	10,836,129	1,834,160
Purchases of other investments	(1,693,051)	(4,000,000)
Maturities of other investments	1,733,138	3,830,357
Loans made to members	(290,979,019)	(261,441,901)
Loan repayments from members and proceeds from loan sales	265,926,500	212,245,043
Proceeds from sale of other real estate owned	124,656	-
Purchase of property and equipment	(1,104,241)	(3,432,697)
Reimbursement of property improvements	1,168,020	-
Proceeds from sale of property and equipment	-	2,106,051
Increase in insurance deposit	(195,841)	(265,398)
Net cash and cash equivalents used in investing activities	(18,264,706)	(33,496,738)
Cash Flows from Financing Activities		
Net increase (decrease) in members' shares	48,367,539	(1,164,960)
Borrowings from (repayment of) notes payable	(15,926,000)	13,926,000
Net cash and cash equivalents provided by financing activities	32,441,539	12,761,040
Net increase (decrease) in cash and cash equivalents	22,311,913	(8,352,944)
Cash and Cash Equivalents at Beginning of Year	39,505,813	47,858,757
Cash and Cash Equivalents at End of Year	$ 61,817,726	$ 39,505,813

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

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)

For the Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Net Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Net income	**$ 5,298,977**	$ 4,039,817
Non-Cash Items		
Provision for loan loss	**3,120,600**	2,565,115
Loss on student loan settlement	**-**	1,004,345
Amortization of premiums on investments	**55,136**	42,174
Dealer reserve amortization	**2,239,207**	2,337,816
Mortgage servicing rights, net	**(121,177)**	(77,066)
Equity in income of subsidiary - unconsolidated	**(8,342)**	(4,968)
Gain on sale of mortgage loans	**(1,036,148)**	(760,808)
Gain on sale of investments	**(63,747)**	(18,302)
Loss on sale of assets	**13,812**	51,477
Loss on sale of other real estate owned	**100,001**	-
Depreciation expense	**1,161,319**	1,111,804
Goodwill and CDI amortization expense	**617,448**	51,608
Total non-cash items	**6,078,109**	6,303,195
Changes in Certain Statement of Financial Condition Accounts		
Interest receivable	**187,276**	(215,352)
Other assets and prepaid expenses	**(517,570)**	(340,793)
Accrued expenses and other liabilities	**(2,911,712)**	2,595,887
Total changes in certain statement of financial condition accounts	**(3,242,006)**	2,039,742
Net Cash and Cash Equivalents Provided by Operating Activities	**$ 8,135,080**	$ 12,382,754
Supplemental Disclosures of Cash Flow Information		
Assets and liabilities acquired through the merger of Eduction Plus Credit Union, Inc.		
Loans to members	**$ -**	$ 66,605,902
Cash and cash equivalents	**-**	9,389,784
Investments - HTM	**-**	36,123,780
Investments - other	**-**	377,900
Property and equipment	**-**	2,711,322
Share insurance capitalization deposit	**-**	946,740
Accrued interest receivable	**-**	283,504
Prepaids expenses and other assets	**-**	204,501
Core deposit intangible	**-**	2,492,257
Goodwill	**-**	2,614,293
Accrued expenses and other liabilities	**-**	(577,489)
Members' share accounts	**-**	(98,487,506)
Equity acquired in merger	**-**	(22,684,988)

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

Nature and Scope of Business

Directions Credit Union, Inc. (the Credit Union) provides a variety of financial services to its members, most of whom live, work, worship, attend school or volunteer in Fulton, Knox, Huron, Wood, Lucas, Richland, Ashland, Wayne, Tuscarawas or Crawford Counties in Ohio, and Monroe and Lenawee Counties in Michigan or members of other select groups. The Credit Union's primary source of revenue is from loans to its members and fees earned on member deposits and services. Its primary source of funds is savings deposits from its members.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Directions Credit Union, Inc. and its wholly owned subsidiary TFS Marketing, Inc. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Specifically, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other-than-temporary impairment on investments. Actual results could differ from those estimates.

Investments

The Credit Union's investments are classified and accounted for as follows:

Available-for-Sale (AFS): Government and agency bonds, collateralized mortgage obligations and mortgage-backed securities are classified AFS when the Credit Union anticipates that they could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These are reported at fair value. Unrealized gains and losses on AFS investments are recognized as direct increases or decreases in other comprehensive income.

Held-to-Maturity (HTM): Negotiable certificates and municipal bonds which the Credit Union has the positive intent and ability to hold to maturity are reported at cost.

Other: Non-negotiable certificates, investments in corporate credit union non-maturing capital, investments in the Central Liquidity Facility and Federal Home Loan Bank stock are carried at cost. Investments in credit union service organizations (CUSO) are recorded at cost or the equity method, based on the Credit Union's percentage of ownership or its ability to influence the operational decisions of those entities.

Summary of Significant Accounting Policies (continued)

Investments (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investments. Declines in the fair value of held-to-maturity investments below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Management evaluates investments for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, management considers (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 and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of investments are recorded on the trade date and the costs of investments sold are determined using the specific identification method.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of investments and the possibility of temporary unrealized losses.

Loans to Members, Loan Participations and Allowance for Loan Losses

The Credit Union grants mortgage and consumer loans to members and participates in business loans. Loans and loan participations receivable are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans and loan participations 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 loans and loan participations is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Indirect loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

Summary of Significant Accounting Policies (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

The allowance for loan and participation losses reflects management's judgment of probable loan losses inherent in the portfolio at the date of the consolidated statement of financial condition. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (1) the auto loan portfolio; (2) participation portfolio; (3) the real estate portfolio; (4) the credit card portfolio; (5) student loan portfolio and (6) all other loans.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and responds to changes in economic conditions, member behavior and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves.

In situations where, for economic or legal reasons related to a members' financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructure (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearances and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

Summary of Significant Accounting Policies (continued)

Loans to Members, Loan Participations and Allowance for Loan Losses (continued)

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that the Credit Union will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a 60-day default period and all loans classified as TDR’s.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The overall credit quality of the loan and loan participation portfolio is monitored by management based on current loan performance, historical losses and delinquency status.

Loan Charge-Offs

For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is 90 days past due unless both well secured and in the process of collection.

Summary of Significant Accounting Policies (continued)

Mortgage Servicing Rights

A mortgage servicing right (MSR) is established only when the loans are sold or when servicing is contractually separated from the underlying mortgages by sale or securitization of the loans with servicing rights retained. The initial carrying value of the asset is established based on its relative fair value at the time of the sale using assumptions that are consistent with assumptions used at the time to estimate the fair value of the total MSR portfolio. All servicing rights are subsequently carried at the lower of the initial carrying value, adjusted for amortization or fair value, and are included in other assets.

Servicing rights are evaluated periodically for impairment based on the fair value of those rights using a disaggregated approach. The fair value of the servicing rights is determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment, discount rates, servicing costs and other economic factors. Temporary impairment is recognized in a valuation allowance against the mortgage servicing rights. The Credit Union also analyzes its MRS periodically for other-than-temporary impairment. Other-than-temporary impairment is recognized as a direct reduction of the carrying value of the mortgage servicing right and cannot be recovered. No other-than-temporary impairment was recognized in the years ended December 31, 2019 and 2018. Servicing rights are amortized over the period of, and in proportion to, the estimated future net servicing revenue. Amortization is recorded as reduction in interest income on loans in the Credit Unions' consolidated statement of income.

Property and Equipment

Land and land improvements are carried at cost. Building, building improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. The building, building improvements and furniture and equipment are 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. Maintenance and repairs that neither improve nor extend the life of the respective asset are charged to expense as incurred. Assets purchased but not yet placed into service are capitalized and depreciation is not computed until the asset's placed in service date. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the year. The lives of the assets range from three to 40 years.

Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of costs over fair value of assets acquired. In accordance with GAAP, a private company may amortize goodwill over a life of 10 years, or shorter if management demonstrates a shorter life is appropriate. Management estimated the useful life to be ten years for the Goodwill acquired in the 2018 merger. The Credit Union tests for impairment at the company level when a triggering event, as defined by GAAP, occurs. In determining impairment, management first reviews certain qualitative factors followed by quantitative factors, if necessary. An impairment loss is recognized to the extent the carrying value of the entity exceeds its fair value. No such impairment loss was recorded during 2019 and 2018.

Core Deposit Intangible Asset

A core deposit intangible asset arises when a credit union acquires another institution that has a deposit base associated with stable member relationships. The intangible asset exists due to these member relationships providing a net benefit to the acquiring credit union. Core deposit accounts consist of checking accounts, money market accounts and savings accounts. The major assumptions used to value them include estimating balances to be retained, future cost savings from low cost funding provided, and the application of appropriate discount rates to estimated cash flows. Total core deposits from the mergers in 2018 were approximately $86,000,000 and the core deposit intangible asset was valued at $2,492,257. This asset is being amortized over a period of approximately seven years.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. During 2019 and 2018, management determined there was no impairment to the assets.

Share Insurance Deposit

The deposit in the National Credit Union Share Insurance Fund (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. In 2018, the NCUA announced the closure of the Corporate Stabilization Fund and a refund of special premiums previously paid by federally insured credit unions. During 2019 and 2018, the Credit Union received $98,074 and $450,289, respectively, from the NCUA as its portion of the refund.

Summary of Significant Accounting Policies (continued)

Share Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board

Excess Share Insurance

The deposit in the Excess Share Insurance (ESI) program provides additional insurance coverage of $250,000 once a member's balance exceeds the coverage provided by the Credit Union's primary insurer, which requires the maintenance of a one-percent refundable at-risk deposit by each insured credit union based on the maximum policy limits of coverage. Insured credit unions are also required to pay a quarterly premium based on the actual reported coverage and the credit union's financial condition and rating.

Share Accounts

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

Reserve Requirement

In 2001, the NCUA revised the regulatory net worth requirements for credit unions. Credit unions that are classified as "well capitalized" (net worth ratio of 7% or higher) are not required to make statutory transfers to the regular reserve. The regular reserve has been established at the discretion of the Board of Directors to protect the interests of the members. The Board may, at times, change the reserved amount for specific requirements.

Lending-Related Income

Lending-related fees include fees earned from loan commitments, standby letters of credit, financial guarantees, and other loan-servicing activities. Lending-related fees in this revenue category are recognized at the point in time the service is provided.

Summary of Significant Accounting Policies (continued)

Mortgage Fees and Related Income

Mortgage revenue includes fees and income recognized as earned on mortgage loans originated with the intent to sell or service. Gains and losses on sales of mortgage loans held-for-sale are included. Mortgage servicing revenue includes operating revenue earned from servicing third-party mortgage loans which is recognized over the period in which the service is provided.

Card Income

Card-related fees include interchange income from credit and debit cards and fees earned from processing card transactions for merchants, both of which are recognized when purchases are made by a member. Certain Credit Union card products offer the member the ability to earn points based on account activity, which the member can choose to redeem for cash and non-cash rewards. The cost to the Credit Union varies based on the terms and conditions of the rewards program, member usage, and member redemption rates. The Credit Union maintains a liability for its obligations under its rewards program and reports the costs as a reduction of card income. During 2019 and 2018, the expense related to the rewards program was approximately $638,000 and $526,000, respectively. Card-related fees in this revenue category are recognized at the point in time the service is provided.

Deposit-Related Income

Deposit-related fees include fees earned from performing cash management activities and other deposit account services. Deposit-related fees in this revenue category are recognized at the point in time the service is provided.

Other Income

Other income includes pro-rata distributions of the share insurance fund received from the NCUA and were recognized at the point in time the distributions were announced. Other income also includes income earned from the Credit Union's wholly-owned subsidiary, rental income from the Credit Union's building, and gains and losses on the sale of investments or disposal of fixed assets.

Comprehensive Income (Loss)

Comprehensive income consists of net income (loss) and other comprehensive income (loss) that includes costs related to unrealized gains and losses on investments classified as available-for-sale.

Income Taxes

As a credit union, the Credit Union is exempt from federal, state and local taxes under the provisions of 501(c)(14) of the Internal Revenue Code.

Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Credit Union accounts for uncertainty in income taxes in its consolidated financial statements as required under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Accounting for Uncertainty in Income Taxes*. The standard prescribes 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 standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. Management determined there were no material uncertain positions taken by the Credit Union in its tax returns.

Fair Values of Financial Instruments

GAAP established a fair value hierarchy that prioritizes the inputs to measure the fair value of the assets or liabilities being measured. Fair value is defined as the exchange value that would be received on the measurement date to sell an asset or to value the amount paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 1 inputs provide the most reliable measure of fair value as of the measurement date.
- Level 2 inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets and liabilities in active markets, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 are significant unobservable inputs for the asset or liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Investments – Available-for-Sale: Fair values of investments are based on significant observable inputs or market prices for similar investments, unadjusted quoted prices for similar investments or other relevant broker quotes. These assets represent a Level 2 fair value hierarchy.

Investments – Held-to-Maturity: Fair values of the negotiable certificates are based on significant observable inputs or market prices for similar investments, unadjusted quoted prices for similar investments or other relevant broker quotes. These assets represent a Level 2 fair value hierarchy. Fair values of the municipal bonds are not readily available in active or inactive markets and are subject to unobservable inputs. These investments represent a level 3 hierarchy.

Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments (continued)

The Credit Union has no financial instruments that are held or issued for trading purposes.

Off-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.

Concentration of Credit Risk

The Credit Union's business activity is primarily with members who all live or work in the same geographic area (Northwest and North Central Ohio). This creates a concentration of credit risk from members with loans from the Credit Union, since they may all be affected by the same economic conditions in this geographic area.

New Accounting Pronouncements

Effective January 1, 2019, the Credit Union adopted Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, also referred to as Accounting Standards Codification (ASC) Topic 606. The amount of revenue recognized reflects the consideration to which the Credit Union expects to be entitled to receive in exchange for promised services that compromise a performance obligation. The adoption of this guidance requires gross presentation of certain costs that were previously offset against revenue. Contracts in the scope of ASC 606 are often terminable on demand and the Credit Union has no remaining obligation to deliver future service. The adoption of the guidance did not result in any material changes in the timing of the Credit Union’s revenue recognition.

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”* This standard replaces 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 form credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new Current Expected Credit Losses (CECL) model will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration, and certain off-statement of financial condition credit exposures. The Credit Union will apply the standard’s provisions as a cumulative-effect adjustment to unappropriated undivided earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU will become effective for the Credit Union for annual periods beginning after December 15, 2022. Management is currently evaluating the potential impact of ASU No. 2016-13 on the Credit Union’s consolidated financial statements.

Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

The FASB issued ASU 2016-02, a new standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for nearly all lease arrangements. The option of an operating lease that is recorded off-balance sheet will be significantly limited in its use. In measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For a lessee, the effect of recording all leases as debt might affect financial covenants that exist in loan and other agreements. The lessor accounting remains largely consistent with existing GAAP. The new standard is effective for the Credit Union for annual periods beginning after December 15, 2020 and there are several options as to how the new pronouncement can be implemented. Management is currently evaluating the potential impact of ASU No. 2016-02 on the Credit Union's financial statements.

Cash and Cash Equivalents

In 2019 and 2018, insurance coverage was $250,000 per depositor at each financial institution, and cash and cash equivalent balances, at times, may exceed federally insured limits. The balance of cash and cash equivalents in excess of federally insured limits was approximately $46.9 million and $22.8 million at December 31, 2019 and 2018, respectively.

Cash and cash equivalents include money market accounts, Federal funds and any highly liquid debt-instruments.

	2019	2018
Cash on hand and accounts held in non-interest bearing accounts at other financial institutions	$ 9,691,033	$ 9,378,514
Cash and cash equivalents held in interest bearing accounts at other institutions	52,126,693	30,127,299
Total cash and cash equivalents	$ 61,817,726	$ 39,505,813

Investments

The amortized cost and market value of investments at December 31, 2019 were:

Available-for-Sale	Weighted Average Yield at 12/31/2019	2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	**1.97%**	$ 285,536	$ 4,990	$(2,285)	$ 288,241
Mortgage-backed securities	**2.88%**	1,877,938	466	(55,518)	1,822,886
U.S. Government and agency obligations	**2.07%**	12,619,980	111,675	(4,450)	12,727,205
Total		$ 14,783,454	$ 117,131	$(62,253)	$ 14,838,332

The amortized cost and market value of investments at December 31, 2018 were:

Available-for-Sale	Weighted Average Yield at 12/31/2018	2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.39%	$ 375,059	$ 3,998	$(5,189)	$ 373,868
Mortgage-backed securities	3.93%	2,334,009	381	(135,542)	2,198,848
U.S. Government and agency obligations	1.95%	7,970,599	22,417	(58,173)	7,934,843
Total		$ 10,679,667	$ 26,796	$(198,904)	$ 10,507,559

Gross unrealized losses at December 31 were:

	2019	2018
Gross unrealized losses for less than one year	**$ -**	$ -
Gross unrealized losses for more than one year	**62,253**	198,904
Total	**$ 62,253**	$ 198,904

Held-to-Maturity	Weighted Average Yield at 12/31/2019	2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Negotiable certificates of deposit	**2.38%**	**$ 23,826,312**	**$ 387,369**	**$(6,365)**	**$ 24,207,316**
Municipal bonds	**1.95%**	**605,000**	**-**	**-**	**605,000**
Total		**$ 24,431,312**	**$ 387,369**	**$(6,365)**	**$ 24,812,316**

Investments (continued)

Held-to-Maturity	Weighted Average Yield at 12/31/2018	2018 Amortized Cost	2018 Gross Unrealized Gains	2018 Gross Unrealized Losses	2018 Market Value
Negotiable certificates of deposit	2.30%	$ 34,696,620	$ 520	$(354,469)	$ 34,342,671
Municipal bonds	1.44%	585,000	-	-	585,000
Total		$ 35,281,620	$ 520	$(354,469)	$ 34,927,671

Other Investments	Weighted Average Yield at 12/31/2019	2019 Amortized Cost	2019 Market Value
Certificates of deposits - non-negotiable	2.11%	$ 1,748,000	$ 1,748,000
Corporate credit union non-maturing capital	1.95%	2,356,912	2,356,912
FHLB capital stock	5.00%	1,797,900	1,797,900
Central Liquidity Facility	1.75%	1,882,421	1,882,421
Other investments	N/A	302,261	302,261
Total		$ 8,087,494	$ 8,087,494

Other Investments	Weighted Average Yield at 12/31/2018	2018 Amortized Cost	2018 Market Value
Certificates of deposits - non-negotiable	1.40%	$ 1,941,000	$ 1,941,000
Corporate One capital reserve	1.75%	2,356,912	2,356,912
FHLB capital stock	5.75%	1,797,900	1,797,900
Central Liquidity Facility	1.50%	1,689,370	1,689,370
Other investments	N/A	334,057	334,057
Total		$ 8,119,239	$ 8,119,239

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

Investments (continued)

	Available-for-Sale		Held-to-Maturity		Other Investments	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in 2020	$ 3,552,800	$ 3,571,660	$ 3,961,513	$ 3,975,069	$ 1,498,000	$ 1,498,000
Due in 2021	3,599,509	3,639,023	6,618,383	6,651,565	-	-
Due in 2022	608,863	611,862	7,137,861	7,224,709	250,000	250,000
Due in 2023	6,348,315	6,394,977	6,713,555	6,960,973	-	-
Due in 2024 and beyond	673,967	620,810	-	-	-	-
Non-maturing	-	-	-	-	6,339,494	6,339,494
Total	$ 14,783,454	$ 14,838,332	$ 24,431,312	$ 24,812,316	$ 8,087,494	$ 8,087,494

The investment in corporate perpetual contributed capital and the membership share accounts have withdrawal restrictions and limited marketability.

Loans to Members and Loan Participations

The loans to members at December 31 consisted of the following:

	2019	2018
Auto loans	**$ 236,729,351**	$ 236,721,388
Real estate loans	**275,693,133**	249,852,021
Direct financing leases	**97,318,696**	108,722,179
Credit card loans	**45,574,998**	40,991,605
Student loans	**15,102,254**	16,183,317
Business loans	**9,730,882**	11,526,705
Other secured loans	**23,343,137**	25,196,419
Unsecured loans	**14,447,942**	12,118,929
Loan participations	**21,827,942**	18,712,634
Deferred loan origination fees	**3,973,950**	3,782,995
Net premiums and discounts on acquired loans	**(345,957)**	(802,391)
Total	**743,396,328**	723,005,801
Less: allowance for loan losses	**(2,758,198)**	(3,096,531)
Loans to members and participations, net	**$ 740,638,130**	$ 719,909,270

The interest rates on the loans range from 0.00% to 22.00% for the years ended December 31, 2019 and 2018, respectively.

The activity in allowance for loan loss account for the year ended at December 31 consisted of the following (in 000's):

	2019	2018
Beginning balance	**$ 3,097**	$ 2,701
Provision charged to operations	**3,121**	2,565
Loans charged-off	**(4,016)**	(2,909)
Recoveries	**556**	740
Ending balance	**$ 2,758**	$ 3,097

Loans to Members and Loan Participations (continued)

The allowance for loan losses was allocated between loan pools as follows at December 31 (in 000's):

	2019	2018
Auto	$ 1,064	$ 842
Real estate	172	179
Credit cards	902	837
Student loans	39	286
Participation	151	344
Other	430	609
Ending balance	$ 2,758	$ 3,097

Impaired Loans

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable.

Other credit related information as of December 31, 2019 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical loss %	0.40%	0.16%	0.03%	1.98%	1.04%	0.97%	0.38%
Delinquency over 60 days	$ 962	$ 93	$ 264	$ 379	$ 11	$ 142	$ 1,851
Delinquent 60 -179 days	936	62	253	379	11	142	1,783
Delinquent 180 - 359 days	21	31	11	-	-	-	63
Delinquent over 360 days	5	-	-	-	-	-	5
Impaired restructured loan balances	-	-	1,310	-	-	-	1,310
Specific reserves on restructured loans included in overall allowance	-	-	63	-	-	-	63
Loans in non-accrual status	393	85	134	174	-	84	870

Loans to Members and Loan Participations (continued)

Impaired Loans (continued)

The Other credit related information as of December 31, 2018 by class, dollar amounts (in 000s):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical loss %	0.30%	0.12%	0.02%	1.87%	2.10%	0.54%	0.33%
Delinquency over 60 days	$ 674	$ 41	$ 970	$ 410	$ 406	$ 475	$ 2,976
Delinquent 60 -179 days	674	41	557	410	331	230	2,243
Delinquent 180 - 359 days	-	-	413	-	60	245	718
Delinquent over 360 days	-	-	-	-	15	-	15
Impaired restructured loan balances	-	-	1,443	-	-	-	1,443
Specific reserves on restructured loans included in overall allowance	-	-	105	-	-	-	105
Loans in non-accrual status	235	41	575	165	353	80	1,449

Information on troubled debt restructurings for the year ended December 31, 2019 was as follows (in 000's):

	Number of Contracts	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
Troubled debt restructurings:			
Mortgage	**19**	**$ 1,310**	**$ 1,247**
Total	**19**	**$ 1,310**	**$ 1,247**

Information on troubled debt restructurings for the year ended December 31, 2018 was as follows (in 000's):

	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:			
Mortgage	21	$ 1,443	$ 1,338
Total	21	$ 1,443	$ 1,338

Property and Equipment

Property and equipment at December 31 consisted of the following:

	2019	2018
Land and improvements	$ 3,717,205	$ 3,601,923
Buildings and improvements	16,801,818	17,504,737
Furniture and equipment	9,620,224	10,891,791
Improvements in process	438,892	364,807
Total property	30,578,139	32,363,258
Less: accumulated depreciation	(14,427,486)	(14,973,695)
Total property and equipment, net	$ 16,150,653	$ 17,389,563

Student Loan Guarantee Receivable

In 2009, 2010 and 2011 the Credit Union purchased pools of participations in private student loans originated by CU Student Connect, LLC to students attending ITT Technical Institute (ITT). Credit losses on these participation pools were to be covered by a credit enhancement (the Risk Share Agreement or RSA) with ITT. When losses in these pools exceeded 35%, all additional losses incurred by the Credit Union were to be reimbursed through a guarantee by ITT. The RSA called for payments to be made by the 15th of the subsequent month in which a claim was submitted for losses incurred in excess of 35%. During 2016, ITT declared bankruptcy and ceased paying the Credit Union for losses in excess of 35%.

As of December 31, 2018, participation pool balances totaled $1,159,009 and were reported as loans on the Credit Union's consolidated statements of financial condition. At that time, management believed the entire outstanding balance guaranteed by ITT, due to its bankruptcy, would not be collectible and has established a reserve to reduce the receivable to the amount they believe will be collected. Additionally, the Credit Union had a receivable of $8,898,866 and a reserve of $8,898,866 from ITT related to the RSA recorded in prepaid expenses and other assets on the consolidated statements of financial condition. During 2019, the bankruptcy plan for ITT was approved by the court and a settlement with the Credit Union was reached. As part of that settlement, the Credit Union received a payment of approximately $266,000 and all rights to student loans then outstanding were relinquished. At December 31, 2019, the Credit Union had no balances outstanding from ITT and the related RSA.

Goodwill

Goodwill and accumulated amortization at December 31 was:

	Goodwill	Accumulated Amortization	Total
Balance, December 31, 2017	$ -	$ -	$ -
Additions	2,614,293	-	2,614,293
Amortization expense	-	(21,878)	(21,878)
Balance, December 31, 2018	**2,614,293**	**(21,878)**	**2,592,415**
Additions	-	-	-
Amortization expense	-	(261,420)	(261,420)
Balance, December 31, 2019	**$ 2,614,293**	**$(283,298)**	**$ 2,330,995**

Estimated future goodwill amortization at December 31, 2019 is as follows:

2020	$ 261,429
2021	261,429
2022	261,429
2023	261,429
2024	261,429
2025 and beyond	1,023,850
Total	**$ 2,330,995**

Intangible Asset

Core Deposit Intangible Asset

The core deposit intangible asset that was acquired through the merger had an original value of $2,492,257 and is included in prepaid expenses and other assets. Accumulated amortization was $385,758 and $29,730 as of December 31, 2019 and 2018, respectively.

Intangible Asset (continued)

Core Deposit Intangible Asset (continued)

The following is a schedule of future amortization expense for the remaining intangible asset:

2020	$ 356,037
2021	356,037
2022	356,037
2023	356,037
2024	356,037
Thereafter	326,314
Total	$ 2,106,499

Loans Serviced

Mortgage servicing rights are recorded in prepaid expenses and other assets on the consolidated statement of financial condition. Changes in their carrying value and the associated valuation allowance for the year ended December 31 and the fair value at the end of the period were as follows:

	2019	2018
Balance, beginning of the year	**$ 2,170,585**	$ 2,093,519
New servicing rights	**448,460**	411,831
Amortization	**(327,283)**	(334,765)
Balance, end of year	**$ 2,291,762**	$ 2,170,585
Fair value, end of year	**$ 2,292,000**	$ 2,171,000

The unpaid principal balance of residential loans serviced for third parties was approximately $235,422,000 and $228,195,000 at December 31, 2019 and 2018, respectively.

Members' Share Accounts

Members' share accounts at December 31 were as follows:

	Weighted Average Yield at 12/31/2019	2019	Weighted Average Yield at 12/31/2018	2018
Regular shares	0.10%	$ 247,575,890	0.10%	$ 244,649,800
Checking accounts	0.11%	160,471,282	0.07%	149,378,924
Money market accounts	0.81%	175,016,383	0.59%	172,656,686
Club accounts	0.14%	39,446,583	0.19%	38,202,906
IRA accounts	0.42%	17,849,772	0.18%	18,639,295
Share and IRA certificates	2.08%	151,193,561	1.70%	119,658,321
Total members' share		$ 791,553,471		$ 743,185,932

Scheduled maturities of shares at December 31, 2019 were as follows:

2020	$ 713,787,938
2021	28,941,603
2022	20,596,740
2023	12,947,938
2024	15,279,252
Total maturities	$ 791,553,471

Dividend expense on members' share accounts at December 31 was as follows:

	2019	2018
Regular shares	$ 241,350	$ 222,440
Checking accounts	165,671	95,361
Money market accounts	1,411,539	921,614
Club accounts	54,932	65,274
IRA accounts	77,434	35,087
Share and IRA certificates	2,817,694	2,052,342
Total dividend expenses	$ 4,768,620	$ 3,392,118

The aggregate amount of members' share accounts that exceed the NCUA's primary insured limit and the Credit Union's excess insurance, at December 31, 2019 and 2018 totaled $7,442,296 and $7,671,145, respectively.

Borrowings

The Credit Union maintains a $15,000,000 note payable - line of credit borrowing arrangement with Corporate One Federal Credit Union. The line of credit is collateralized by substantially all assets of the Credit Union. At December 31, 2019, there were no borrowings outstanding under this agreement. At December 31, 2018, there was $10,926,000 in borrowings outstanding under this agreement.

Borrowings (continued)

The Credit Union maintains a note payable – line of credit borrowing arrangement with the Federal Home Loan Bank of Cincinnati that has a borrowing capacity of approximately $41,000,000. The borrowing arrangement is collateralized by substantially all one – four family home first mortgage loans. At December 31, 2019 and 2018, there was $1,000,000 and $6,000,000 in outstanding borrowings under this arrangement, respectively. The interest rate on these borrowings was 1.81% at December 31, 2019 and varied from 1.52% to 2.53% at December 31, 2018.

Principal payments by year required on these notes are as follows:

2020	$ 1,000,000
2021	-
2022	-
2023	-
2024	-
Total notes payable	**$ 1,000,000**

Related Party Transactions

The official family of the Credit Union includes Board members, supervisory committee members, credit committee members and staff. Loans and shares receivable from members of the official Credit Union family at December 31 was as follows:

	2019	2018
Loans	**$ 14,888,763**	$ 9,999,854
Shares	**7,850,495**	5,712,080

Employee Benefits

The Credit Union has entered into three Collateral Assignment Split-Dollar Life Insurance Arrangements with officers of the organization. The life insurance policy is owned by the officer but premiums are paid by the Credit Union. The premiums paid are recorded as loan receivables from the participants. The imputed interest rate on the loans is treated as compensation for the officers.

The Credit Union has a profit-sharing plan covering substantially all employees. This discretionary contribution is determined by the Board of Directors annually. The Credit Union had a liability of $190,000 and $260,000 accrued as of December 31, 2019 and 2018, respectively.

The Credit Union also has a 401(k) salary reduction plan. Employees are eligible for participation when they have attained eighteen years of age and completed six months of service. The Credit Union may make discretionary matching contributions. The employer contributions for the years ended December 31, 2019 and 2018 were $144,706 and $134,313, respectively.

Commitments and Contingent Liabilities

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

The Credit Union has extended lines of credit to members who have not been entirely drawn at December 31, 2019 and 2018. The available credit to members that has not been reflected in the consolidated financial statements was as follows:

	2019	2018
Loan Type:		
Business loans	$ 1,642,449	$ 2,025,010
Open-end loans	4,483,723	3,867,410
Credit cards	118,431,810	104,442,314
Construction loans	11,480,687	8,569,968
Home equity loans	18,171,174	15,047,901
Overdraft protection	23,817,539	23,323,698
Total	$ 178,027,382	$ 157,276,301

Leases

The Credit Union leases six of its branch office locations under long-term lease arrangements. These leases are accounted for as operating leases and have minimum payment requirements summarized as follows:

Lease Property	Lease Expiration	Remaining Payment Obligations
Lambertville	9/30/2020	$ 49,500
Westgate Village	3/31/2020	18,675
Reynolds Rd	7/31/2027	391,891
Owens Corning	10/31/2023	134,378
Whiteford	12/31/2028	666,688
Maumee Towers	12/31/2030	8,821,484
Total remaining obligations		$ 10,082,616

The future minimum lease payments under these leases at December 31, 2019 are as follows:

2020	$ 958,548
2021	905,410
2022	921,954
2023	932,666
2024	924,303
2025 and thereafter	5,439,735
Total obligation	$ 10,082,616

Leases (continued)

Rent expense totaled $1,333,685 and $272,795 for the years ended December 31, 2019 and 2018, respectively.

Regulatory Capital

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 generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in the regulations) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2019 and 2018 was 5.67% and 5.20%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. 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, NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirements. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31 are also presented in the table (dollars in thousands):

	Actual		To Be Adequately Capitalized Under the Prompt Corrective Action Provision		To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019	**$ 85,541**	**9.62%**	**$ 53,378**	**>6.00%**	**$ 62,274**	**>7.00%**
December 31, 2018	$ 79,950	9.36%	$ 51,266	>6.00%	$ 59,810	>7.00%

Acquisition

The Credit Union makes acquisitions to expand into new markets, to increase its presence in its existing markets and to add to its suite of products. The Credit Union makes an assessment of the potential for each acquisition target to add value to the Credit Union's geographic and product-specific footprint. The Credit Union makes acquisitions that, in the judgment of its management and Board of Directors, will enhance future profitability.

Effective June 1, 2018, the Credit Union acquired all of the assets and assumed all of the liabilities of the Educational Plus Credit Union, Inc. (EPCU) pursuant to a merger and acquisition agreement. Under the terms of the agreement, each member of EPCU received one full share of the Directions Credit Union, Inc. in exchange for each share of EPCU they owned.

Subsequent Events - Date of Management's Review

Management has evaluated subsequent events through the date of the Independent Auditor's Report, the date on which the consolidated financial statements were available to be issued.