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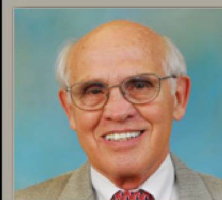
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PURDUE FEDERAL CREDIT UNION

PO BOX 1950
WEST LAFAYETTE, IN 47996
765.497.3328 // 800.627.3328
PURDUEFED.COM

PURDUE FEDERAL
CREDIT UNION

Not just a credit union.
Your financial partner **for life.**

PURDUE FEDERAL CREDIT UNION: 1969 TO 2019

2019 was a significant year for Purdue Federal Credit Union. Not only did we celebrate our 50th anniversary, but we also accomplished many strategic initiatives during this milestone year. Many of these strategic initiatives were focused on growth—member loans, retail locations and digital services—to effectively meet our members' needs. We opened two retail branches—one in downtown Lafayette and a second in Crown Point, Ind.—while introducing a new digital banking platform, and expanding our Contact Center hours to include Saturdays.

In 1969, Purdue Federal was founded on Purdue University's West Lafayette campus to help meet financial needs not being met by other institutions in our local market. That purpose has continued over the last 50 years and will remain for years to come. Our financial cooperative has added products and services to solve many more financial challenges today than we could've ever anticipated in the beginning.

Our founders couldn't have planned what our credit union would look like today. They neither would have guessed we would be this large--$1.4 billion in assets—nor that we would have this many members—more than 82,000. However, they would have expected us to still take excellent care of our members. As much as we have changed during the past 50 years, our member service has remained constant.

Sincerely,

Bob Falk
President/CEO

Lucia M. Anderson
Board Chair

my MEMBER PERKS!

$6,042,224

given back to members during 2019.

MEMBERSHIP SUCCESS

Membership grew 4.44% in 2019.

82,532 members at the close of 2019.

HONORS EARNED

Purdue Exponent
Readers' Choice Awards winner for
Best Financial Institution on campus in 2019.

COMMUNITY INVOLVEMENT

975 hours volunteered by employees through our Volunteer Time Off benefit.

$50,000 donated by Purdue Federal and The Brees Dream Foundation to Purdue Athletes Life Success (PALS) program, in addition to money raised for many other local nonprofit organizations.

232 vehicles served at our Lafayette-West Lafayette and LaPorte Community Shred Days.

37,500 pounds of paper shredded.

9,479 members attended our free financial literacy sessions;

4,248 attended a session for the first time.

GROWTH

Student Loans
+20.9%

Business Loans
+18.5%

Auto Loans
+11.6%

First Mortgages
+11.7%

Visa
+6.0%

Home Equities
+3.4%

SHARE CERTIFICATE (CD) GROWTH

+34.3%

Your **Trusted** Financial Partner for Life

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Purdue Federal Credit Union

TREASURER'S REPORT

SUPERVISORY COMMITTEE'S REPORT

INDEPENDENT AUDITOR'S REPORT and CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

PURDUE FEDERAL
CREDIT UNION

Treasurer's Report *on 2019*

I am pleased to report that a combination of a healthy year for Indiana's economy, Purdue Federal's commitment to being our members' trusted financial partner for life and a team of employees dedicated to superior member service resulted in another year of exceptional financial performance for the credit union. Purdue Federal's membership grew by 4.4% to 82,532 while total loans grew by 12.2% to $997 million.

Purdue Federal continues to be the largest locally headquartered and managed financial institution in Tippecanoe County. Member loan and credit line origination approval exceeded $450 million in 2019. Highlights included over $41 million of member business commercial loan growth, record vehicle loan production and continuing as the market leader in Tippecanoe County for mortgage lending production. Credit quality remains strong with delinquencies and charge-offs maintaining historically low levels ending the year at 0.23% and 0.14%, respectively.

In 2019, our members took advantage of higher share certificate rates resulting in 34% growth in this deposit account alternative. We continue to offer a full suite of other growing deposit products including savings, checking and money market accounts to meet our members' needs.

Member capital position ended 2019 at 10.5%, well above the 7% deemed well-capitalized by the National Credit Union Association. My Member Perks, Purdue Federal's member giveback program, returned an additional $6 million to members in cooperative benefits throughout the year.

Your Board of Directors and Senior Leadership Team remain committed to making sound financial decisions that are in the best interest of the membership and ensuring that Purdue Federal remains your trusted financial partner for life.

Respectfully submitted on behalf of the Purdue Federal Credit Union Board of Directors.

Cristina Farmus
Treasurer

PURDUE FEDERAL
CREDIT UNION

Supervisory Committee's Report *on 2019*

The Supervisory Committee is a volunteer group of Purdue Federal members that is appointed annually by the Board of Directors. The purpose of the Supervisory Committee is to ensure the financial condition of the credit union is accurately and fairly presented in the organization's financial statements, and also that the credit union's management practices and procedures are in accordance with federal regulations and are sufficient to safeguard members' assets and sensitive information.

Under the direction of the Supervisory Committee, an annual audit is performed by an independent, outside accounting firm with proven knowledge of credit union regulations and operations. This year that firm is BKD. The committee then works with the board and Purdue Federal's Leadership Team to address any areas of concern raised in the audit.

After completion of this year's external audit, BKD met with the Supervisory Committee on March 5, 2020. The discussion items included a complete review of the financial statements and audit reports. BKD has issued an unmodified opinion of Purdue Federal's financial statements and did not note any material weaknesses or significant deficiencies relating to internal controls at Purdue Federal. All financial and required letters were reviewed with no major exceptions found. We are pleased that our financial condition and management practices play a role in helping Purdue Federal to be the area's leader in financial services.

The Internal Audit Department staff also report to the Supervisory Committee at regular meetings throughout the year. The basic work performed by the Internal Audit Department consists of internal audits, internal control testing, and coordination of specialized external audits. All items are supervised by the Assistant Vice President of Internal Audit and overseen by the Vice President of Enterprise Risk Management.

The audit opinion from BKD reflects the good leadership and careful work of the Purdue Federal Internal Audit Department and the Leadership Team.

The Supervisory Committee would like to acknowledge the outstanding support and professionalism exhibited by the credit union staff. We thank the Leadership Team for the exceptional care and high ethical standards shown during this past year.

I would also like to acknowledge and thank all the members of the Supervisory Committee for volunteering their time and expertise.

It is a pleasure to serve you, the members.

Brock E. Martin

Brock Martin
Supervisory Committee Chair

Purdue Federal Credit Union

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2019 and 2018

Purdue Federal Credit Union

December 31, 2019 and 2018

Contents

Independent Auditor's Report

Board of Directors and Supervisory Committee
Purdue Federal Credit Union
West Lafayette, Indiana

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Purdue Federal Credit Union and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, the entity adopted new accounting guidance related to ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU 2017-12, *Derivatives and Hedging* (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*. Our opinion is not modified with respect to these matters.

BKD, LLP

Indianapolis, Indiana
March 6, 2020

Purdue Federal Credit Union

Consolidated Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Cash and due from banks	$ 9,426,409	$ 7,540,144
Interest-bearing demand deposits	47,246,395	63,201,491
Cash and cash equivalents	56,672,804	70,741,635
Interest-bearing time deposits	5,390,000	5,880,000
Available-for-sale securities	199,974,835	139,994,127
Loans held for sale ($35,788,055 in 2019 and $24,918,968 in 2018 at fair value)	35,788,055	24,918,968
Loans, net of allowance for loan losses of $4,384,360 and $4,337,118 at December 31, 2019 and 2018	992,879,470	884,833,232
Premises and equipment, net	26,761,491	21,313,588
National Credit Union Share Insurance Fund (NCUSIF) deposit	9,360,743	9,071,752
Federal Home Loan Bank stock, at cost	5,400,000	3,891,200
Cash surrender value of life insurance	10,856,110	11,484,823
Interest receivable	2,872,501	2,550,910
Other	17,557,597	16,708,804
Total assets	$ 1,363,513,606	$ 1,191,389,039

Liabilities

	2019	2018
Members' deposits	$ 1,144,675,770	$ 1,059,655,991
Borrowings	70,000,000	-
Other liabilities	13,911,821	11,364,069
Total liabilities	1,228,587,591	1,071,020,060

Members' Equity

	2019	2018
Regular reserve	7,502,640	7,502,640
Undivided earnings	128,493,613	113,640,580
Accumulated other comprehensive loss	(1,070,238)	(774,241)
Total members' equity	134,926,015	120,368,979
Total liabilities and members' equity	$ 1,363,513,606	$ 1,191,389,039

Purdue Federal Credit Union

Consolidated Statements of Income

Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Loans	$ 43,704,699	$ 38,894,613
Securities	4,461,914	3,425,008
Interest-earning deposits with other financial institutions	1,460,922	1,261,405
	49,627,535	43,581,026
Interest Expense		
Members' deposits	7,194,849	4,719,117
Short-term borrowings	442,538	36,448
Total interest expense	7,637,387	4,755,565
Net Interest Income	41,990,148	38,825,461
Provision for Loan Losses	1,333,597	1,738,890
Net Interest Income After Provision for Loan Losses	40,656,551	37,086,571
Other Income		
Customer service fees	4,213,924	3,666,349
Card transaction interchange	10,483,114	9,801,301
Net gains on loan sales	2,365,148	2,005,173
Gain on sales of securities (reclassified from accumulated other comprehensive loss)	14,574	3,156
Loss on sale/disposal of premises and equipment	(25,587)	(21,292)
Other income	2,347,557	1,952,174
Total other income	19,398,730	17,406,861
Other Expenses		
Salaries and employee benefits	20,187,686	17,833,103
Net occupancy expense	2,293,145	1,890,751
Office operations and equipment expense	6,375,630	5,965,198
Loan servicing	1,041,988	854,913
Credit card loan servicing expense	8,039,888	7,498,622
ATM and debit card expense	3,348,768	3,126,406
Advertising and marketing expense	1,807,877	1,844,575
Other expenses	2,101,121	1,974,057
Total other expenses	45,196,103	40,987,625
Net Income	$ 14,859,178	$ 13,505,807

Purdue Federal Credit Union

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 14,859,178	$ 13,505,807
Other Comprehensive Loss		
Change in fair value of derivative financial instruments	(2,955,500)	702,818
Unrealized appreciation (depreciation) on available-for-sale securities	2,674,077	(1,233,889)
Less: reclassification adjustment for realized gain (loss) included in net income	14,574	(6,092)
	(295,997)	(524,979)
Comprehensive Income	$ 14,563,181	$ 12,980,828

Purdue Federal Credit Union

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

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2018	$ 7,502,640	$ 100,134,773	$ (249,262)	$ 107,388,151
Net income		13,505,807		13,505,807
Other comprehensive loss			(524,979)	(524,979)
Balance, December 31, 2018	7,502,640	113,640,580	(774,241)	120,368,979
Net income		14,859,178		14,859,178
Adoption of ASU 2017-12		(6,145)		(6,145)
Other comprehensive loss			(295,997)	(295,997)
Balance, December 31, 2019	$ 7,502,640	$ 128,493,613	$ (1,070,238)	$ 134,926,015

Purdue Federal Credit Union

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Net income	$ 14,859,178	$ 13,505,807
Items not requiring (providing) cash		
Depreciation and amortization	2,663,548	2,382,877
Provision for loan losses	1,333,597	1,738,890
Accretion and amortization	863,077	775,475
(Gain) loss on sale of available-for-sale securities	(14,574)	6,092
Loss on the sale/disposal of premises and equipment	25,587	21,292
Changes in		
Interest receivable	(321,591)	(254,527)
Loans held for sale	(10,869,087)	4,811,376
Other assets	(1,475,610)	(919,464)
Other liabilities	841,637	(149,717)
Net cash provided by operating activities	7,905,762	21,918,101
Investing Activities		
Proceeds from maturities of available-for-sale securities	42,452,487	49,313,962
Proceeds from sales of available-for-sale securities	257,688	50,062,264
Net change in interest-bearing time deposits	490,000	2,695,000
Net change in loans	(109,379,835)	(55,435,073)
Purchase of available-for-sale securities	(100,879,883)	(88,953,456)
Purchase of premises and equipment	(8,137,038)	(4,843,648)
Purchase of FHLB stock	(1,508,800)	(632,200)
Net change in NCUSIF deposit	(288,991)	(531,729)
Net cash used in investing activities	(176,994,372)	(48,324,880)
Financing Activities		
Net change in members' deposits	85,019,779	9,162,482
Proceeds from borrowings	392,159,375	24,972,586
Repayment of borrowings	(322,159,375)	(43,958,484)
Net cash provided by (used in) financing activities	155,019,779	(9,823,416)
Decrease in Cash and Cash Equivalents	(14,068,831)	(36,230,195)
Cash and Cash Equivalents, Beginning of Year	70,741,635	106,971,830
Cash and Cash Equivalents, End of Year	$ 56,672,804	$ 70,741,635
Supplemental Cash Flows Information		
Interest paid	$ 7,581,948	$ 4,755,565

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Purdue Federal Credit Union and its wholly owned credit union service organization, CU Channels, LLC (CUSO). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

Purdue Federal Credit Union (Credit Union) is a federally chartered credit union with locations in Tippecanoe, LaPorte, and Lake counties in Indiana. The Credit Union offers a broad range of consumer and commercial financial services to its members. The Credit Union's primary services include accepting members' deposits and making loans. The Credit Union grants loans primarily to members who are individuals (including family members) employed at or attending Purdue University campuses. The majority of its loans are collateralized by specific items, including consumer and commercial assets, residential and commercial real estate and member deposit balances. Additional services include financial planning, investment, trust and insurance services to Credit Union members through CUNA Brokerage Services, Inc., a third-party provider.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported and disclosed in the consolidated financial statements, and future results could differ from those estimates. A significant area involving the use of management's estimates and assumptions is the allowance for loan losses.

Cash and Cash Equivalents

The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2019, the Credit Union's cash accounts exceeded the insured limits by approximately $20,299,837. This amount represents uninsured funds held with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis, which are not federally insured.

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2019 was $33,000.

Interest-Bearing Time Deposits

The fair value of interest-bearing time deposits approximates cost.

Securities

Available-for-sale securities, which include any federal agencies, mortgage-backed securities and corporate bonds for which the Credit Union has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded in other comprehensive loss.

The Credit Union measures equity securities, which include mutual funds in unconsolidated entities at fair value with changes recognized in net income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Federal Home Loan Bank (FHLB) Stock

FHLB stock is a required investment based upon predetermined formulas and is carried at cost. The FHLB stock may only be sold to the FHLB at par value.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market under best-efforts pricing agreements are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans sold in the secondary market are sold with the servicing of the loans being retained.

Loans originated and intended for sale in the secondary market under mandatory pricing agreements are carried at fair value to facilitate hedging of the loans. Gains and losses resulting from changes in fair value are included in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage, commercial and consumer loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Credit Union's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Premises and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Leasehold improvements are amortized over the shorter of the estimated useful lives of the related assets or the lease term.

Long-Lived Asset Impairment

The Credit Union evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Mortgage-Servicing Rights

Mortgage-servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (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, servicing rights are amortized 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 right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are 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 allowances are reported with net gains on loan sales on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage-servicing rights is netted against loan servicing fee income.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

NCUSIF Deposit

The National Credit Union Share Insurance Fund (NCUSIF) is required by NCUA regulations in an amount equal to one percent of the Credit Union's insured shares. The noninterest-earning deposit is intended to provide insurance coverage on members' deposits.

NCUA Insurance Premiums

A credit union may be required to pay an annual insurance premium to the NCUSIF equal to one-twelfth of one percent of its total insured shares. There were no premiums assessed for 2019 or 2018.

The fund was created by Congress in 1970 to insure member deposits in credit unions and currently insures member deposits up to $250,000. Administered by NCUA, the NCUSIF is backed by the "full faith and credit" of the U.S. Government. 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.

Members' Deposits

Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposits is based on available earnings and is not guaranteed by the Credit Union. Interest rates on members' deposits are set by the board of directors, based on an evaluation of a number of factors, including 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 to members.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale and change in derivative financial instruments that qualify for hedge accounting, which is recognized as a separate component of members' equity.

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes.

Change in Accounting Principle (Topic 606)

On January 1, 2019, the Credit Union adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revised when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Credit Union's revenues come from interest income and other sources, including loans, leases and securities, that are outside the scope of Topic 606. The Credit Union's services that fall within the scope of Topic 606 are presented within other income in the accompanying statements of income and are recognized as revenue as the Credit Union satisfies its obligation to the customer. Services within the scope of Topic 606 include customer service charges and card transaction interchange.

The Credit Union adopted Topic 606 using the modified retrospective approach applied to all contracts not completed at the date of adoption with the cumulative effect of initially applying the new standard recognized in retained earnings at the beginning of the year of adoption. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605, *Revenue Recognition*. The Credit Union's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

A description of the Company's revenue streams accounted for under Topic 606 are as follows:

Customer Service Fees. The Credit Union generates revenues through fees charged to members related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time.

Card Transaction Interchange. The Credit Union earns interchange fees from card transaction interchange conducted through credit card payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Change in Accounting Principle (Topic 815)

On January 1, 2019, the Credit Union adopted the provisions of ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments expand and refine hedge accounting for nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The change was applied under a modified retrospective approach by recording a cumulative-effect adjustment to the opening balances of members' equity.

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation. These reclassifications had no effect on net income.

Revisions

Certain immaterial revisions have been made to the 2018 consolidated statement of cash flow for transactions related to dollar-roll financing. These revisions did not have an impact on the total cash used in investing and financing activities presented in the consolidated statement of cash flows.

Note 2: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities (GSE) residential	$ 154,540,518	$ 750,095	$ (525,301)	$ 154,765,312
Private CMO	2,228,750	2,226	(1,391)	2,229,585
Corporate bonds	42,569,690	412,893	(2,645)	42,979,938
Total investment securities	$ 199,338,958	$ 1,165,214	$ (529,337)	$ 199,974,835

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities (GSE) residential	$ 120,392,826	$ 48,651	$ (1,800,278)	$ 118,641,199
Corporate bonds	21,624,927	40	(272,039)	21,352,928
Total investment securities	$ 142,017,753	$ 48,691	$ (2,072,317)	$ 139,994,127

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

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$ 10,850,650	$ 10,859,333
One to five years	31,719,040	32,120,605
	42,569,690	42,979,938
Mortgage-backed securities		
Government-sponsored entities (GSE) residential	154,540,518	154,765,312
Private CMO	2,228,750	2,229,585
Totals	$ 199,338,958	$ 199,974,835

Gross gains of approximately $15,863 resulting from sales of available-for-sale securities were realized for 2019. Gross gains of approximately $2,300 resulting from sales of available-for-sale securities were realized for 2018. Gross losses of approximately $1,288 resulting from sales of available-for-sale securities were recognized for 2019. Gross losses of approximately $8,400 resulting from sales of available-for-sale securities were recognized for 2018.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2019 and 2018 was approximately $87,160,000 and $128,666,000, which is 44% and 92%, respectively, of the Credit Union's available-for-sale investment portfolio. These declines in fair values primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Credit Union's investments' gross unrealized losses and fair value of the Credit Union's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

	2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 47,225,400	$ (312,500)	$ 31,887,577	$ (212,801)	$ 79,112,977	$ (525,301)
Private CMO	796,159	(1,391)	-	-	796,159	(1,391)
Corporate bonds	-	-	7,251,305	(2,645)	7,251,305	(2,645)
Total	$ 48,021,559	$ (313,891)	$ 39,138,882	$ (215,446)	$ 87,160,441	$ (529,337)

	2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 68,449,554	$ (1,125,950)	$ 39,115,147	$ (674,328)	$ 107,564,701	$ (1,800,278)
Corporate bonds	21,101,424	(272,039)	-	-	21,101,424	(272,039)
Total	$ 89,550,978	$ (1,397,989)	$ 39,115,147	$ (674,328)	$ 128,666,125	$ (2,072,317)

The unrealized losses on corporate bonds and mortgage-backed securities at December 31, 2019 and 2018 were primarily due to changes in interest rates and illiquidity. The Credit Union expects to recover the amortized cost basis of these securities over the terms of the securities. Because the Credit Union does not intend to sell the investments, and it is not likely the Credit Union will be required to sell the investments before recovery of their amortized cost basis prior to maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2019.

Note 3: Loans

Portfolio segments of loans at December 31 include:

	2019	2018
Consumer - secured	$ 86,897,990	$ 77,833,990
Consumer - unsecured	97,366,136	91,888,652
Residential - first mortgage	478,450,337	428,363,901
Residential - home equity	69,350,272	67,058,047
Commercial	264,011,875	222,858,480
Subtotal	996,076,610	888,003,070
Net deferred loan origination costs	1,187,220	1,167,280
Allowance for loan losses	(4,384,360)	(4,337,118)
	$ 992,879,470	$ 884,833,232

In the normal course of business, the Credit Union makes loans to directors, supervisory committee members, other committee members and executive officers (related parties). The aggregate dollar of these loans amounted to approximately $2,866,000 and $2,715,000 at December 31, 2019 and 2018, respectively.

The risk characteristics of each loan portfolio segment are as follows:

Consumer Secured, Consumer Unsecured, Residential First Mortgage, Residential Home Equity

Consumer and residential loans consist of four segments - consumer secured, consumer unsecured, residential first mortgage and residential home equity loans. Consumer secured loans are secured by personal assets, such as automobiles or recreational vehicles. Consumer unsecured loans are primarily made up of outstanding VISA credit card balances. For residential first mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Credit Union generally establishes a maximum loan-to-value ratio of 80% and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family primary residences. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial

The Credit Union's commercial loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Credit Union's commercial real estate portfolio are diverse. However, most properties are located within the Credit Union's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria.

The following presents, by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2019 and 2018:

	2019					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Beginning Balance	$ 214,509	$ 1,835,558	$ 266,100	$ 297,726	$ 1,723,225	$ 4,337,118
Provision (credit)	174,862	1,402,867	(53,685)	(162,679)	(27,768)	1,333,597
Loans charged off	(156,132)	(1,586,299)	-	(22,311)	(22,995)	(1,787,737)
Recoveries	44,411	439,357	-	9,624	7,990	501,382
Ending Balance	$ 277,650	$ 2,091,483	$ 212,416	$ 122,360	$ 1,680,451	$ 4,384,360

	2018					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Beginning Balance	$ 160,641	$ 1,832,554	$ 240,752	$ 111,984	$ 1,585,762	3,931,693
Provision	191,632	966,148	25,348	411,131	144,631	1,738,890
Loans charged off	(177,167)	(1,288,832)	-	(247,154)	(8,508)	(1,721,661)
Recoveries	39,403	325,688	-	21,765	1,340	388,196
Ending Balance	$ 214,509	$ 1,835,558	$ 266,100	$ 297,726	$ 1,723,225	$ 4,337,118

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2019 and 2018:

	2019					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 88,837	$ 88,837
Collectively evaluated for impairment	277,650	2,091,483	212,416	122,360	1,591,614	4,295,523
Total allowance for loan losses	$ 277,650	$ 2,091,483	$ 212,416	$ 122,360	$ 1,680,451	$ 4,384,360
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 103,022	$ -	$ 1,385,458	$ 1,488,480
Collectively evaluated for impairment	86,897,990	97,366,136	478,347,315	69,350,272	262,626,417	994,588,130
Total loan balances	$ 86,897,990	$ 97,366,136	$ 478,450,337	$ 69,350,272	$ 264,011,875	$ 996,076,610

	2018					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ 2,213	$ -	$ 85,950	$ 88,163
Collectively evaluated for impairment	214,509	1,835,558	263,887	297,726	1,637,275	4,248,955
Total allowance for loan losses	$ 214,509	$ 1,835,558	$ 266,100	$ 297,726	$ 1,723,225	$ 4,337,118
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 318,113	$ -	$ 1,955,342	$ 2,273,455
Collectively evaluated for impairment	77,833,990	91,888,652	428,045,788	67,058,047	220,903,138	885,729,615
Total loan balances	$ 77,833,990	$ 91,888,652	$ 428,363,901	$ 67,058,047	$ 222,858,480	$ 888,003,070

Management's general practice is to proactively classify loans individually evaluated for impairment to the fair value on the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. Generally, charge-offs occur within six months or when collateral is obtained, whichever is later. The Credit Union's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

Management grades all loans except commercial loans as performing or nonperforming. Nonperforming are defined as those loans that are more than 90 days past due and nonaccruing.

The following tables present the credit risk profile of the Credit Union's consumer and residential loan portfolio based on rating category and payment activity as of December 31, 2019 and 2018:

	2019				
	Consumer Secured	**Consumer Unsecured**	**Residential First Mortgage**	**Residential Home Equity**	**Total**
Grade:					
Performing	$ 86,710,979	$ 96,603,204	$ 478,279,807	$ 69,237,857	$ 730,831,847
Nonperforming	187,011	762,932	170,530	112,415	1,232,888
Total	$ 86,897,990	$ 97,366,136	$ 478,450,337	$ 69,350,272	$ 732,064,735

	2018				
	Consumer Secured	**Consumer Unsecured**	**Residential First Mortgage**	**Residential Home Equity**	**Total**
Grade:					
Performing	$ 77,801,016	$ 91,228,758	$ 428,101,570	$ 66,949,875	$ 664,081,219
Nonperforming	32,974	659,894	262,331	108,172	1,063,371
Total	$ 77,833,990	$ 91,888,652	$ 428,363,901	$ 67,058,047	$ 665,144,590

For commercial loans, the Credit Union promptly classifies loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations.

Internal Risk Categories

Commercial loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grades of 5-6, or Substandard, 7, or Doubtful, and 8, or Loss, refer to assets that are classified. The use and application of these grades by the Credit Union will be uniform and shall conform to the Credit Union's policy.

Pass (1-4) loans are of reasonable credit strength and repayment ability providing an acceptable credit risk due to one or more underlying weaknesses.

Special Mention (5) loans that do not currently exhibit a sufficient degree of risk to warrant adverse classification, but do possess credit deficiencies deserving close attention by management. These credits are considered criticized.

Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (7) loans have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The following table presents the credit risk profile of the Credit Union's commercial loan portfolio based on internal rating category and payment activity as of December 31, 2019 and 2018:

	Commercial	
	2019	**2018**
Grade:		
Pass (1-4)	$ 258,288,875	$ 221,393,118
Special Mention (5)	5,444,583	1,081,716
Substandard (6)	278,417	383,646
Doubtful (7)	-	-
Loss (8)	-	-
Total	$ 264,011,875	$ 222,858,480

The following tables present the Credit Union's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2019 and 2018:

2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 592,811	$ 35,560	$ 187,011	$ 815,382	$ 86,082,608	$ 86,897,990
Consumer - unsecured	798,170	337,820	762,932	1,898,922	95,467,214	97,366,136
Residential - first mortgage	893,270	642,660	170,530	1,706,460	476,743,877	478,450,337
Residential - home equity	413,342	41,264	112,415	567,021	68,783,251	69,350,272
Commercial	36,104	16,131	-	52,235	263,959,640	264,011,875
Total loans	$ 2,733,697	$ 1,073,435	$ 1,232,888	$ 5,040,020	$ 991,036,590	$ 996,076,610

2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 444,931	$ 161,774	$ 32,974	$ 639,679	$ 77,194,311	$ 77,833,990
Consumer - unsecured	588,211	346,705	659,894	1,594,810	90,293,842	91,888,652
Residential - first mortgage	448,476	82,228	262,331	793,035	427,570,866	428,363,901
Residential - home equity	172,235	-	108,172	280,407	66,777,640	67,058,047
Commercial	31,642	-	-	31,642	222,826,838	222,858,480
Total loans	$ 1,685,495	$ 590,707	$ 1,063,371	$ 3,339,573	$ 884,663,497	$ 888,003,070

All loans greater than 90 days past due are nonaccrual loans. There were no accruing loans delinquent 90 days or more at December 31, 2019 and 2018.

The following tables present impaired loans for the years ended December 31, 2019 and 2018:

2019

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Residential - first mortgage	$ 103,022	$ 103,022	$ -	$ 418,122	$ 15,190
Commercial	1,110,680	1,110,680	-	1,393,552	76,927
Total impaired loans with no related specific reserve	$ 1,213,702	$ 1,213,702	$ -	$ 1,811,674	$ 92,117
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ -	$ -	$ -	$ -	$ -
Commercial	274,778	274,778	88,837	329,122	21,152
Total impaired loans with an allowance recorded	$ 274,778	$ 274,778	$ 88,837	$ 329,122	$ 21,152
Total impaired loans	$ 1,488,480	$ 1,488,480	$ 88,837	$ 2,140,796	$ 113,269

2018

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ 1,571,695	$ 1,571,695	$ -	$ 1,635,340	$ 100,517
Total impaired loans with no related specific reserve	$ 1,571,695	$ 1,571,695	$ -	$ 1,635,340	$ 100,517
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ 318,113	$ 318,113	$ 2,213	$ 323,760	$ 15,404
Commercial	383,647	383,647	85,950	220,750	-
Total impaired loans with an allowance recorded	$ 701,760	$ 701,760	$ 88,163	$ 544,510	$ 15,404
Total impaired loans	$ 2,273,455	$ 2,273,455	$ 88,163	$ 2,179,850	$ 115,921

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Credit Union requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in any loan classification, the Credit Union records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the negotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with renegotiated terms for a period of at least six months.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to optimize collectability of the loan. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Credit Union do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Credit Union may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

It is the Credit Union's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Credit Union reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

There was one newly classified troubled debt restructuring in 2019 and 2018, respectively. In 2019, a residential first mortgage of $103,022 was restructured with a rate modification. In 2018, a commercial loan of $857,316 was restructured with a rate modification.

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2019	2018
Land	$ 2,883,567	$ 2,883,567
Buildings	18,133,998	17,082,942
Furniture, fixtures and equipment	18,403,005	16,188,065
Construction in process	6,436,817	1,588,785
Leasehold improvements	1,091,029	1,093,607
	46,948,416	38,836,966
Less accumulated depreciation	(20,186,925)	(17,523,378)
	$ 26,761,491	$ 21,313,588

Note 5: Mortgage-Servicing Rights

Mortgage loans sold and serviced for Purdue Federal Credit Union members are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced was approximately $465,131,116 and $473,980,511 at December 31, 2019 and 2018, respectively.

Custodial escrow balances maintained in connection with the loan servicing, and included in demand deposits, were approximately $2,615,494 and $2,608,152 at December 31, 2019 and 2018, respectively.

Activity in the balance of mortgage-servicing rights was as follows:

	2019	2018
Amortized cost		
Balance beginning of year	$ 1,415,738	$ 1,415,160
Additions	538,217	637,332
Amortization	(631,583)	(636,754)
Balance end of year	$ 1,322,372	$ 1,415,738
Fair value disclosures		
Fair value as of the beginning of the period	$ 5,067,000	$ 4,120,000
Fair value as of the end of the period	3,890,000	5,067,000

Note 6: Members' Deposits

	2019	2018
Checking	$ 298,897,089	$ 280,445,970
Regular and IRA savings accounts	345,392,393	322,024,468
Money market accounts	303,550,356	310,613,360
Share and IRA certificate accounts	196,835,932	146,572,193
	$ 1,144,675,770	$ 1,059,655,991

Individual share certificates of $250,000 or more were approximately $56,813,478 and $37,747,614 at December 31, 2019 and 2018, respectively.

At December 31, 2019, scheduled maturities of certificates for the next five years were as follows:

2020	$ 90,706,549
2021	59,402,568
2022	30,662,972
2023	14,876,766
Thereafter	1,187,077
	$ 196,835,932

Deposits from related parties held by the Credit Union at December 31, 2019 and 2018 totaled $3,932,000 and $3,421,000, respectively.

Note 7: Borrowings

The Federal Home Loan Bank advances are secured by mortgage loans totaling $70,000,000 at December 31, 2019. Advances, at interest rates from 1.64 to 1.72 percent and maturity dates ranging from 2020 to 2024, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities at December 31, 2019 are:

2020	$ 25,000,000
2021	-
2022	-
2023	15,000,000
2024	15,000,000
Thereafter	15,000,000
	$ 70,000,000

The Credit Union has a $300,000,000 Board-approved advance borrowing agreement with the Federal Home Loan Bank, of which $25,000,000 is available as an overnight line of credit. The overnight line of credit agreement was renewed in August 2019. At December 31, 2019 and 2018, the Credit Union has approximately $449,623,122 and $407,535,315, respectively, of mortgage loans pledged to FHLB. Additionally, the Credit Union has available a $188,159,399 line of credit from the Federal Reserve Bank with no maturity date and $330,184,385 in loans pledged as collateral to the Federal Reserve Bank at December 31, 2019. There were no borrowings on these lines of credit at December 31, 2019 and 2018.

Note 8: Derivative Financial Instruments

The Credit Union uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Credit Union enters into forward contracts for the future delivery of mortgage loans to third-party investors and enters into interest rate lock commitments (IRLC) with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Credit Union's commitment to fund the loans.

These items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in net gain on loan sales on the consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other on the consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities on the consolidated balance sheets.

The notional amount and fair value of IRLCs and forward contracts utilized by the Credit Union were as follows for the years ended December 31, 2019 and 2018:

	2019				
	Balance Sheet Location		Fair Value		Notional Amount
Asset Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other assets	$	120,464	$	8,649,455
Liability Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other liabilities	$	(2,039)	$	221,410
Forward contracts	Other liabilities	$	(99,516)	$	40,300,000

	2018				
	Balance Sheet Location		Fair Value		Notional Amount
Asset Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other assets	$	102,208	$	5,828,475
Liability Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other liabilities	$	(200)	$	240,000
Forward contracts	Other liabilities	$	(180,039)	$	27,600,000

Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Credit Union entered into the IRLC and the balance sheet date. Periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the years ended December 31, 2019 and 2018 were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized	Amount of Gain (Loss) Recognized in Income 2019
Interest rate lock commitments	Net gain on loan sales	$ 16,417
Forward contracts	Net gain on loan sales	(768,629)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized	Amount of Gain Recognized in Income 2018
Interest rate lock commitments	Net gain on loan sales	$ 37,871
Forward contracts	Net gain on loan sales	423,925

Cash Flow Hedge

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Credit Union has entered into various interest rate swap agreements for portions of its money market savings accounts to its members. The agreements provide for the Credit Union to receive interest from the counterparty at the monthly weighted-average of the daily FedFunds index and to pay interest to the counterparty at a fixed rate ranging from 1.58% to 2.40% on notional amounts of $52,000,000 at December 31, 2019 and 2018, respectively. Under the agreement, the Credit Union pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Prior to adoption of ASU 2017-12, gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Subsequent to adoption of ASU 2017-12, no hedge ineffectiveness is recognized in current earnings.

	2019			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ -	Other liabilities	$ (1,706,115)

	2018			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 1,255,530	Other liabilities	$ -

The following tables present the effect of derivative instruments on the consolidated statements of income for the years ended December 31, 2019 and 2018:

Cash Flow Hedges	Location of Gain Recognized in Income	Amount of Gain Recognized in Income 2019
Interest rate swaps	Other income - gain swap	$ -

Cash Flow Hedges	Location of Gain Recognized in Income	Amount of Gain Recognized in Income 2018
Interest rate swaps	Other income - gain swap	$ 4,694

Note 9: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, included in members' equity, are as follows:

	2019	2018
Net unrealized gain (loss) on available-for-sale securities	$ 635,877	$ (2,023,626)
Net unrealized gain (loss) on derivatives used for cash flow hedges	(1,706,115)	1,249,385
	$ (1,070,238)	$ (774,241)

Note 10: Retirement Plan

The Credit Union maintains a defined-contribution pension plan (401(k) Plan and Trust) covering substantially all employees who meet certain age and service requirements. The Credit Union's contribution and expense for the pension plan is a discretionary amount approved by the Board of Directors. The 2019 and 2018 contribution was 8% (reduced by forfeitures) of annual wages for eligible employees and was approximately $960,000 and $853,000 in 2019 and 2018, respectively.

The Credit Union participates in a Split Dollar Supplemental Retirement Plan (Retirement Plan) covering a key executive of the Credit Union's management team. The Retirement Plan provided a collateralized loan to the executive which funded a split dollar life insurance policy and an annuity contract. The loan is collateralized by the insurance policy and annuity contract and is due upon death of the executive or upon termination with cause (as defined in the agreement) of employment. The Credit Union initially funded $5,866,604 into the plan in 2015.

The receivable related to the Retirement Plan totaled $6,509,755 and $6,346,690 as of December 31, 2019 and 2018. This amount is included in other assets on the consolidated balance sheets.

Note 11: Disclosures About Fair Value of Assets

Fair value 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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as 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 assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics. The fair value measurements consider observable data, which may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions. Pricing models typically include a technique known as matrix pricing, which is a mathematical technique used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but, rather, relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include mortgage-backed securities and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. No securities are classified within Level 3. The Credit Union obtains all fair value measurements from an independent pricing service.

Interest Rate Swap Agreements

Certain variable rate money market accounts have been synthetically converted to fixed rate deposits by entering into interest rate swap agreements. The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Forward Contracts

The fair values of forward contracts on to-be-announced securities are determined using quoted prices in active markets, or benchmarked thereto (Level 1).

Loans Held-for-Sale (Mandatory Pricing Agreements)

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Interest Rate Lock Commitments

The fair value of interest rate lock commitments (IRLCs) are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant's option due to the passage of time and the remaining origination costs to be incurred based on management's estimate of market costs (Level 3).

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		2019 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored				
entities residential	$ 154,765,312	$ -	$ 154,765,312	$ -
Private CMO	2,229,585	-	2,229,585	-
Corporate bonds	42,979,938	-	42,979,938	-
Loans held-for-sale				
(mandatory pricing agreements)	35,788,055	35,788,055	-	-
Forward contracts	(99,516)	(99,516)	-	-
Interest rate lock commitments - asset	120,464	-	-	120,464
Interest rate lock commitments - liability	(2,039)	-	-	(2,039)
Interest rate swap agreements - liability	(1,706,115)	-	(1,706,115)	-

		2018 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored				
entities residential	$ 118,641,199	$ -	$ 118,641,199	$ -
Corporate bonds	21,352,928	-	21,352,928	-
Loans held-for-sale				
(mandatory pricing agreements)	24,918,968	24,918,968	-	-
Forward contracts	(180,039)	(180,039)	-	-
Interest rate lock commitments - asset	102,208	-	-	102,208
Interest rate lock commitments - liability	(200)	-	-	(200)
Interest rate swap agreements - asset	1,255,530	-	1,255,530	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Interest Rate Lock Commitments
Balance as of January 1, 2018	$ 64,138
Total realized gains, net	
Included in net income	37,870
Balance as of December 31, 2018	102,008
Total realized gains, net	
Included in net income	16,417
Balance, December 31, 2019	$ 118,425

Nonrecurring Measurements

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		2019 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent impaired loans	$ 271,891	$ -	$ -	$ 271,891

		2018 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent impaired loans	$ 613,597	$ -	$ -	$ 613,597

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Credit Union considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value.

Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Vice President of Operation's office. Appraisals are reviewed for accuracy and consistency by the Vice President of Operation's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed and reviewed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 271,891	Market comparable properties	Marketability discount and selling costs	35% - 57%
IRLCs	120,464	Discounted cash flow	Loan closing rates	90% - 98%
IRLCs	(2,039)	Discounted cash flow	Loan closing rates	90%

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 613,597	Market comparable properties	Marketability discount and selling costs	35% - 57%
IRLCs	102,208	Discounted cash flow	Loan closing rates	90% - 98%
IRLCs	(200)	Discounted cash flow	Loan closing rates	90%

Note 12: The Fair Value Option

As permitted by Topic 825, the Credit Union has elected to measure certain loans held for sale at fair value. The Credit Union hedges its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third-party investors and entering into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. To facilitate the hedging of the loans, the Credit Union has elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements.

Included in the accompanying consolidated balance sheets are loans held for sale reported at fair value of $35,788,055 and $24,918,968 at December 31, 2019 and 2018, respectively. See Note 11 for additional disclosures regarding fair value of each of the consolidated statement of financial position line items listed in the preceding paragraph.

Note 13: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2019	2018
Commitments to extend credit	$ 502,437,188	$ 479,870,456

The Credit Union has entered into a noncancelable operating lease and other agreements. The leases are for office space.

Future minimum commitments at December 31, 2019 for the noncancelable lease and other agreements are summarized as follows:

2020	$ 1,375,521
2021	1,346,836
2022	1,349,462
2023	814,238
2024	281,072
Thereafter	1,667,555
	$ 6,834,684

The amount expensed for 2019 and 2018 related to the lease and other agreements was approximately $1,633,000 and $1,506,000, respectively.

In the normal course of business, the Credit Union is subject to various legal actions. Management believes that the results of these legal actions will not have a material adverse effect on the Credit Union's consolidated financial position.

Note 14: Regulatory Capital

The Credit Union is subject to regulatory net worth ratio requirements by the NCUA. In addition, the NCUA has also established Risked Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities and off-balance sheet items, which qualify under the regulations. Failure to meet minimum net worth or RBNW 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.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since that date that would change the Credit Union's classification. As of December 31, 2019 and 2018, the Credit Union's RBNW was 6.7% and 6.5%, respectively.

As of December 31, 2019 and 2018, the Credit Union's net worth is categorized 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% and exceed its RBNW ratio. The Credit Union's RBNW ratio requirement of 6.7% is below the net worth ratio of 10.5%, the Credit Union retains its original classification of well capitalized.

	Actual		Minimum Required to be Well Capitalized		Risk-Based Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in millions)					
December 31, 2019	$ 136.0	10.5%	$ 91.1	7.0%	$ 86.5	6.7%
December 31, 2018	$ 121.1	10.3%	$ 82.7	7.0%	$ 71.7	6.5%

Note 15: Subsequent Events

Subsequent events have been evaluated through March 6, 2020, which is the date the consolidated financial statements were available to be issued.