Consolidated Financial Statements

Directions Credit Union, Inc. and Subsidiary

December 31, 2023 and 2022

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GBQ Partners

To the Audit Committee
Directions Credit Union, Inc. and Subsidiary
Toledo, Ohio

Independent Auditor's Report

Opinion

We have audited the consolidated financial statements of Directions Credit Union, Inc. and Subsidiary which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Directions Credit Union, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Directions Credit Union, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Directions Credit Union, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Directions Credit Union, Inc. and Subsidiary's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Directions Credit Union, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

GBQ Partners LLC

Columbus, Ohio
March 28, 2024

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	**$ 61,234,521**	$ 48,543,447
Investments		
Investments - available-for-sale	**71,044,837**	84,283,818
Investments - held-to-maturity, net of allowance for credit losses	**5,666,000**	14,672,000
Investments - other	**9,240,190**	8,727,854
Total investments, net of allowance for credit losses	**85,951,027**	107,683,672
Loans to Members and Loan Participations		
Loans to members	**1,012,601,542**	974,014,767
Allowance for credit losses	**(4,081,215)**	(4,838,274)
Total loans, net of allowance for credit losses	**1,008,520,327**	969,176,493
Other Real Estate Owned	**-**	-
Property and Equipment, net	**14,112,827**	14,848,478
Other Assets		
Accrued interest receivable on investments	**132,781**	193,746
Accrued interest receivable on loans	**3,056,527**	2,481,837
Share insurance capitalization deposit	**10,484,056**	10,699,238
Prepaid expenses and other assets	**19,245,598**	28,068,793
Total other assets	**32,918,962**	41,443,614
TOTAL ASSETS	**$ 1,202,737,664**	$ 1,181,695,704
LIABILITIES AND MEMBERS' EQUITY		
Members' Share Accounts	**$ 1,020,892,932**	$ 1,050,382,434
Notes Payable	**43,974,482**	6,000,000
Accrued Expenses and Other Liabilities	**27,776,624**	27,626,492
Total liabilities	**1,092,644,038**	1,084,008,926
Members' Equity, substantially restricted	**110,093,626**	97,686,778
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 1,202,737,664**	$ 1,181,695,704

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, 2023 and 2022

	2023	2022
Interest Income		
Interest on loans	**$ 46,093,329**	$ 34,598,746
Interest on investments	**2,741,064**	2,984,113
Total interest income	**48,834,393**	37,582,859
Interest Expense		
Dividend expense on share accounts	**6,096,406**	2,366,152
Interest expense on notes payable	**1,088,215**	2,650
Total interest expense	**7,184,621**	2,368,802
Net interest income	**41,649,772**	35,214,057
Provision for Credit Losses	**2,615,000**	1,761,500
Net interest income after provision for credit losses	**39,034,772**	33,452,557
Non-Interest Income		
Lending-related income	**1,124,579**	1,553,205
Card income	**8,237,670**	7,438,293
Deposit-related income	**3,853,411**	3,984,554
Mortgage-related income	**564,868**	619,441
Other income	**295,341**	144,096
Total non-interest income	**14,075,869**	13,739,589
Non-Interest Expenses		
Compensation and benefits	**21,024,825**	19,761,410
Office operations	**13,670,949**	12,132,390
Occupancy	**5,128,160**	4,560,822
Insurance and assessments	**244,496**	253,044
Education and promotion	**1,622,000**	1,584,507
Travel and conference	**541,256**	404,745
Professional fees	**378,333**	1,677,940
Other	**1,930,824**	1,556,388
Total non-interest expenses	**44,540,843**	41,931,246
Net Income	**$ 8,569,798**	$ 5,260,900

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, 2023 and 2022

	2023	2022
Net Income	**$ 8,569,798**	$ 5,260,900
Other comprehensive income:		
Change in unrealized gain (loss) on investments - available-for-sale	**2,892,104**	(6,641,796)
Comprehensive Income (Loss)	**$ 11,461,902**	$ (1,380,896)

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, 2023 and 2022

	Appropriated Statutory Reserve	Unappropriated Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired in Mergers	Total Members' Equity
Balance, December 31, 2021	$ 11,380,528	$ 66,152,560	$ (1,373,037)	$ 22,907,623	$ 99,067,674
Net income for the year ended December 31, 2022	-	5,260,900	-	-	5,260,900
Change in unrealized gain (loss) on investments - available-for-sale	-	-	(6,641,796)	-	(6,641,796)
Total comprehensive income (loss)	-	5,260,900	(6,641,796)	-	(1,380,896)
Balance, December 31, 2022	11,380,528	71,413,460	(8,014,833)	22,907,623	97,686,778
Net income for the year ended December 31, 2023	-	8,569,798	-	-	8,569,798
Change in unrealized gain (loss) on investments - available-for-sale	-	-	2,892,104	-	2,892,104
Total comprehensive income (loss)	-	8,569,798	2,892,104	-	11,461,902
Cumulative effect of change in accounting principle	-	944,946	-	-	944,946
Balance, December 31, 2023	**$11,380,528**	**$ 80,928,204**	**$ (5,122,729)**	**$22,907,623**	**$ 110,093,626**

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

DIRECTIONS CREDIT UNION, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Interest income received	**$ 50,706,314**	$ 39,034,414
Dividends paid on share accounts and interest paid	**(7,184,621)**	(2,368,802)
Non-interest income received	**14,348,596**	14,082,687
Cash paid to suppliers and employees	**(34,334,306)**	(37,206,443)
Net cash and cash equivalents provided by operating activities	**23,535,983**	13,541,856
Cash Flows from Investing Activities		
Purchases of available-for-sale investments	**-**	(8,746,664)
Maturities of available-for-sale investments	**16,041,006**	1,917,729
Maturities of held-to-maturity investments	**9,006,000**	7,045,000
Purchases of other investments	**(1,648,138)**	(381,053)
Maturities of other investments	**1,147,857**	429,935
Loans made to members	**(408,213,500)**	(574,987,809)
Loan repayments from members and proceeds from loan sales	**364,948,676**	381,582,241
Proceeds from sale of other real estate owned	**-**	37,953
Purchase of property and equipment	**(826,972)**	(1,522,688)
Increase in share insurance deposit	**215,182**	(466,678)
Net cash and cash equivalents used in investing activities	**(19,329,889)**	(195,092,034)
Cash Flows from Financing Activities		
Net decrease in members' shares	**(29,489,502)**	(3,915,301)
Borrowings on available lines of credit	**45,000,000**	8,287,755
Repayments of notes payable	**(7,025,518)**	(2,287,755)
Net cash and cash equivalents provided by financing activities	**8,484,980**	2,084,699
Net increase (decrease) in cash and cash equivalents	**12,691,074**	(179,465,479)
Cash and Cash Equivalents at Beginning of Year	**48,543,447**	228,008,926
Cash and Cash Equivalents at End of Year	**$ 61,234,521**	$ 48,543,447

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, 2023 and 2022

	2023	2022
Reconciliation of Net Income to Net Cash and Cash Equivalents Provided by Operating Activities		
Net income	**$ 8,569,798**	$ 5,260,900
Non-Cash Items		
Provision for credit losses	**2,615,000**	1,761,500
Amortization of premiums on investments	**90,079**	189,479
Dealer reserve amortization	**2,295,567**	1,791,303
Mortgage servicing rights, net	**329,413**	350,333
Equity in income of subsidiary - unconsolidated	**(12,055)**	(7,235)
Gain on sale of mortgage loans	**(44,631)**	-
Depreciation expense	**1,562,623**	1,382,441
Goodwill and CDI amortization expense	**617,448**	617,448
Total non-cash items	**7,453,444**	6,085,269
Changes in Certain Statement of Financial Condition Accounts		
Interest receivable	**(513,725)**	(529,227)
Other assets and prepaid expenses	**7,876,334**	(14,776,246)
Accrued expenses and other liabilities	**150,132**	17,501,160
Total changes in certain statement of financial condition accounts	**7,512,741**	2,195,687
Net Cash and Cash Equivalents Provided by Operating Activities	**$ 23,535,983**	$ 13,541,856

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

Nature and Scope of Business

Directions Credit Union, Inc. and Subsidiary (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 sources of revenue are from interest and fees 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.

New Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard replaced the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and required consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update required 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 applied 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 applied 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 was effective. Management adopted this new standard as of January 1, 2023.

Summary of Significant Accounting Policies (continued)

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 (loss).

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

Other: Non-negotiable certificates of deposit, investments in corporate credit union non-maturing capital, investments in the Central Liquidity Facility and Federal Home Loan Bank (FHLB) stock are carried at cost. Investments in credit union service organizations (CUSOs) 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.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investments. 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.

For available for sale securities, management evaluates all investments in an unrealized loss position on a monthly basis, and more frequently when economic or market conditions warrant such evaluation. If the Credit Union has the intent to sell the security or it is more likely than not that the Credit Union will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Credit Union evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Credit Union may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Summary of Significant Accounting Policies (continued)

Investments (continued)

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio.

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on debt securities totaled $132,781 at December 31, 2023 and was excluded from the estimate of credit losses.

The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Credit Union then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount.

All the investments classified held-to-maturity held by the Credit Union are issued by government-sponsored enterprises or are certificates of deposit issued by regulated financial institutions. Investments in government-sponsored enterprises are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. Most of the certificates of deposit are either federally or privately insured, or are in financial institutions that are being actively monitored and are not under regulatory supervision. As a result, no allowance for credit losses was recorded on investments classified held-to-maturity at December 31, 2023.

Loans to Members, Loan Participations and Allowance for Credit Losses

The Credit Union grants commercial, 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 credit 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.

Summary of Significant Accounting Policies (continued)

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

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

The Credit Union invests in loan participations through an entity that is owned by credit unions. The entity provides the underwriting and servicing for loans made to participants. The participation interests range from 1.3% to 90% of the loan balances. The participations are without recourse, and as result, the Credit Union must reflect any losses on these loans. The Credit Union determines an estimated amount of reserves required on these participations using performance and collateral data provided by the servicer.

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

On January 1, 2023, the Credit Union adopted CECL and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-statement of financial condition credit exposures. The transition adjustment of the adoption of CECL included a decrease in the allowance for credit losses on loans of $944,946, which is presented as an increase to the net loans outstanding and a net increase to unappropriated undivided earnings of $944,946. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (incurred loss as defined below). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Loans measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance for credit losses represents management’s estimate of lifetime credit losses inherent in loans as of the date of the consolidated statement of financial condition. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

Summary of Significant Accounting Policies (continued)

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

The Credit Union measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments: (1) secured; (2) real estate; (3) unsecured; (4) credit cards, and (5) participations. The Credit Union calculates the allowance for credit losses for each using the Probability of Default method.

The Probability of Default method is applied using a significant amount of statistical analysis and the development of modeling assumptions to estimate losses at a granular loan level. The Credit Union's Probability of Default model was developed by using a multinomial logistical regression analysis, with segregated analyses conducted by loan type. At a high level, this type of analysis identifies significant risk-based criteria for each loan pool that would impact a loan's probability of default. Each criterion is modeled against observable inputs and compares those criteria against observable charged-off loan information. Coefficients for each risk criterion are established and applied to the Credit Union's existing loan portfolio at the loan level to compute a probability of default for each loan. Losses are then estimated on each loan based on the likelihood of default and the estimated loss given that default. The Probability of Default model also requires the greatest amount of granular loan level and historical data, and an even larger amount of analysis over that data, in order to create probability of default models that best predicts loan losses. The Credit Union has very little influence over the model inputs and assumptions beyond the development of Q&E factors or manual overrides that can be established at the back end of the computation. This can result in projected losses that might vary from the Credit Union's actual expected losses, particularly if a given loan portfolio has risk characteristics that are unique from the rest of the financial institution industry.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured. If an exposure does not share risk characteristics with other exposures, the Credit Union generally estimates expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual exposure ("specific reserves"). The specific reserve component covers collateral-dependent loans and loans reasonably likely to be charged-off. When a loan is reviewed individually for impairment and potential losses, that loan is removed from the relevant pool.

Summary of Significant Accounting Policies (continued)

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

Specific Reserves

The Credit Union generally measures the specific reserves as the difference between the amortized cost of the loan and the cash flows expected to be collected from the sale of the collateral or other recovery efforts. To determine expected losses on individually impaired and reviewed loans, management will evaluate qualitative data, such as member cooperation, communication with the member, etc., as well as quantitative data, such as the current value of collateral, estimated liquidation costs of collateral, etc. Subsequent changes in impairment are generally recognized as an adjustment to the allowance for credit losses. For collateral-dependent loans, the fair value of collateral less estimated costs to sell is used to determine the charge-off amount for declines in value (to reduce the amortized cost of the loan to the fair value of collateral) or the amount of negative allowance that should be recognized (for recoveries of prior charge-offs associated with improvements in the fair value of collateral).

Estimating the timing and amounts of future cash flows is highly judgmental as these cash flow projections rely upon estimates such as loss severities, asset valuations, default rates (including redefault rates on modified loans), the amounts and timing of interest or principal payments (including any expected prepayments) or other factors that are reflective of current and expected market conditions. These estimates are, in turn, dependent on factors such as the duration of current overall economic conditions, industry-, portfolio-, or borrower-specific factors, the expected outcome of insolvency proceedings as well as, in certain circumstances, other economic factors. All of these estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance in the inherent reserves, a change to the allowance for credit losses is generally not recorded upon modification. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Upon the Credit Union’s determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off or included in the Credit Union’s specific reserve. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. The Credit Union closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

Summary of Significant Accounting Policies (continued)

2022 Allowance for Loan Loss Policy

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.

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.

Summary of Significant Accounting Policies (continued)

2022 Allowance for Loan Loss Policy (continued)

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 evaluates loans for impairment when it reaches 60 days past due or when it is classified as a TDR.

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)

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 3 to 40 years.

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. 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 2023 and 2022.

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. The Credit Union also analyzes its MSRs periodically for credit losses. Credit losses are recognized as a direct reduction of the carrying value of the mortgage servicing right. No credit losses were recognized in the years ended December 31, 2023 and 2022. 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 Union's consolidated statement of income.

Summary of Significant Accounting Policies (continued)

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.

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 2023 and 2022, 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.

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.

Summary of Significant Accounting Policies (continued)

Leases

Pursuant to GAAP, a contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities within the Credit Union's accompanying statements of financial condition.

ROU assets represent the Credit Union's right to use an underlying asset for the lease term, and lease liabilities represent the Credit Union's obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Credit Union uses the implicit rate when it is readily determinable. If the Credit Union's leases do not provide an implicit rate, the Credit Union elected the practical expedient to utilize the risk-free rate to determine the present value of lease payments. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Credit Union's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise the option.

The Credit Union has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. The non-lease components consist of common area maintenance and real estate taxes.

Members' 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.

Summary of Significant Accounting Policies (continued)

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

Card Income

Card income includes 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 2023 and 2022, the expense related to the rewards program was approximately $842,000 and $745,000, respectively. Card income is recognized at the point in time the service is provided.

Deposit-Related Income

Deposit-related income includes fees earned from performing cash management activities and other deposit account services. Deposit-related income is recognized at the point in time the service is provided.

Mortgage-Related Income

Mortgage-related income 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.

Other Income

Other income includes income earned from the Credit Union's wholly-owned subsidiary, rental income from the Credit Union's building, gains and losses on the sale of investments and gains and losses on the disposal of fixed assets.

Summary of Significant Accounting Policies (continued)

Advertising Expense

The Credit Union expenses advertising costs as incurred. Advertising expense was $1,622,000 and $1,584,507 for the years ended December 31, 2023 and 2022, respectively.

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.

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 Inputs are significant unobservable inputs for the asset or liability.

Summary of Significant Accounting Policies (continued)

Fair Values of Financial Instruments (continued)

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.

Other Assets – Mortgage Servicing Rights: The fair value of mortgage 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. These assets represent a Level 2 fair value hierarchy.

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 and Southern Michigan). 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.

Cash and Cash Equivalents

In 2023 and 2022, 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 $52 million and $35 million at December 31, 2023 and 2022, respectively.

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

	2023	2022
Cash on hand and cash held in non-interest bearing accounts at other financial institutions	**$ 11,750,618**	$ 12,107,843
Cash and cash equivalents held in interest bearing accounts at other institutions	**49,483,903**	36,435,604
Total cash and cash equivalents	**$ 61,234,521**	$ 48,543,447

Investments

The amortized cost and market value of available-for-sale investments at December 31 were:

Available-for-Sale	**Weighted Average Yield at 12/31/2023**	**2023** Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	**1.01%**	**$ 695,438**	**$ 7,312**	**$ (145,626)**	**$ 557,124**
Mortgage-backed securities	**2.26%**	**9,947,585**	**-**	**(1,217,492)**	**8,730,093**
U.S. Government and agency obligations	**0.63%**	**65,524,543**	**-**	**(3,766,923)**	**61,757,620**
Total		**$ 76,167,566**	**$ 7,312**	**$ (5,130,041)**	**$ 71,044,837**

Available-for-Sale	Weighted Average Yield at 12/31/2022	2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	1.02%	$ 797,678	$ 7,697	$ (167,318)	$ 638,057
Mortgage-backed securities	2.28%	11,414,320	-	(1,463,085)	9,951,235
U.S. Government and agency obligations	0.77%	80,086,653	-	(6,392,127)	73,694,526
Total		$ 92,298,651	$ 7,697	$ (8,022,530)	$ 84,283,818

Gross unrealized losses at December 31 were:

	2023	2022
Gross unrealized losses for less than one year	**$ -**	$ 561,107
Gross unrealized losses for more than one year	**5,130,041**	7,461,423
Total	**$ 5,130,041**	$ 8,022,530

The amortized cost of held-to-maturity investments at December 31 were:

Held-to-Maturity	**Weighted Average Yield at 12/31/2023**	**2023** Amortized Cost	Weighted Average Yield at 12/31/2022	2022 Amortized Cost
Negotiable certificates of deposit	**0.52%**	**$ 5,666,000**	1.59%	$ 14,672,000

Investments (continued)

The amortized cost of other investments at December 31 were:

Other Investments	Weighted Average Yield at 12/31/2023	2023 Amortized Cost	Weighted Average Yield at 12/31/2022	2022 Amortized Cost
Certificates of deposits - non-negotiable	**0.25%**	**$ 248,000**	0.77%	$ 1,490,000
Corporate credit union non-maturing capital	**1.56%**	**1,980,212**	0.05%	1,980,212
FHLB capital stock	**7.56%**	**2,942,700**	4.00%	1,475,200
Central Liquidity Facility	**4.62%**	**2,907,133**	1.85%	2,726,495
Other investments	**N/A**	**1,162,145**	N/A	1,055,947
Total		**$ 9,240,190**		$ 8,727,854

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

The amortized cost and estimated market value of investment securities at December 31, 2023 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.

	Available-for-Sale		Held-to-Maturity	Other Investments
	Amortized Cost	Market Value	Amortized Cost	Amortized Cost
Due in 2024	$ 20,074,229	$ 19,468,229	$ 747,000	$ 248,000
Due between 2025 and 2028	54,933,532	50,639,704	4,919,000	-
Due between 2029 and 2033	1,159,805	936,904	-	-
Non-maturing	-	-	-	8,992,190
Total	$ 76,167,566	$ 71,044,837	$ 5,666,000	$ 9,240,190

Loans to Members and Loan Participations

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

	2023
Secured loans	**$ 451,128,682**
Real estate loans	**454,864,804**
Unsecured loans	**33,111,225**
Credit card loans	**44,208,342**
Participations	**23,702,327**
Deferred loan origination costs	**6,351,259**
Net premiums and discounts on acquired loans	**(765,097)**
Total	**1,012,601,542**
Less: allowance for credit losses	**(4,081,215)**
Loans to members and participations, net	**$ 1,008,520,327**

Loans to Members and Loan Participations (continued)

	2022
Auto loans	$ 293,161,452
Real estate loans	415,131,148
Direct financing leases	132,430,130
Credit card loans	41,837,284
Student loans	12,336,221
Business loans	9,569,790
Other secured loans	23,218,511
Unsecured loans	17,026,565
Loan participations	23,559,443
Deferred loan origination costs	6,625,094
Net premiums and discounts on acquired loans	(880,871)
Total	974,014,767
Less: allowance for credit losses	(4,838,274)
Loans to members and participations, net	$ 969,176,493

The interest rates on the loans range from 0.00% to 19.00% for the years ended December 31, 2023 and 2022.

The provision for credit losses on the consolidated statement of income for the year ended December 31, 2023 includes an amount of $157,000 for credit losses on unfunded commitments which is included in accrued expenses and other liabilities on the consolidated statement of financial condition. The activity in the allowance for credit losses account for the year ended December 31, 2023 and the activity in the allowance for loan losses account for the year ended December 31, 2022 consisted of the following (in 000's):

	2023	2022
Beginning balance	**$ 4,838**	$ 4,383
Provision for credit losses	**2,458**	1,762
Loans charged-off	**(3,201)**	(2,247)
Recoveries	**931**	940
Cumulative effect of change in accounting principle	**(945)**	-
Ending balance	**$ 4,081**	$ 4,838

The allowance for credit losses was allocated between loan pools as follows at December 31, 2023:

	Expected Loss	**Specific Reserves**	**Q&E Reserves**	**Total**
Secured loans	**$ 627,621**	**$ -**	**$ -**	**$ 627,621**
Real estate loans	**908**	**40,812**	**-**	**41,720**
Unsecured loans	**399,851**	**10,543**	**-**	**410,394**
Credit card loans	**2,996,391**	**-**	**-**	**2,996,391**
Participations	**5,089**	**-**	**-**	**5,089**
Total allowance for credit losses	**$ 4,029,860**	**$ 51,355**	**$ -**	**$ 4,081,215**

Loans to Members and Loan Participations (continued)

The allowance for loan losses was allocated between loan pools as follows at December 31, 2022 (in 000's):

Auto	$	1,720
Real estate		1,384
Credit cards		754
Student loans		42
Participation		505
Other		433
Ending balance	$	4,838

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, 2023 by class, dollar amounts (in 000's):

	Secured	Real Estate	Unsecured	Credit Card	Participations	Total
Delinquency over 60 days	$ 960	$ 247	$ 90	$ 228	$ -	$ 1,525
Delinquent 60 -179 days	960	247	90	228	-	1,525
Delinquent 180 - 359 days	-	-	-	-	-	-
Delinquent over 360 days	-	-	-	-	-	-
Loans in non-accrual status	-	-	-	-	-	-

Other credit related information as of December 31, 2022 by class, dollar amounts (in 000's):

	Auto	Direct Lease Financing	Mortgage	Credit Cards	Student Loans	Other	Total
Historical loss %	0.10%	0.00%	0.00%	1.28%	0.00%	0.09%	0.09%
Delinquency over 60 days	$ 519	$ -	$ 186	$ 140	$ 9	$ 68	$ 922
Delinquent 60 -179 days	519	-	104	140	9	68	840
Delinquent 180 - 359 days	-	-	-	-	-	-	-
Delinquent over 360 days	-	-	82	-	-	-	82
Impaired restructured loan balances	-	-	763	-	-	-	763
Specific reserves on restructured loans included in overall allowance	-	-	58	-	-	-	58
Restructured loans in default	-	-	-	-	-	-	-
Restructured loan contracts outstanding	-	-	12	-	-	-	12
Loans in non-accrual status	450	-	115	2	-	53	620

Loans to Members and Loan Participations (continued)

Impaired Loans (continued)

The Credit Union does not accrue interest on loans more than 90 days delinquent. If interest on these loans had been accrued, such income would have been $12,756 and $3,822 for the years ended December 31, 2023 and 2022, respectively.

The following tables show the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Secured	$ 3,483,802	0.77%	Term extensions range from one to three months.
Real estate	-		
Unsecured	5,340	0.02%	
Credit card	47,037	0.11%	
Participations	-		
Total	$ 3,536,179		

Upon the Credit Union's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The following table provides the amortized cost basis of loans that had a payment default during the year and were modified in the 12 months before default to borrowers experiencing financial difficulty:

	Amortized Costs Basis of Modified Loans that Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination - Term Extension and Principal Forgiveness	Combination - Term Extension and Principal Forgiveness
Secured	$ -	$ 797,815	$ -	$ -	$ -
Real estate	-		-	-	-
Unsecured	-	1,933	-	-	-
Credit card	-	23,626	-	-	-
Participations	-		-	-	-
Total	$ -	$ 823,374	$ -	$ -	$ -

Loans to Members and Loan Participations (continued)

Impaired Loans (continued)

	Payment Status (Amortized Cost Basis)		
	Current	30 - 89 Days Past Due	90+ Days Past Due
Secured	$ 3,027,936	$ 354,543	$ 101,323
Real estate	-	-	-
Unsecured	5,340	-	-
Credit card	47,037	-	-
Participations	-	-	-
Total	$ 3,080,313	$ 354,543	$ 101,323

The following table presents the Credit Union's recorded investment in loans by credit quality indicator by year of origination as of December 31, 2023:

	Term Loans by Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
Secured							
Credit scores 850-740 (A+)	$ 83,066,972	121,839,246	37,336,379	19,617,426	5,626,401	3,607,237	$ 271,093,661
Credit scores 739-700 (A)	33,084,256	36,165,006	10,405,133	5,213,320	1,502,503	767,510	87,137,728
Credit scores 699-670 (B)	15,465,281	15,575,143	5,105,258	2,388,856	970,220	422,762	39,927,520
Credit scores 669-640 (C)	6,382,640	7,805,699	3,845,981	1,412,545	567,353	345,480	20,359,698
Credit scores 639-600 (D)	4,041,219	5,149,893	2,337,765	1,098,509	444,834	330,192	13,402,412
Credit scores 599-below (E)	1,098,783	4,398,089	4,029,737	2,161,661	565,921	384,465	12,638,656
No score	3,453,235	2,607,462	109,342	46,421	227,245	125,302	6,569,007
Total secured	146,592,386	193,540,538	63,169,595	31,938,738	9,904,477	5,982,948	451,128,682
Current period gross charge-offs	90,701	640,399	378,209	218,264	28,219	46,496	1,402,288
Real estate							
Credit scores 850-740 (A+)	51,630,913	71,469,892	98,079,605	47,435,654	15,162,120	49,019,075	332,797,259
Credit scores 739-700 (A)	14,861,285	13,208,220	17,129,711	5,720,463	3,190,526	5,520,373	59,630,578
Credit scores 699-670 (B)	7,071,352	6,881,495	6,604,643	2,203,251	1,344,657	3,188,869	27,294,267
Credit scores 669-640 (C)	2,063,350	3,349,298	3,203,413	1,147,397	787,957	2,239,639	12,791,054
Credit scores 639-600 (D)	684,991	2,130,982	1,156,566	542,262	220,286	1,680,036	6,415,123
Credit scores 599-below (E)	194,531	972,173	1,047,659	105,975	479,009	1,621,404	4,420,751
No score	7,022,501	804,650	1,240,631	382,121	182,678	1,883,191	11,515,772
Total real estate	83,528,923	98,816,710	128,462,228	57,537,123	21,367,233	65,152,587	454,864,804
Current period gross charge-offs	-	-	-	-	-	28,043	28,043
Unsecured							
Credit scores 850-740 (A+)	2,298,941	1,423,993	909,062	748,850	1,237,303	4,917,786	11,535,935
Credit scores 739-700 (A)	1,531,327	1,816,479	929,216	664,337	842,665	3,621,336	9,405,360
Credit scores 699-670 (B)	959,458	1,383,415	698,647	479,546	504,232	1,940,484	5,965,782
Credit scores 669-640 (C)	442,773	666,387	202,191	268,840	101,276	818,291	2,499,758
Credit scores 639-600 (D)	193,051	296,413	196,933	189,530	93,363	597,477	1,566,767
Credit scores 599-below (E)	145,666	251,504	140,033	61,913	157,616	626,351	1,383,083
No score	731,685	1,371	267	5,776	2	15,439	754,540
Total unsecured	6,302,901	5,839,562	3,076,349	2,418,792	2,936,457	12,537,164	33,111,225
Current period gross charge-offs	269,084	178,135	95,603	24,305	59,040	67,602	693,769

Loans to Members and Loan Participations (continued)

Impaired Loans (continued)

	Term Loans by Year of Origination						
	2023	2022	2021	2020	2019	Prior	Total
Credit card							
Credit scores 850-740 (A+)	288,201	360,195	319,344	348,134	929,861	18,250,899	20,496,634
Credit scores 739-700 (A)	299,150	258,885	278,210	263,486	555,695	8,749,710	10,405,136
Credit scores 699-670 (B)	110,894	334,067	203,463	276,312	382,323	4,224,685	5,531,744
Credit scores 669-640 (C)	71,644	260,200	170,769	100,635	198,901	2,291,953	3,094,102
Credit scores 639-600 (D)	49,963	128,511	112,291	80,529	172,604	1,503,499	2,047,397
Credit scores 599-below (E)	38,731	126,559	103,712	85,661	111,831	1,246,072	1,712,566
No score	203,433	246,960	70,229	49,508	26,429	324,204	920,763
Total credit card	1,062,016	1,715,377	1,258,018	1,204,265	2,377,644	36,591,022	44,208,342
Current period gross charge-offs	24,190	95,629	48,222	17,697	37,808	822,269	1,045,815
Participations							
Risk rating 1	-	-	-	-	-	-	-
Risk rating 2	92,157	2,292,312	704,900	81,738	644,623	378,521	4,194,251
Risk rating 3	1,820,277	929,529	4,320,680	252,111	378,508	2,816,147	10,517,252
Risk rating 4	167,640	1,578,908	1,299,911	2,268,710	839,829	1,721,421	7,876,419
Risk rating 5	-	-	-	-	-	1,114,405	1,114,405
Risk rating 6	-	-	-	-	-	-	-
Total participations	2,080,074	4,800,749	6,325,491	2,602,559	1,862,960	6,030,494	23,702,327
Current period gross charge-offs	-	-	-	-	-	-	-
Total current period gross charge-offs	$ 383,975	$ 914,163	$ 522,034	$ 260,266	$ 125,067	$ 964,410	$ 3,169,915
Total loans	$ 239,566,300	$ 304,712,936	$ 202,291,681	$ 95,701,477	$ 38,448,771	$ 126,294,215	$ 1,007,015,380

Property and Equipment

Property and equipment at December 31 consisted of the following:

	2023	2022
Land and improvements	**$ 3,717,205**	$ 3,717,205
Buildings and improvements	**18,689,507**	18,421,747
Furniture and equipment	**10,431,017**	10,721,112
Improvements in process	**-**	50,000
Total property and equipment	**32,837,729**	32,910,064
Less: accumulated depreciation	**(18,724,902)**	(18,061,586)
Total property and equipment, net	**$ 14,112,827**	$ 14,848,478

Goodwill

Goodwill and accumulated amortization at December 31 was:

	Goodwill	Accumulated Amortization	Total
Balance, December 31, 2021	$ 2,614,293	$ (806,138)	$ 1,808,155
Amortization expense	-	(261,420)	(261,420)
Balance, December 31, 2022	2,614,293	(1,067,558)	1,546,735
Amortization expense	-	(261,420)	(261,420)
Balance, December 31, 2023	**$ 2,614,293**	**$ (1,328,978)**	**$ 1,285,315**

Estimated future goodwill amortization at December 31, 2023 is as follows:

2024	$ 261,420
2025	261,420
2026	261,420
2027	261,420
2028	239,635
Total	$ 1,285,315

Intangible Asset

Core Deposit Intangible Asset

The core deposit intangible asset that was acquired through the merger had an original value of $2,462,527 and is included in prepaid expenses and other assets. Accumulated amortization was $1,780,140 and $1,424,112 as of December 31, 2023 and 2022, respectively.

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

2024	$ 356,028
2025	326,359
Total	$ 682,387

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:

	2023	2022
Balance, beginning of the year	**$ 2,042,005**	$ 2,392,338
New servicing rights	**-**	-
Amortization	**(329,413)**	(350,333)
Balance, end of year	**$ 1,712,592**	$ 2,042,005
Fair value, end of year	**$ 1,713,000**	$ 2,043,000

The unpaid principal balance of residential loans serviced for third parties was approximately $196,054,000 and $204,648,000 at December 31, 2023 and 2022, respectively.

Leases

The Credit Union has operating leases for multiple branch office locations throughout Northwest and North Central Ohio and Southern Michigan. The right-of-use asset, and respective operating lease liability, are recorded in prepaid and other assets and accrued expenses and other liabilities, respectively, on the consolidated statements of financial condition. The corresponding lease expenses are recorded under occupancy expenses in the consolidated statements of income and comprehensive income (loss).

The following summarizes the line items in the accompanying statements of financial condition which include amounts for the operating leases as of December 31:

	2023	2022
Operating Lease		
Right-of-use asset - operating lease	**$ 7,141,016**	$ 7,622,335
Short term operating lease liability	**1,510,423**	1,373,475
Long-term operating lease liability	**6,899,869**	7,655,443
Total operating lease liability	**$ 8,410,292**	$ 9,028,918

Leases (continued)

The maturity of the lease liability as of December 31, 2023 was as follows:

	Operating Leases
2024	$ 1,680,757
2025	1,582,128
2026	1,528,907
2027	1,441,694
2028	1,009,425
Thereafter	1,731,220
Total undiscounted cash flows	8,974,131
Less: present value discount	(563,839)
Total lease liabilities	$ 8,410,292

The following summarizes the components of lease expense for the year ended December 31:

	2023	2022
Operating lease expense	**$ 1,443,997**	$ 1,198,143
Variable lease expense	**63,161**	58,200
Total lease expense	**$ 1,507,158**	$ 1,256,343

The following summarizes additional information related to the leases for the years ended December 31:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	**$ 1,567,298**	$ 1,235,857
ROU assets obtained in exchange for new operating lease liabilities		
Adoption of ASC 842 - beginning of year	**n/a**	7,904,347
For the year ended December 31	**743,132**	10,145,992
Weighted-average remaining lease term in years for operating leases	**6.00**	6.93
Weighted-average discount rate for operating leases	**2.28%**	2.10%

Members' Share Accounts

Members' share accounts at December 31 were as follows:

	Weighted Average Yield at 12/31/2023	**2023**	Weighted Average Yield at 12/31/2022	2022
Regular shares	**0.25%**	**$ 363,686,014**	0.10%	$ 403,569,901
Checking accounts	**0.25%**	**264,541,408**	0.10%	246,887,952
Money market accounts	**0.67%**	**149,940,115**	0.48%	202,427,899
Club accounts	**0.25%**	**50,035,681**	0.10%	57,586,044
IRA accounts	**0.25%**	**18,435,302**	0.10%	23,843,282
Share and IRA certificates	**3.68%**	**174,254,412**	1.72%	116,067,356
Total members' shares		**$ 1,020,892,932**		$ 1,050,382,434

Scheduled maturities of shares at December 31, 2023 were as follows:

2024	$ 945,994,594
2025	65,252,685
2026	4,319,692
2027	3,804,457
2028	1,521,504
Total maturities	$ 1,020,892,932

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

	2023	2022
Regular shares	**$ 385,213**	$ 288,891
Checking accounts	**222,074**	113,049
Money market accounts	**1,129,817**	512,993
Club accounts	**58,831**	48,667
IRA accounts	**79,788**	49,790
Share and IRA certificates	**4,220,683**	1,352,762
Total dividend expenses	**$ 6,096,406**	$ 2,366,152

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, 2023 and 2022, totaled $29,175,665 and $34,538,597, respectively.

Notes Payable

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. There were no borrowings outstanding under this agreement at December 31, 2023 and 2022.

The Credit Union also maintains a note payable – line of credit borrowing arrangement with the FHLB that provides borrowing capacity that is collateralized by substantially all of the Credit Union's 1 - 4 family first mortgages. Outstanding notes payable totaled $43,974,482 and $6,000,000 as of December 31, 2023 and 2022, respectively. The amount of credit available under this arrangement was approximately $253,665,000 and $241,142,000 at December 31, 2023 and 2022, respectively. The note bears interest at fixed rates of 4.33% to 5.12%. Periodically, market conditions provide the opportunity to borrow for short term periods at rates favorable enough to invest the funds at higher rates than the rate on the borrowings. Required principal repayments for the year ended December 31, 2023 are as follows:

2028	$ 38,416,666
2033	5,557,816
Total	$ 43,974,482

Related Party Transactions

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

	2023	2022
Loans	**$ 17,921,383**	$ 25,087,452
Shares	**8,280,348**	11,892,525

Activity related to loans receivable from members of the official Credit Union family at December 31 were as follows:

	2023	2022
Beginning balance	**$ 25,087,452**	$ 29,815,514
Loan originations	**2,941,903**	2,204,568
Loan repayments	**(10,107,972)**	(6,932,630)
Ending balance	$ 17,921,383	$ 25,087,452

Employee Benefits

The Credit Union has entered into three Collateral Assignment Split-Dollar Life Insurance Arrangements (CASD) with certain 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. At December 31, 2023 and 2022, the loans due to the Credit Union from the officers for this agreement totaled $4,177,893 and $4,103,632, respectively. Additionally, the Credit Union acquired a similar CASD loan from a prior merger. The loan balance from the executive covered under the benefit agreement was $929,089 and $908,733 at December 31, 2023 and 2022, respectively. 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 liabilities of approximately $18,000 accrued as of December 31, 2023 and 2022.

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, 2023 and 2022 were $331,634 and $183,962, 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, 2023 and 2022. The available credit to members that has not been reflected in the consolidated financial statements was as follows:

	2023	2022
Loan Type:		
Business loans	**$ 1,676,299**	$ 2,190,580
Open-end loans	**15,068,156**	13,356,968
Credit cards	**128,797,055**	124,677,792
Construction loans and home equity lines of credit	**41,695,577**	40,549,664
Overdraft protection	**32,603,754**	46,442,085
Total	**$ 219,840,841**	$ 227,217,089

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). Prior to January 1, 2022, credit unions were required to calculate a Risk-Based Net Worth (RBNW) Requirement, which established whether or not the Credit Union would be considered “complex” under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework prior to that date was 6%.

Effective January 1, 2022, the NCUA adopted new rules relating to capital requirements for federally insured credit unions. Under this new capital rule, a credit union with assets in excess of $500,000,000 is defined as “complex” and subject to a Risked Based Capital (RBC) Measure. Under the RBC Measure, a complex credit union may calculate its risk-based capital measure requirement either by using the risk-based capital ratio, or for certain qualifying credit unions, elect to use the Complex Credit Union Leverage Ratio (CCULR) framework as defined under NCUA rule 702.4. A complex credit union with a risk-based capital ratio of 10% or more is deemed to be “well capitalized” or 9% or more if the CCULR framework is elected. At December 31, 2023 and 2022, the Credit Union did not elect the CCULR framework and the Risk Based Capital Ratio was 9.31% and 12.71%, respectively.

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 financial statements were available to be issued.