Community First℠
FEDERAL CREDIT UNION

2021
Annual Report

Our Vision:

"To be the financial institution of choice for the community we serve."

2021
Annual Report

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FEDERAL CREDIT UNION

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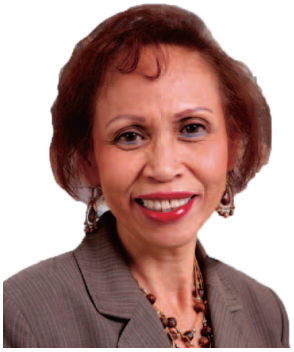
Board of Directors

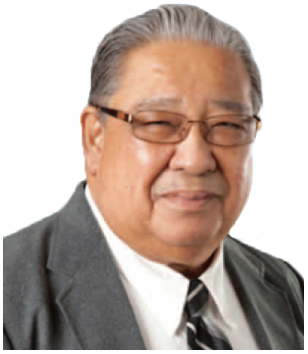
Perry C. Taitano
Chairman of the Board

Andrew S. Quenga
Board Vice Chairman

Karvin L. Flynn
Board Treasurer



Mildred R. Camacho
Board Secretary



Carlos T. San Agustin
Board Director

Elizabeth D. Cena
Board Director

Felice A. Meeks
Board Director

Message from the Chairman & President

Perry C. Taitano
Chairman of the Board

Gerard A. Cruz
President and CEO

Hafa Adai our fellow members

This year marks a special milestone for our credit union. In 2022, we celebrate 60 years of service to our community. From humble beginnings, we have grown in size and sophistication into a premier financial institution serving members throughout the world as seamlessly as those who walk into any of our 4 Service Centers.

Throughout the years we've remained rooted in our core tradition of service. Despite the challenges that have confronted our island community, our reliance on our culture of service has led to many of our most creative solutions and company evolutions. So, it is fitting that as we emerge from this latest 3-year health emergency into a new normal that we again rely on our traditions and culture while remaining future focused.

The next 12 months will be a celebration for our credit union. And trust us, there is much to celebrate. Beginning with the gradual return to normalcy, we expect the coming months to be a filled with excitement as more businesses open their doors, and our neighbors again interact with each other and we begin welcoming visitors to our island. For our credit union, we will watch, with much anticipation, the rise of a new landmark in Hagatna. Our new headquarters is more than a new building, it is our new home and represents the coming of age for our credit union in our island's capital of Hagatna. We look forward to welcoming you to our new headquarters, scheduled for completion in the first quarter of 2023.

Financially, it was another year of growth as we grew to 170 million in assets from 159.5 in 2021. Led by a successful consumer campaign and a strong mortgage loan market, our credit union exceeded all past growth records. On the commercial side, we successful processed the forgiveness portion of the SBA's PPP, reducing our almost 38 million in PPP loans to less that 5 million by the end of the year.

Our team did an incredible job in 2021. Through their creativeness and focus, we kept our promise of value and remained true to our tradition of service to our members. We are continually amazed and humbled by the stories told by many of you, our members, about your experience with our team. Above all, we are grateful for your continued confidence and trust. On behalf of the Board of Directors, management, and the staff of our Credit Union, we wish you a safe and healthy year.

2021 Treasurer's Report

Karvin L. Flynn
Board Treasurer

Thriving Together

As we closed the year 2021, additional economic challenges surfaced as the global pandemic continues to impact countries around the world as well as here on Guam. Some of those challenges include inflation, cost of housing, rising fuel costs, labor shortages and supply chain issues. During these uncertain times, your credit union employees have continued to maintain a high standard of personalized service while working within the CDC guidelines. Despite the emerging challenges, I am pleased to report that 2021 was another banner year for the Community First Guam Federal Credit Union. The Guam economy continued to suffer from the pandemic, but with our prudent loan underwriting, Community First's loan delinquency and losses remain well below national averages of 0.49% and 0.18%, respectively.

During these difficult times, rather than turning people away, we see it as our role and responsibility to ask "How can we help?" That's been our approach throughout this challenging period. When members needed our help to deal with the impacts of the pandemic or unforeseen events on their personal finances or their business, we listened to their unique needs and provided solutions. Community First's Board of Directors and staff remain committed to providing value to our membership through competitive loan and deposit rates, and by offering products and services that meet your needs. We endeavored to adhere to our fundamental and guiding principle that "putting people first and profits second" which is the vanguard of the credit union movement. We thank you for your business this past year.

Our Key Financial Performance Indicators

Despite continued challenges due to the Covid-19 pandemic, Community First had an exceptional year in 2021. It proved to be another year of steady growth. A few of the notable accomplishments this year included solid total asset growth and a fast and robust growing consumer loan portfolio. An analysis of the Credit Union's key financial performance indicators are as follows:

- Assets increased 6.74% or $10,752,134
- Net worth increased 5.17% with a net worth-to-assets ratio of 7.6% as of December 31, 2021
- Net loans increased 4.68% or $5,245,853
- Member deposits increased 7.2% or $10,363,825
- Delinquency decreased 24.44% resulting in a delinquent loans-to-total shares loans ratio of 0.36%
- Net charge-off loans-to-average loans ratio for 2021 was 0.17% compared to 0.30% for 2020
- Profitability remained strong but decreased 16.93% with a return-on-average assets ratio decreasing from 0.53% to 0.39%.
- Loans to shares for 2021 was 75.96% as compared to 77.79% for 2020.
- Investments, net of cash equivalents, increased 83.95% or $2,499,221

We remained steadfast and consistent with superb service delivery to our members during the pandemic. We finished the 2021 year with net income totaling $636,549 a slight decrease of 16.9% as compared to $766,296 in 2020 and after returning over $770,003 and $810,129, respectively, to our members in the form of dividends.

The CARES Act provided $349 billion in assistance to small businesses facing economic difficulty resulting from the COVID-19 pandemic in the form of the Paycheck Protection Program (PPP) from the U.S. Small Business Administration (SBA). Community First demonstrated strong support of its small business members through our active participation in the SBA's Paycheck Protection Program that provided forgivable loans to companies suffering sizable business losses as a result of COVID-19. We granted our small business members PPP loans totaling $11,593,969 and $18,422,616, respectively, during years ending December 31, 2021 and 2020.

Well-Capitalized

Net worth, which is made up of retained earnings and regular reserves, is essential for the stability and health of all financial institutions. An institution with a strong net worth position is better prepared and able to withstand pandemics, unexpected economic and financial changes than those with lower reserves. In today's uncertain economy, with rising interest rates, a strong net worth position is essential. Net worth is also the Credit Union's major source for financing future growth. Moreover, for safety and soundness, regulators continue to strongly encourage financial institutions to maintain, and often increase their net worth position. We ended the year with a solid net worth ratio of 9.07% which was slightly down from 9.28% in 2020; however, well above the 7.0% level required by the National Credit Union Administration to earn their classification of being "well-capitalized." The decrease in our capital position was primarily attributed to the increase in assets which grew faster than the Credit Union's capital. We are pleased with our strong financial results for 2021 with our focus on prudent financial management, good governance and risk management.

2022 Outlook

Since early 2020, companies have had to grapple with unprecedented operational and financial challenges. Now as we to look to navigate the "new normal" while the economy emerges from COVID-19, additional uncertainties cloud not only the overall economic landscape but also the outlook for Community First Guam Federal Credit Union. Inflation, supply chain disruptions, labor shortages, the Ukraine war, rising fuel costs and rising interest rates by the Federal Reserve, are all affecting an increasingly large number of companies in different industries to varying degrees including Community First. We will need to navigate carefully to repeat the successes of previous years. Having said that, we see many opportunities for Community First to grow and meet the needs of more members as well as continuing to support our current membership. We are confident in the management team and our strategic plan and are grateful for the support our members show us. With the same determination and fortitude shown by the staff and management team through this year we are looking forward to continued success in 2022.

Even with the challenges that lie ahead, I am confident that Community First will continue providing value-added services to our members and will always be putting people first and profits second. On behalf of the Board of Directors and Senior Management and the entire team at Community First, thank you for your confidence in us, and for your essential part in continuing this proud legacy.

Message from the Supervisory Committee

Rolfe Bañes
Supervisory Committee Chairperson

Hafa Adai, and greetings from your Supervisory Committee.

Our committee is comprised of member volunteers appointed by your Board of Directors and given the responsibility to determine whether the operations of the Credit Union are being carried out in accordance with the Federal Credit Union Act, and with regulations put forth by the National Credit Union Administration. Our goal is to ensure that your credit union operates using industry best practices and procedures to safeguard our members' assets, and to review compliance with financial and reporting objectives.

Throughout the year, the Supervisory Committee regularly meets with the Credit Union's Internal Audit team to review and monitor the Internal Audit program, internal controls, and credit union governance processes. Additionally, we engage the services of a certified public accounting firm (Kwock and Company) to perform an independent audit and render an opinion of the Credit Union's financial statements. Audit results are provided to the Board of Directors and a summary reported to the credit union membership during the annual shareholders meeting.

On behalf of the Supervisory Committee, I am pleased to report that Community First Guam Federal Credit Union (Credit Union) continues to operate in accordance with sound financial principles and applicable laws and regulations.

Finally, I would like to acknowledge and thank my fellow Supervisory Committee member volunteers for their service and dedication. Also, I would like to recognize the tremendous effort and dedication your Community First team has provided as they strive to serve you under very extraordinary circumstances never before encountered in recent history.
In closing, I would like to express my gratitude to the Credit Union's Board of Directors and the management team for their support in helping us, to better serve you.

2021 Supervisory Committee

JUSTIN B. CASTRO

CHUTHAPA (NEE) LAPWARARAKS

MARIE M. TAISIPIC

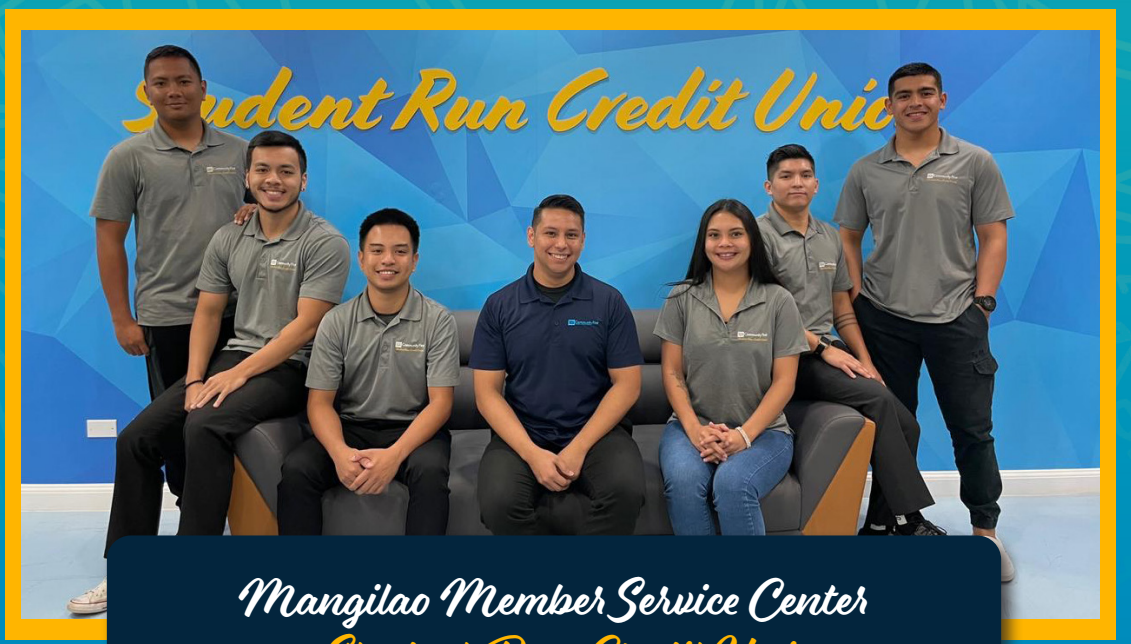
CONCEPCION VILLENA

Our Team

Hagåtña Member Service Center

Dededo Member Service Center

Tamuning Member Service Center



Mangilao Member Service Center
Student Run Credit Union

Helping the Community.

Community First Provides Christmas Dinner for Sanctuary Incorporated of Guam Clients and Residents.

January 3, 2022, Hagåtña, Guam

Community First Guam Federal Credit Union provided a Christmas dinner on December 25, 2021 for Sanctuary Incorporated of Guam clients and residents. The dinner was part of an annual outreach program conducted by Community First during the holiday season.

About Sanctuary: *Sanctuary Incorporated of Guam is a private, non-profit, community-based organization that exists to provide critical social services to youth and their families.*

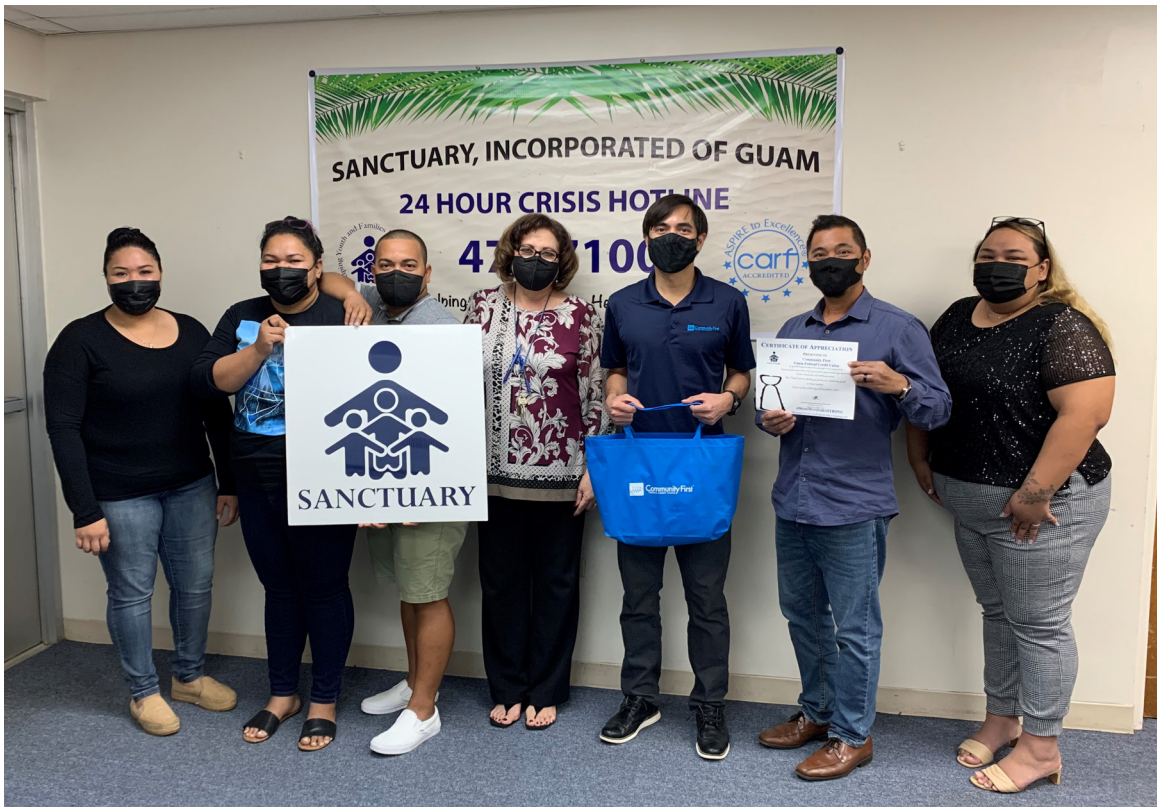


Photo (L-R): Stephanie Drilon, Crisis & Corporate Communications Officer; Leilani Gilitnag, Quality Assurance Officer; Dan Estephan, Case Manager; Katharine Dominquez, Human Resource Manager; Derek Mandell, Community First Guam FCU Marketing Manager; Victor Camacho, Sanctuary Incorporated of Guam Executive Director; Ivana Sanchez, Case Manager.

Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

Indpendent Auditors' Report

Stephen Y. H. Kwock, CPA

932 Ward Avenue Suite 420 Honolulu, Hawaii 96814 Office: (808) 942-9898

Independent Auditors' Report

To the Board of Directors,
Supervisory Committee and Members
Community First Guam Federal Credit Union:

Opinion

We have audited the financial statements of Community First Guam Federal Credit Union, which comprise the balance sheets as of December 31, 2021, and the related statements of income and comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Community First Guam Federal Credit Union as of December 31, 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 Community First Guam Federal Credit Union 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 Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Community First Guam Federal Credit Union's ability to continue as a going concern within one year from the date the financial statements were issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with Generally Accepted Auditing Standards (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 control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

Continued on next page.

Indpendent Auditors' Report

continued

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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community First Guam Federal Credit Union's internal control. 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community First Guam Federal Credit Union'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.

Stephen Y. H. Kwock, CPA

Honolulu, Hawaii
April 8, 2022

Statement of Financial Condition

Years ended December 31, 2021 and 2020

Assets	2021	2020
Cash and cash equivalents (note 3)	$ 35,271,768	$ 35,780,191
Investments (note 4)	5,476,284	2,977,063
Loans to members, less allowance for loan losses (note 6)	117,232,713	111,986,860
Loans held for sale	3,379,858	1,934,952
Accrued interest on loans	626,039	778,501
Accrued interest on investments	9,597	3,058
Other receivables	158,436	293,352
Property and equipment, net (note 8)	5,758,691	3,294,492
Prepaid and deferred expenses	550,611	861,372
Foreclosed assets (note 9)	—	64,838
NCUSIF deposit	956,961	785,458
Mortgage servicing rights (note 5)	847,584	756,590
Other assets	5,134	4,815
Total assets	$ 170,273,676	$ 159,521,542
Liabilities and Equity		
Liabilities:		
Members' shares (note 11)	$ 154,325,275	$ 143,961,450
Accounts payable and other liabilities	344,118	410,849
Borrowed funds (note 12)	2,500,000	2,500,000
Dividends payable	134,891	280,136
Accrued expenses	92,539	58,263
Total liabilities	157,396,823	147,210,698
Commitments and contingencies (notes 13 and 14)		
Members' equity, substantially restricted	12,876,853	12,310,844
Total liabilities and equity	$ 170,273,676	$ 159,521,542

See accompanying notes to financial statements.

Statements of Income and Comprehensive Income

Years ended December 31, 2021 and 2020

	2021	2020
Interest income:		
Loans to members	$ 5,979,139	$ 6,122,227
Investments		
Available-for-sale	23,533	10,372
Held-to-maturity and other	76,547	96,036
Total interest income	6,079,219	6,228,635
Interest expense:		
Members' share dividends (note 11)	770,003	810,129
Borrowed funds	150,000	154,447
Total interest expense	920,003	964,576
Net interest income	5,159,216	5,264,059
Provision for loan losses (note 6)	479,866	264,948
Net interest income after provision for loan losses	4,679,350	4,999,111
Non-interest income:		
Gain on sale of property and equipment	8,717	—
Gain on sale of loans	650,530	414,648
Other loss	87,728	(19,350)
Mortgage servicing rights income	334,953	240,494
Fees and charges	1,924,066	1,605,468
Other	5,444	4,243
Total non-interest income	3,006,600	2,245,503
Non-interest expense:		
Compensation	3,191,436	2,791,542
Employee benefits (note 13)	1,021,564	965,536
Travel and conference	47,482	3,752
Association dues	81,189	74,968
Office occupancy (note 14)	809,495	783,618
Office operations	1,213,145	1,220,247
Educational and promotional	73,032	72,084
Loan servicing	365,171	317,550
Professional and outside services	154,314	131,468
Operating fees	28,940	35,491
Annual meeting	5,225	5,225
Other	58,408	76,837
Total non-interest expense	7,049,401	6,478,318
Net income	$ 636,549	$ 766,296
Components of comprehensive income		
Unrealized holding gain (loss) on available-for-sale securities arising during the period	(70,540)	2,125
Comprehensive income	$ 566,009	$ 768,421

See accompanying notes to financial statements.

Statements of Members' Equity

Years ended December 31, 2021 and 2020

	Regular reserves	Appropriated undivided earnings	Undivided earnings	Accumulated other comprehensive income (loss)	Total	Comprehensive income
Balance at December 31, 2019	$ 444,638	$ —	$ 11,098,350	$ (565)	$ 11,542,423	
Net income			766,296		766,296	$ 766,296
Change in unrealized loss on investment in available-for-sale securities				2,125	2,125	2,125
Total comprehensive income						$ 768,421
Balance at December 31, 2020	$ 444,638	$ —	$ 11,864,646	$ 1,560	$ 12,310,844	
Net income			636,549		636,549	$ 636,549
Change in unrealized gain on investment in available-for-sale securities				(70,540)	(70,540)	(70,540)
Total comprehensive income						$ 566,009
Balance at December 31, 2021	$ 444,638	$ —	$ 12,501,195	$ (68,980)	$ 12,876,853	

See accompanying notes to financial statements.

Statement of Cash Flows

Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income	$ 636,549	$ 766,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	166,105	178,534
Provision for loan losses	479,866	264,948
Provision for losses on foreclosed assets	20,000	16,210
Loss on sale of foreclosed assets	4,838	—
Gain on disposal of property and equipment	(8,717)	—
Changes in assets and liabilities:		
(Increase) decrease in other receivables	134,916	(193,664)
Increase in loans held-for-sale	(1,444,906)	(803,477)
Decrease in prepaid and deferred expenses	310,761	18,125
(Increase) decrease in accrued interest on loans and investments	145,923	(363,769)
Increase in mortgage servicing rights	(90,994)	(20,766)
(Increase) decrease in other assets	(319)	668
Increase (decrease) in accounts payable & other liabilities	(66,731)	116,739
Increase (decrease) in dividends payable	(145,245)	62,342
Increase in accrued expenses	34,276	19,552
Net cash provided by operating activities	176,322	61,738
Cash flows from investing activities:		
Proceeds from maturities on investment securities	500,000	1,499,986
Purchases of investment securities	(4,500,000)	(1,500,000)
(Increase) decrease in certificates deposit	1,500,000	(1,500,000)
Increase in investment in central liquidity facility	(37,215)	(12,399)
Increase in FHLB Des Moines Capital Stock	(35,100)	(4,800)
Decrease in investment in CUSO	2,554	—
Increase in NCUSIF deposit	(171,503)	(91,264)
Increase in loan originations, net of principal collected on loans to members	(5,725,719)	(10,525,345)
Proceeds from sale of foreclosed assets	40,000	—
Proceeds from sale of property and equipment	36	—
Purchases of property and equipment	(2,621,623)	(15,601)
Net cash used in investing activities	(11,048,570)	(12,149,423)
Cash flows from financing activities:		
Proceeds from borrowed funds	—	6,000,000
Repayment of borrowed funds	—	(6,000,000)
Net increase in regular shares, share drafts, and IRA's	10,999,874	19,675,629
Net increase (decrease) in share and IRA certificates	(636,049)	8,615,311
Net cash provided by financing activities	10,363,825	28,290,940
Net increase (decrease) in cash and cash equivalents	(508,423)	16,203,255
Cash and cash equivalents at beginning of year	35,780,191	19,576,936
Cash and cash equivalents at end of year	$ 35,271,768	$ 35,780,191
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Dividends	$ 915,248	$ 747,787
Interest	$ 150,000	$ 154,447
Supplemental noncash investing activities – real estate acquired in settlement of loans	$ —	$ —

See accompanying notes to financial statements.

(1) Date of Management's Review of Subsequent Events
Management has evaluated subsequent events through April 8, 2022, the date which the financial statements were available to be issued. As a result of the spread of the coronavirus, COVID-19, economic uncertainties have arisen which are likely to negatively impact net interest income after provisions for loan losses. Other financial impact could occur though such potential impact is unknown at this time.

(2) Nature of Business
Community First Guam Federal Credit Union (Credit Union) is a federally chartered credit union offering services to members through four offices located on the island of Guam. The Credit Union's earnings depend primarily on its net interest income, which is the difference between the interest income earned on loans and investments and the dividend expense incurred on members' shares. The principal source of the Credit Union's funds for use in lending, meeting liquidity requirements and making investments has traditionally been members' share deposits.

(3) Summary of Significant Accounting Policies

(a) Significant Group Concentrations of Credit Risk
Most of the Credit Union's business activity is with its members who are persons who live, worship, work or attend school on the Island of Guam, business and other legal entities located on the island of Guam, employees of the Credit Union, members of their immediate families, and organizations of such persons. The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in Guam. The Credit Union continually monitors the Credit Union's operations, including the loan and investment portfolios, for potential impairment.

The Credit Union's loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

(b) Loans to Members
Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge- offs, the allowance for loan losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as income using the effective interest method over the contractual life of loans.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Credit card loans and other unsecured consumer 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 nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status 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.

(c) Allowance for Loan Losses

The allowance for credit losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for credit losses each month. To determine the total allowance for credit losses, the Credit Union estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for credit losses consists of amounts applicable to: (i) commercial loan portfolio; (ii) real estate loan portfolio; and (iii) consumer loan portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are calculated using historical experience, specific identification analysis, and environmental or qualitative factors. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. The analyses 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 appropriately and properly documented.

The establishment of the allowance for credit losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in lending policies, economic conditions, member behavior, collateral value, and changes in the volume and severity of past due loans, 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 credit losses. The Credit Union's allowance for credit losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving the reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

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 the incurred losses in those portfolios. Additions to the allowance for credit losses are made by charges to the provision for credit losses. Credit exposures deemed to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts are credited to the allowance for credit losses.

(d) Loan Charge-off Policies

The decision to charge-off any single loan is made on a case-by-case basis, and considers all relevant circumstances which may affect recovery of the loan balance. The following are general guidelines for the timing and circumstances of charging off loans:

- Management judges the asset to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time frames;
- The borrower has filed bankruptcy and the loss becomes evident owing to a lack of assets;
- The collateral has been repossessed without a viable payment plan on the deficiency; or
- The loan is 180 days past due unless both well secured and in the process of collection.

(e) Troubled Debt Restructurings (TDR)

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. The modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through TDR. These loans are excluded from pooled loss forecast and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

(f) Coronavirus Aid, Relief and Economic Securities Act

The Coronavirus Disease 2019 (COVID-19) event has had a significant adverse impact on consumers, businesses, financial institutions, and the economy. To address such impacts, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and provided several relief measures for the Credit Union and its members in the form of credit accommodations to businesses and borrowers. The Consolidated Appropriations Act, 2021 enacted in December 2020 extended several CARES Act provisions. In addition, in August 2020, the Federal Financial Institutions Examination Council, (FFIEC) issued a Joint Statement on Additional Loan Accommodations Related to COVID-19 for financial institutions, including credit unions, providing additional accommodation options in the form of loan modifications.

In accordance with CARES Act section 4013, credit unions can temporarily suspend certain requirements under GAAP related to TDRs for a limited period to account for the effects of the COVID-19 event. The Interagency Statement addresses accounting and regulatory reporting considerations for loan modifications, including those accounted for under section 4013. Loan modifications to borrowers as a result of COVID-19 loans were not subjected to the TDR classifications and were not reported as delinquent during the loan modification terms.

In accordance the rules and regulations of the CARES Act section 4013 and the Joint Statement on Additional Loan Accommodations Related to COVID-19, the Credit Union provided 568 loan modifications to its members totaling $38,274,977 in the form of forbearances and deferred loan payments. At December 31, 2021, two loans with outstanding balances of $633,624 remain outstanding.

(g) Paycheck Protection Program (PPP Loans)

The CARES Act section 1102 and 1106 provided $349 billion in assistance to small businesses facing economic difficulty due to social distancing, shelter-in-place orders, and other measures to stem the pandemic in the form of the Paycheck Protection Program (PPP) from the U.S. Small Business Administration (SBA) 7(a) Loan Program. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under PPP. The PPP was intended to provide economic relief to small businesses nationwide adversely impacted by COVID-19. On April 2, 2020, the SBA issued an interim final rule announcing the implementation of sections 1102 and 1106 of the CARES Act.

Unlike an SBA 7(a) loan, PPP loans are 100 percent guaranteed, meaning there is no credit risk to the Credit Union if it complies with the applicable lender obligations set forth in the SBA interim final rule. Since PPP loans are 100 percent guaranteed by the federal government, these loans are not included in the member business loan cap limitation rules. The full amount of the PPP principal may qualify for loan forgiveness. The Credit Union must comply with the applicable lender obligations set forth in the SBA interim rule but will be held harmless for any borrower's failure to comply with program criteria.

The Credit Union supported its small business members by granting $11,593,969 in PPP loans during 2021. The outstanding PPP loan balances, totaling $5,356,712, are included in the member business loan classification on December 31, 2021. The maturity of the loans is for two years at a one percent annual percentage rate (APR). The Credit Union anticipates the loans will be paid off at the time of loan forgiveness by the SBA, which would be before the two-year maturity date.

(h) Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, as determined by aggregate outstanding commitments from investors or current investors yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Mortgage loans held for sale are generally sold with mortgage servicing rights retained by the Credit Union. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and carrying value of the related mortgage loans sold.

(i) Mortgage Servicing Rights

Servicing assets are recognized separately when mortgage servicing rights are acquired through purchase or through sale of financial assets. Under FASB ASC 860-50, servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method.

Under the amortization method, mortgage serving rights are amortized into non-interest income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

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

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowance are reported in earnings.

(j) Cash and Cash Equivalents

For purposes of the statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

(k) Investments

Investments consist principally of federal agency securities, shares and certificates in a credit union, investment in FHLB – stock, and investment in the central liquidity facility.

The Credit Union classifies its investments in one of four categories: trading, available-for-sale, held- to-maturity or other. Investments classified as trading are purchased principally for sale in the near term and are reported at fair value, with unrealized gains and losses included in net income. Investments classified as held-to-maturity are debt securities that the Credit Union has the positive intent and ability to hold to maturity. Investments classified as other investments include shares and certificates in a credit union, and investment in the central liquidity facility. Held-to-maturity securities and other investments are reported at amortized cost. All securities not included in trading, held-to-maturity or other are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of members' equity. Dividend and interest income are recognized when earned.

(l) NCUSIF Deposit

A 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 1% 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 funds are transferred from the NCUA Board.

(m) NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of 1% of its total insured shares, unless the payment is waived or reduced by the NCUA Board.

(n) Property and Equipment

Land is carried at cost. Building, building improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, building improvements and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Management reviews premises and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

(o) Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

(p) Members' Shares and Dividends

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Members' share dividends is the interest paid on members' share accounts based on available earnings at the end of an interest period, and is not guaranteed by the Credit Union. Dividend rates are set by the Board of Directors, based on an evaluation of current and future market conditions.

(q) 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 dividends.

(r) Reclassifications of Account Balances

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation. Such reclassifications had no effect on the Credit Union's previously reported results of operations.

(s) U.S. Treasury Community Development Capital Initiative (CDCI)

The CDCI program is a U.S. Treasury Department initiative that will lend money to community development financial institutions, including credit unions, at very low interest rates. The community development credit unions can use this money, which comes from the Troubled Asset Relief Program, to supplement their capital funds. The Credit Union has been certified as community development financial institutions (CDFI) by the Treasury Department's Community Development Financial Institution (CDFI) Fund and has been recognized as a low-income credit union by the NCUA, which makes the Credit Union eligible to participate.

(t) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $28,104 and $23,917 for the years ended December 31, 2021 and 2020, respectively.

(u) Income Taxes

The Credit Union is exempt from Federal and state income taxes in accordance with Section 122 of the Federal Credit Union Act.

(v) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net income during the year. Actual results could differ from those estimates.

(w) Recent Accounting Pronouncements

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. In June 2020, FASB issued ASU 2020-05, delaying the effective date of the Leases topic. The amendments will now be effective for fiscal years beginning after December 15, 2021. The Credit Union is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly- recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. In November 2019, FASB issued ASU 2019-10, delaying the effective date of the credit losses topic. The amendments will now be effective for the Credit Union for annual periods beginning after December 15, 2022. The Credit Union is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

(4) Investments

Investments at December 31, 2021 and 2020 are summarized as follows:

	Carrying value	Amortized cost	unrealized gains	unrealized losses	Fair value
2021:					
Available for sale:					
Federal agency securities	$ 4,931,020	$ 5,000,000	$ —	$ 68,980	$ 4,931,020
Restricted investment security:					
FHLB – Stock	191,500	191,500	—	—	191,500
Other:					
Investment in central liquidity facility	353,764	353,764	—	—	353,764
	$ 5,476,284	$ 5,545,264	$ —	$ 68,980	$ 5,476,284
2020:					
Available for sale:					
Federal agency securities	$ 1,001,560	$ 1,000,000	$ 1,560	$ —	$ 1,001,560
Restricted investment security:					
FHLB – Stock	156,400	156,400	—	—	156,400
Other:					
Certificate of deposit	1,500,000	1,500,000	—	—	1,500,000
Investment in CUSO	2,554	2,554	—	—	2,554
Investment in central liquidity facility	316,549	316,549	—	—	316,549
	1,819,103	1,819,103	—	—	1,819,103
	$ 2,977,063	$ 2,975,503	$ 1,560	$ —	$ 2,977,063

The contractual maturities of the Credit Union's investments as of December 31, 2021 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:

	2021		2020	
	Amortized cost	Fair value	Amortized cost	Fair value
Available-for-sale:				
Due after one year through five years	$ 4,000,000	$ 3,947,675	$ 500,000	$ 501,500
Due after five years through ten years	1,000,000	983,345	500,000	500,060
	5,000,000	4,931,020	1,000,000	1,001,560
Other	545,264	545,264	1,975,503	1,975,503
	$ 5,545,264	$ 5,476,284	$ 2,975,503	$ 2,977,063

There were no sales of investments for the years ended December 31, 2021 and 2020.

There were no securities with gross unrealized losses as of December 31, 2020. Information pertaining to securities with gross unrealized losses at December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than twelve months		Over twelve months		
2021	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Total unrealized losses
Available for sale:					
Federal agency securities	$ 54,805	$ 4,445,195	$ 14,175	$ 485,825	$ 68,980

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and 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.

At December 31, 2021, the 10 securities with unrealized losses have depreciated 1.38% from the Credit Union's amortized cost basis. All of these securities are guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

(5) Loan Servicing and Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were $153,986,659 and $143,258,376 at December 31, 2021 and 2020, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $605,470 and $412,004 at December 31, 2021 and 2020, respectively.

The balances of mortgage servicing rights were $847,584 and $756,590 at December 31, 2021 and 2020, respectively. The fair value of servicing rights was determined using discount rates ranging from 11% to 16% and prepayment speeds ranging from 100 months to 221 months, depending upon the stratification of the specific right, and a weighted average default rate of 0%.

The following summarizes the activity pertaining to mortgage servicing rights, along with the aggregate activity in related valuation allowances:

	2021	2020
Mortgage servicing rights:		
Balance at beginning of year	$ 756,590	$ 735,825
Mortgage servicing rights capitalized	334,953	240,494
Mortgage servicing rights amortized	(243,959)	(219,729)
Provision for loss in fair value	—	—
Balance at end of year	$ 847,584	$ 756,590
Valuation allowances:		
Balance at beginning of year	$ —	$ —
Additions	—	—
Reductions	—	—
Write-downs	—	—
Balance at end of year	$ —	$ —
Fair value disclosure:		
Fair value at beginning of year	$ 848,765	$ 1,095,658
Fair value at end of year	$ 1,179,996	$ 848,765

(6) Loans to Members and Allowance for Credit Losses

The composition of loans to members as of December 31, 2021 and 2020 is as follows:

	2021	2020
Real Estate	$ 36,678,423	$ 37,865,689
Member Business Loans	35,890,697	46,573,180
Unsecured & Partially Secured	30,204,823	12,475,625
Other Real Estate	10,653,463	10,415,102
Other Share/Certificate Secured	1,670,515	1,825,461
Unsecured Credit Card	1,576,066	1,738,574
New Auto	1,131,427	1,333,310
Used Auto	310,159	353,514
Total loans	118,115,573	112,580,455
Less: Allowance for loan losses	(882,860)	(593,595)
Loans to members, net	$ 117,232,713	$ 111,986,860

Allowance for Credit Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Credit Union has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, real estate, and consumer. The Credit Union also sub- segments these segments into classes based on the associated risks within those segments. Commercial loans are made up of the following class: Member Business Loans. Real estate loans are made up of the following classes: Real Estate and Other Real Estate. Consumer loans are divided into the following classes: Unsecured and Partially Secured, New Auto, Used Auto, Unsecured Credit Card, and Other Share/Certificate Secured. Each loan class exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The following is how management determines the balance of the allowance account for each segment or class of loans:

Commercial Loans

Commercial loans are pooled by portfolio class and an historical loss percentage is applied to each class. To date and in prior years, no losses have been recorded in this loan segment.

Real Estate Loans

Real estate loans are pooled by portfolio class and an historical loss percentage is applied to each class. To date and in prior years, no losses have been recorded in this loan segment.

Consumer Loans

Consumer loans are pooled by portfolio class and an historical loss percentage is applied to each class. Historical loss percentage time frames vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. At December 31, 2021, the historical loss time frame for all consumer loans was 36 months.

Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances. During the year, management has applied additional loss estimations based qualitative, quantitative, and environmental factors.

The Credit Union's Estimation Process

Management determines the adequacy of the allowance for credit losses based upon reviews of individual loans, recent and historical loss experience, current economic conditions, the risk characteristics of the various categories of loans, and other pertinent factors. Loans deemed uncollectible are charged to the allowance for credit losses. Regulatory examiners may require the Credit Union to recognize additions to the allowance based upon their judgment about information available to them at the time of their examination.

(7) NCUSIF Deposit and Insurance Premiums

On January 28, 2009, the NCUA issued a Letter to Credit unions (LTCU) #09-CU-02 detailing their "Corporate Credit Union System Strategy" to assist the corporate credit union system. The cornerstone of the NCUA's strategy was to infuse capital into U.S. Central Federal Credit Union from the NCUSIF. This action and other NCUA Board actions highlighted in the LTCU resulted in the impairment of the NCUSIF. The NCUSIF impairment was estimated to equal 69 percent of each credit union's NCUSIF deposit. In addition to the impairment, the NCUA placed a special assessment equal to 0.30 percent of a credit union's insured shares up to $100,000.

Subsequently, on May 20, 2009, the President of the United States of America signed into law the NCUA's Corporate Stabilization Fund. The new law gives the NCUA a variety of tools to ease the burden of the estimated $6 billion cost of the corporate bailout of credit unions, including the ability to spread out the costs for as long as seven years. On June 18, 2009, the NCUA Board approved the Stabilization Fund to pay the NCUSIF $1 billion for assignment of the full right, title, and interest in the outstanding capital note extended to U.S. Central Federal Credit Union executed on January 28, 2009. This action recapitalizes the NCUSIF to the point that the fund is no longer impaired. Additionally, the NCUA Board had revised their special assessment to 0.15 percent of a credit union's insured shares up to $250,000.

In 2010, the NCUA Board announced a corporate credit union stabilization fund assessment of 0.134% as of the March 31, 2010 insured shares balance, as well as a NCUSIF premium assessment of 0.1242% of the December 31, 2009 insured shares balance for credit unions with assets less than $50 million as of June 30, 2010, or 0.1242% of the June 30, 2010 insured shares balance for credit unions with assets of $50 million or more as of June 30, 2010. In 2011, the NCUA Board announced a 0.25% assessment of the June 30, 2011 insured shares balance. In 2012, the NCUA Board announced a 0.095% assessment of the June 30, 2012 insured shares balance. In 2013, the NCUA Board announced an assessment for the Temporary Corporate Credit Union Stabilization Fund of 0.08% of June 30, 2013 insured shares. NCUA has not declared an assessment since 2013.

(8) Property and Equipment

Property and equipment at December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Building	$ 4,641,238	$ 2,135,280
Building improvements	224,342	229,313
Furniture and equipment	2,357,016	2,277,085
Leasehold improvements	1,006,775	1,006,775
	8,249,371	5,648,453
Accumulated depreciation and amortization	(3,831,732)	(3,695,013)
	4,417,639	1,953,440
Land	1,341,052	1,341,052
	$ 5,758,691	$ 3,294,492

(9) Foreclosed Assets

Foreclosed assets at December 31, 2021and 2020 are summarized as follows:

	2021	2020
Other real estate owned	$ —	64,838
less allowance for losses on other real estate owned	—	—
	$ —	64,838

(10) Comprehensive Income

Components of other comprehensive income for the years ended December 31, 2021 and 2020 were comprised solely of unrealized holding (losses) gains on available-for-sale investment securities. Accumulated other comprehensive income is presented below as of the dates indicated:

	2021	2020
Balance at beginning of year	$ 1,560	$ (565)
Current year change, net of reclassification adjustment	(70,540)	2,125
Balance at end of year	$ (68,980)	$ 1,560

(11) Members' Shares

Members' share accounts at December 31, 2021 and 2020 are summarized as follows:

	2021		2020	
	Weighted-average rate	Amount	Weighted-average rate	Amount
Regular shares	0.25%	$ 67,109,701	0.25%	$ 61,650,196
Share draft	0.21%	37,426,174	0.23%	29,590,820
Money market	0.34%	7,763,467	0.34%	10,018,237
Individual retirement accounts (IRAs)	0.30%	634,624	0.30%	674,839
Share and IRA certificates	1.22%	41,391,309	1.62%	42,027,358
		$ 154,325,275		$ 143,961,450

At December 31, 2021 and 2020, the aggregate amounts of members' time deposit accounts in denominations of $250,000 or more totaled $33,642,878 and $32,786,801, respectively. The scheduled maturities of share and IRA certificates at December 31, 2021 are as follows:

December 31:	
2022	$ 38,474,695
2023	2,333,614
2024	433,000
2025	5,000
2026 & thereafter	145,000
	$ 41,391,309

Members' share dividends for the years ended December 31, 2021and 2020 are summarized as follows:

	2021	2020
Regular shares	$ 157,801	$ 143,125
Share draft	67,738	60,675
Money market	36,812	32,559
IRAs	1,969	2,299
Share and IRA certificates	505,683	571,471
	$ 770,003	$ 810,129

(12) Borrowed Funds

Borrowed funds consist of the following:

	2021	2020
(1) Secondary Capital Loan with Webster First: Uninsured secondary capital with interest payable quarterly through December 18, 2029 at a fixed rate of 6%. Principal payments begin on the sixth anniversary date of the loan and continuing through to maturity date.	$ 1,500,000	$ 1,500,000
(2) Secondary Capital Loan with Schofield FCU: Uninsured secondary capital with interest payable quarterly through December 18, 2029 at a fixed rate of 6%. Principal payments begin on the sixth anniversary date of the loan and continuing through to maturity date.	1,000,000	1,000,000
	$ 2,500,000	$ 2,500,000

(13) Employee Benefit Plan

The Credit Union has a 401(k) deferred compensation plan covering employees who have completed three months of service and have attained the age of 18. The Credit Union may make matching contributions to the plan in an amount determined annually. Employees are 100% vested after three years of service. Employee benefit plan costs totaled $55,475 and $55,933 for the years ended December 31, 2021 and 2020, respectively..

(14) Commitments

(a) Lease Commitments

The Credit Union leased the main office from DNA, Inc., for $142,634 per annum through July 31, 2016, $156,897 per annum through July 31, 2019. Subsequently, the lease payments are $14,382.26 per annum through July 31, 2022. The Credit Union leased the Dededo branch office from RUMC, Inc., for $112,800 per annum through June 30, 2023, and $118,560 per annum through December 31, 2025. The Credit Union leased the Mangilao branch office from Wang's Management LLC for

$43,200 per annum through May 31, 2019, and currently $48,000 per annum through May 31, 2020, $50,400 per annum through May 31, 2021, and $54,000 per annum through May 31, 2022. The Credit Union also leased storage space in Harmon for $15,600 per annum through March 31, 2017,

$16,200 per annum through March 31, 2019, and currently, $16,200 per annum through March 31, 2021. Rent expense totaled $507,412 and $483,065 for the years ended December 31, 2021 and 2020, respectively.

A summary of lease commitments as of December 31, 2019 follows:

December 31:		
2022	$	235,976
2023		115,680
2024		118,560
2025		118,560
2026 & thereafter		-
	$	588,776

(b) Loan Commitments

The Credit Union has outstanding commitments on open-end loans. Total unused open lines of credit to the members as of December 31, 2021 and 2020 amounted to $19,450,598 and $16,035,271, respectively.

(c) Borrowing Commitments

The Credit Union has available unused and unsecured credit lines from the Federal Reserve Bank and Federal Home Loan Bank of Des Moines of $72,766,408 and $69,497,536 as of December 31, 2021 and 2020, respectively.

(15) Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines 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 practices. 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 to total assets. Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2021 and 2020 was 5.02% and 4.53%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2021 and 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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 RBNWR. 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 at December 31, 2021 and 2020 are also presented in the table. The net worth for December 31, 2021 and 2020, shown below, includes the uninsured secondary capital of $2,500,000, in accordance with the regulatory framework for prompts corrective actions.

	Actual		To be adequately capitalized under prompt corrective action provisions		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Net Worth	$ 15,445,833	9.07	$ 10,216,421	6.00%	$ 11,919,157	7.00%
Standard Risk-Based Net Worth Requirement	$ 8,547,739	5.02	N/A	N/A	N/A	N/A
December 31, 2020						
Net Worth	$ 14,809,284	9.28%	$ 9,571,293	6.00%	$ 11,166,508	7.00%
Standard Risk-Based Net Worth Requirement	$ 7,226,326	4.53%	N/A	N/A	N/A	N/A

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance, as permitted by regulation.

(16) Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and senior management. The aggregate loans to related parties at December 31, 2021 and 2020 amounted to $1,061,976 and $943,698 respectively. Deposits from related parties at December 31, 2021 and 2020 amounted to $1,693,009 and $1,568,248 respectively.

(17) Fair Values of Financial Instruments

Determination of Fair Value

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC 820, Fair Value Measurements, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Entity's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair Value Hierarchy

n accordance with FASB ASC 820, the Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair value measurements at December 31, 2021, using				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting	Total fair value
Assets					
Securities available for sale					
Federal agency securities	$ —	$ 4,931,020	$ —	$ —	$ 4,931,020
Loans held for sale	—	3,379,858	—	—	3,379,858
Total assets at fair value	$ —	$ 8,310,878	$ —	$ —	$ 8,310,878

	Fair value measurements at December 31, 2020, using				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting	Total fair value
Assets					
Securities available for sale					
Federal agency securities	$ —	$ 1,001,560	$ —	$ —	$ 1,001,560
Loans held for sale	—	1,934,952	—	—	1,934,952
Total assets at fair value	$ —	$ 2,936,512	$ —	$ —	$ 2,936,512

Notes

Notes

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