REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

REDSTONE FEDERAL CREDIT UNION AND SUBSIDIARIES

June 30, 2021 and 2020

MOSSADAMS

Federally insured by NCUA.

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Board of Directors and Supervisory Committee
Redstone Federal Credit Union and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Redstone Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of June 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, 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 audits 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 financial position of Redstone Federal Credit Union and Subsidiaries as of June 30, 2021 and 2020, 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.

Moss Adams LLP

Spokane, Washington
September 24, 2021

Consolidated Statements of Financial Condition (in thousands)

ASSETS

	June 30, 2021	June 30, 2020
Cash and cash equivalents	$ 157,268	$ 307,927
Investments in available-for-sale debt securities	3,572,981	3,008,207
Loans held for sale	842	455
Loans, net	2,987,568	2,516,671
Accrued interest receivable	13,366	14,448
Property and equipment, net	150,227	143,513
National Credit Union Share Insurance Fund (NCUSIF) deposit	54,422	44,966
Equity investments	54,806	40,101
Other investments	8,583	11,866
Net pension asset	25,274	-
Other assets	27,766	15,728
Total assets	$ 7,053,103	$ 6,103,882

LIABILITIES AND MEMBERS' EQUITY

	June 30, 2021	June 30, 2020
Liabilities		
Members' shares	$ 6,261,851	$ 5,355,080
Borrowed funds	-	42,242
Accrued expenses and other liabilities	64,739	58,484
Total liabilities	6,326,590	5,455,806
Contingent liabilities (Note 10)		
Members' equity		
Retained earnings	715,511	623,820
Accumulated other comprehensive income	11,002	24,256
Total members' equity	726,513	648,076
Total liabilities and members' equity	$ 7,053,103	$ 6,103,882

Redstone Federal Credit Union and Subsidiaries
Consolidated Statements of Income (in thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
Interest income		
Interest on loans	$ 146,969	$ 135,997
Interest on investments and cash equivalents	52,653	65,742
	199,622	201,739
Interest expense		
Dividends on members' shares	17,894	36,629
Interest on borrowed funds	116	820
	18,010	37,449
Net interest income	181,612	164,290
Provision for loan losses	12,271	28,212
Net interest income after provision for loan losses	169,341	136,078
Noninterest income		
Loan late and over limit fees	4,987	3,876
Loan servicing	2,124	1,962
Mortgage banking revenue	8,541	8,294
Nonsufficient fund and overdraft fees	16,214	16,580
Debit card interchange	39,972	31,732
Credit card interchange	20,890	15,315
Insurance and investment commissions	10,071	9,941
Net gain (loss) on sale of securities	9,534	(4,062)
Unrealized gain (loss) on equity securities	10,068	(1,483)
Other noninterest income	15,161	11,556
	137,562	93,711
Noninterest expenses		
Salaries and benefits	101,526	96,814
Occupancy	21,473	18,045
Data processing	16,403	16,336
Debit card processing	9,782	8,410
Credit card processing	7,639	6,960
Cash back rebate on credit and debit cards	17,191	12,720
Loan processing and servicing	6,731	7,778
Member education and promotion	4,401	5,267
Professional and outside services	9,205	7,351
Federal supervision and insurance	671	683
Uncollectible accounts	5,000	5,081
Other operating expense	15,190	11,622
	215,212	197,067
Net income	$ 91,691	$ 32,722

See accompanying notes.

Consolidated Statements of Comprehensive Income (in thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
Net income	$ 91,691	$ 32,722
Other comprehensive income (loss)		
Net change in defined benefit plan obligations	32,845	(24,873)
Net change in postretirement benefit plan obligations	(321)	(1,580)
Net change in unrealized holding gains on investments in securities	(36,244)	64,474
Reclassification adjustment for net (gain) loss realized in income from sale of investments in securities	(9,534)	4,062
Other comprehensive income (loss)	(13,254)	42,083
Comprehensive income	$ 78,437	$ 74,805

Redstone Federal Credit Union and Subsidiaries
Consolidated Statements of Members' Equity (in thousands)

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, June 30, 2019	$ 24,833	$ 564,916	$ 589,749	$ (16,478)
Net income	-	32,722	32,722	-
Other comprehensive income	-	-	-	42,083
Reclassification related to the adoption of ASU 2116-01	-	1,349	1,349	(1,349)
Balance, June 30, 2020	24,833	598,987	623,820	24,256
Net income	-	91,691	91,691	-
Other comprehensive loss	-	-	-	(13,254)
Balance, June 30, 2021	$ 24,833	$ 690,678	$ 715,511	$ 11,002

See accompanying notes.

Redstone Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 91,691	$ 32,722
Adjustments to reconcile net income to net cash from operating activities		
Capitalization of mortgage servicing rights	(1,209)	(1,245)
Amortization of mortgage servicing rights	1,351	967
Amortization of premiums and discounts on investments in debt securities, net	21,756	15,689
(Recovery) impairment mortgage servicing rights	(229)	231
Provision for loan losses	12,271	28,212
Depreciation and amortization of property and equipment	13,645	11,612
Lease right-of-use operating expense	682	653
Mortgage banking revenue	(8,541)	(8,294)
Proceeds from sales of loans held for sale	175,808	188,100
Origination of loans held for sale	(167,654)	(175,625)
Net (gain) loss on sale of securities	(9,534)	4,062
Net unrealized (gain) loss on equity securities	(10,068)	1,483
Net gain on disposition of property and equipment	(11)	(154)
Net change in		
Accrued interest receivable	1,082	(637)
Defined benefit pension liability	4,949	(59,702)
Other assets	(11,545)	527
Accrued expenses and other liabilities	8,556	(16,554)
Net cash from operating activities	123,000	22,047
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available for sale investment in debt securities	(1,747,875)	(1,082,800)
Proceeds from maturities of investments in debt securities	849,456	653,831
Proceeds from sales of investments in debt securities	272,691	29,439
Purchase of equity investments	(13,579)	(26,193)
Proceeds from sales of equity investments	11,896	60,322
Proceeds from sales of other investments	3,439	-
Purchase of other investments	(156)	(7,437)
Net change in loans to members	(483,574)	(392,644)
Increase in the NCUSIF deposit	(9,456)	(3,796)
Proceeds from disposition of property and equipment	85	306
Purchases of property and equipment	(21,115)	(42,730)
Net cash from investing activities	(1,138,188)	(811,702)

 See accompanying notes.

Consolidated Statements of Cash Flows (in thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' shares	$ 906,771	$ 809,318
Proceeds from borrowed funds	-	69,874
Repayment of borrowed funds	(42,242)	(27,632)
Net cash from financing activities	864,529	851,560
NET CHANGE IN CASH AND CASH EQUIVALENTS	(150,659)	61,905
CASH AND CASH EQUIVALENTS, beginning of year	307,927	246,022
CASH AND CASH EQUIVALENTS, end of year	$ 157,268	$ 307,927
SUPPLEMENTAL CASH FLOWS INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 18,223	$ 37,408
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans into other real estate owned	$ 406	$ 133

Note 1 – Nature of Operations and Significant Accounting Policies

Principles of consolidation – The accompanying consolidated financial statements include the accounts of Redstone Federal Credit Union (Credit Union) and its wholly owned subsidiaries, Redstone Services Group, LLC (RSG), Redstone Consulting Group, LLC (RCG), Redstone Title Services, LLC (RTS), and Redstone Family Realty, LLC (RFR). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations – The Credit Union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

RSG is engaged primarily in selling insurance products to nonmember customers and servicing student loans. RCG specializes in the development and support of software technology products, process improvements, and best practices for other credit unions and community banks. RTS provides title insurance and settlement services to members and nonmember customers. RFR provides real estate brokerage services to members and nonmember customers.

Significant accounting policies – The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to GAAP issued by the FASB in these footnotes are to The FASB Accounting Standards Codification™ commonly referred to as the Codification.

Adoption of new accounting standards – On July 1, 2020, the Credit Union adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, and all subsequent amendments to the ASU (Accounting Standards Codification (ASC) 606), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope, and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned (OREO). To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Credit Union performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Credit Union satisfies a performance obligation. The majority of the Credit Union's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Credit Union satisfies its obligation to the customer. Services within the scope of ASC 606 include card and ATM fees, service charges, rental income, real estate commissions, real estate title services, and computer software sales and service.

The Credit Union adopted ASC 606 using the retrospective method applied to all contracts not completed as of July 1, 2019. Results for reporting periods presented are under ASC 606. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

The Credit Union's revenue from contracts with members in the scope of ASC 606 is recognized in noninterest income. Gains/losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

Service charges – The Credit Union recognizes revenue for fees and charges at the point in time the member uses the selected service to execute a transaction (e.g., ACH or wire or paid item fee). Lending income for non-portfolio loans and servicing fees are recognized when earned either by closing or servicing the loan.

Card and ATM fees – Card and ATM fees include the combined amounts of credit card, debit card, and ATM related revenue. The majority of the fees are card interchange where the Credit Union earns a fee for remitting cardholder funds (or extending credit) via a third-party network to merchants. The Credit Union satisfies performance obligations for each transaction at the point in time the card is used and the funds are remitted. The network establishes interchange fees that the merchant remits to the Credit Union for each transaction, and the Credit Union incurs costs from the network for facilitating the interchange with the merchant. Due to its inability to establish prices and direct activities of the related processing network's service, the Credit Union is deemed the agent in this arrangement and records interchange revenues net of related costs.

Card and ATM fees also include ATM fee income generated from allowing a Credit Union cardholder to withdraw funds from a non-Credit Union ATM and from allowing a non-Credit Union cardholder to withdraw funds from a Credit Union ATM. The Credit Union satisfies performance obligations for each transaction at the point in time that the withdrawal is processed. The Credit Union does not direct activities of the related processing network's service and recognizes revenue on a net basis as the agent in each transaction.

Insurance – The Credit Union offers various insurance products to members including auto insurance and homeowners insurance. Insurance contracts have two distinct performance obligations. The first performance obligation is the selling of the policy as an agent for the carrier. This performance obligation is satisfied upon binding of the policy. The second performance obligation is the ongoing servicing of the policy which is satisfied over the life of the policy. Payments are typically received at, or in advance, of the policy period and revenue is recognized at that time. Servicing of the policy only occurs when a claim is made against the policy. Management's analysis of revenues from insurance sales indicated that substantially all revenues were from sources excluded from the scope of the standard. For those revenue sources within the scope of the standard, there was no material impact on revenues based upon the guidance.

Other income – Other income represents a variety of revenue streams such as real estate commissions, real estate title services, and computer software sales and service. The Credit Union recognizes revenue at the time the service is provided.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Use of estimates – The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of investment securities, and the defined benefit pension plan obligation.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated statement of financial condition but before the consolidated financial statements are available to be issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Credit Union's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the date of the consolidated statement of financial condition and before the consolidated financial statements are issued.

Management of the Credit Union has evaluated subsequent events through September 24, 2021, which is the date the consolidated financial statements were available to be issued.

Concentrations of credit risk – Historically, most of the Credit Union's business activity was with members who reside in the north Alabama and middle Tennessee areas. The Credit Union was exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Alabama and Tennessee. However, the Rural King program continues to expand significantly, spreading credit risk across fourteen additional states.

Cash and cash equivalents – For the purpose of the consolidated statements of financial condition and the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments – Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Equity securities with readily determinable fair values are recorded at fair value, with unrealized gains and losses included in earnings. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. Gains and losses on the sale of investment securities are recognized on the trade date and determined using the specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Note 1 – Nature of Operations and Significant Accounting Policies

Equity securities are recorded at fair value with unrealized holding gains and losses reported in net income as unrealized gain (loss) on equity securities. Realized gains and losses on sales are recorded on the trade date and determined using the specific identification method and are reported in the consolidated statements of income as net gain (loss) on sale of securities.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement), (3) the intent of the Credit Union to sell a security, and (4) whether it is more likely than not the Credit Union will have to sell the security before recovery of its cost basis.

If the Credit Union does not have the intent to sell a security prior to recovery and it is more likely than not that it will not have to sell the security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. If in this case there is a credit loss, the Credit Union will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Charitable donation account – The Credit Union holds investments in a segregated custodial charitable donation account. A charitable donation account is a hybrid charitable and investment vehicle that is funded as a means to provide charitable contributions to qualified charities. The value of the charitable donation account cannot exceed 5% of the Credit Union's net worth and the Credit Union is required to distribute a minimum of 51% of the total return on assets no less frequently than every five years or upon termination of the charitable donation account. The charitable donation account has no stated maturity date, is owned by the Credit Union, and may be terminated at the sole discretion of the Credit Union. Charitable donation account assets are measured at fair value on a recurring basis. In the accompanying consolidated statements of income for the years ended June 30, 2021 and 2020, gain of $2,235 and loss of $957, respectively, is included as a component of noninterest income and noninterest expense and $793 and $862, respectively, is included as a component of interest on investments. Distributions to qualified charities recognized as charitable contribution expense for the years ended June 30, 2021 and 2020, were $1,697 and $500, respectively.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Employee benefit funding account – The Credit Union holds investments in a segregated benefit investment account for the Credit Union's medical employee benefit obligations. The Credit Union funds the investment account with amounts sufficient to result in actual investment returns not to exceed the respective underlying medical benefit obligations. The account has no stated maturity date and may be terminated at the sole discretion of the Credit Union. Benefits funding assets are measured at fair value on a recurring basis. In the accompanying consolidated statements of income for the year ended June 30, 2021 and 2020, gain of $11,210 and loss of $4,475, respectively, is included as a component of noninterest income and noninterest expense and $3,920 and $4,284, respectively, is included as a component of interest on investments. The assets are owned by the Credit Union, and are revocable at any time at the discretion of the Credit Union.

Supplemental Executive Retirement Plan (SERP) account – The Credit Union held investments in a segregated investment account for the Credit Union's supplemental executive retirement plan obligations. The Credit Union funded the investment account with amounts expected to result in actual investment returns sufficient to fund the plan obligations. The account had no stated maturity date and was closed by the Credit Union in June 2020, with all assets being liquidated. Assets were measured at fair value on a recurring basis. In the accompanying consolidated statements of income for the year ended June 30, 2020, loss of $113 is included as a component of noninterest expense and $778 is included as a component of interest on investments.

Federal Home Loan Bank (FHLB) stock – The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the Credit Union's total assets plus a percentage of outstanding advances, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB stock is reported on the consolidated statement of financial condition as a component of other investments.

Loans held for sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Most mortgage loans held for sale are sold with the mortgage service rights retained by the Credit Union. Gains or losses on sales of residential mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. All sales are made without recourse.

Loans, net – The Credit Union grants residential mortgage, business, and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

Loans the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses, and net of certain direct loan origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

The accrual of interest income on loans is discontinued at the time the loan is 91 days past due unless the credit is well secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

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

Certain direct loan origination costs and related fees are deferred and are recognized as an adjustment to interest income using the interest method or the straight-line method over the contractual life of the loans.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the 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. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating, and the levels of nonperforming loans. A loan is considered impaired when, based on current information and events, it is probable 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 or when the loan is subject to a troubled debt restructuring. Specific allowances for loan losses are established for large impaired loans on an individual basis as required by the Codification. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in the Codification. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset, are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, the transferee obtains the right to pledge or exchange the transferred assets, and the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan servicing – Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. 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. Capitalized servicing rights are reported in other assets and are amortized into noninterest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk 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 capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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 included in loan servicing expense.

Property and equipment – Land is carried at cost. Land improvements, buildings, building improvements, leasehold improvements, and furniture and equipment are carried at cost less accumulated depreciation and amortization. Land improvements, buildings and building improvements, and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 2 to 40 years. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Leases – For all leases (with the exception of short-term leases), the Credit Union, as the lessee, recognizes the following at the commencement date; a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under Codification Topic 842 Leases, the Credit Union elected certain relief options for practical expedients: the option to not separate lease and nonlease components and instead to account for them as a single lease component, and the option to not recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e., lease terms of 12 months or less). As of June 30, 2021 and 2020, the Credit Union recorded a $1,314 and $1,813, respectively, right-of-use asset in property and equipment and a $1,206 and $1,634, respectively, lease liability on its consolidated statements of financial condition.

National Credit Union Share Insurance Fund (NCUSIF) deposit and insurance premium – The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which requires the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. The Credit Union is also required to pay an annual insurance premium as assessed by the NCUA Board.

Other real estate owned – Real estate and other property acquired in full or partial settlement of loan obligations is referred to as other real estate owned. Other real estate owned is originally recorded in the Credit Union's consolidated financial statements at fair value less any estimated costs to sell. When property is acquired through foreclosure or surrendered in lieu of foreclosure, the Credit Union measures the fair value of the property acquired against its recorded investment in the loan. If the fair value of the property at the time of acquisition is less than the recorded investment in the loan, the difference is charged to the allowance for loan losses. Any subsequent fluctuations in the fair value of other real estate owned are charged to noninterest expense. All related operating or maintenance costs are charged to noninterest expense as incurred. Any subsequent gains or losses on the sale of other real estate owned are recorded in other income or expense as incurred.

Members' shares – Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising costs – Advertising costs are expensed as incurred. Total advertising costs for the years ended June 30, 2021 and 2020, were $1,992 and $3,501, respectively.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union Service Organizations, RSG, RCG, RTS, and RFR, are limited liability corporations and are not subject to federal and state income taxes.

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Defined benefit plans – The Credit Union has a qualified, noncontributory defined benefit pension plan and a postretirement benefit plan covering certain employees as more fully disclosed in Note 11. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act (ERISA).

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale debt securities, are reported as a separate component of the members' equity section of the consolidated statements of financial condition.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Collaborative arrangement – Effective March 15, 2019, the Credit Union entered into a contract with RK Family, Inc., Rural King Holdings, LLP, and RK Finance, LLC (collectively referred to as Rural King) under which the Credit Union will provide financial services to Rural King customers. Rural King is a retail provider of farm equipment and other home products. The program includes loans for equipment purchases, credit cards, and in-store branches. Rural King customers who obtain a loan or credit card are required to become members of the Credit Union, thereby expanding and diversifying the Credit Union's membership. The Credit Union and Rural King share equally in all revenues and expenses of the loan and credit card programs. Revenues and expenses related to the in-store branch program belong entirely to the Credit Union.

This program is accounted for as a collaborative arrangement as outlined in ASC 808 – C*ollaborative Arrangements*. Both the Credit Union and Rural King are active participants in the program and both are exposed to risk or reward depending on the success of the program activities. The Credit Union will originate and service loans, as well as provide limited branch services to Rural King customers. Loan origination will be provided through an online portal in store or on Rural King's website. Rural King will assist customers in the store with loan and credit card applications, as well as market the loan and credit card products within their stores and on their website. Rural King will provide dedicated space within selected stores for in-store branches operated by the Credit Union.

Revenue generated and costs incurred from transactions with members are recorded at their gross amount in the appropriate category in the consolidated statement of income. Any gain or loss resulting from these transactions will be shared equally with Rural King with the shared amount recorded in other noninterest income or other operating expense. All other program expenses from transactions with other third parties that are incurred by the Credit Union and Rural King will be combined and shared equally. The net amount of these expenses after payment to or from Rural King will be included by the Credit Union in the appropriate expense category on the consolidated statement of income.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

For the years ended June 30, 2021 and 2020, the Credit Union incurred a net loss after reimbursement by Rural King of $5,026 and $6,265, respectively, from the program. Net loss is included in the consolidated statement of income. See footnote 16 for additional financial information attributed to this collaborative arrangement.

Reclassifications – Certain account reclassifications have been made to the 2020 consolidated financial statements in order to be in accordance with classifications used in the current year with no impact on prior year reported net income or members' equity.

Note 2 – Investments

Investments classified as available for sale debt securities consist of the following at June 30:

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Operating investments				
Collateralized debt obligations	$ 63,965	$ 2,781	$ -	$ 66,746
Residential mortgage-backed securities	1,078,269	20,010	(3,970)	1,094,309
Commercial mortgage-backed securities	2,266,259	29,944	(10,094)	2,286,109
Charitable donation account				
Fixed income bonds	20,251	662	(64)	20,849
Employee benefit funding account				
Fixed income bonds	102,242	3,158	(432)	104,968
	$ 3,530,986	$ 56,555	$ (14,560)	$ 3,572,981

	2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Operating investments				
Federal agency debt securities	$ 88,987	$ 753	$ -	$ 89,740
Collateralized debt obligations	77,845	4,530	-	82,375
Residential mortgage-backed securities	1,126,439	37,033	(604)	1,162,868
Commercial mortgage-backed securities	1,508,353	45,186	(1,336)	1,552,203
Charitable donation account				
Fixed income bonds	19,688	658	(218)	20,128
Employee benefit funding account				
Fixed income bonds	99,122	3,141	(1,370)	100,893
	$ 2,920,434	$ 91,301	$ (3,528)	$ 3,008,207

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 2 – Investments (continued)

Sales of investments in available for sale debt securities resulted in the following:

	2021			
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Residential mortgage backed securities	$ 266,130	$ 6,206	$ 49	$ 6,157
Charitable donation account	883	82	23	59
Employee benefit funding account	5,678	480	116	364
	$ 272,691	$ 6,768	$ 188	$ 6,580

	2020			
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Charitable donation account	$ 1,845	$ 132	$ 237	$ (105)
Employee benefit funding account	8,513	662	1,161	(499)
Supplemental executive retirement plan account	19,081	891	479	412
	$ 29,439	$ 1,685	$ 1,877	$ (192)

Debt securities with fair value of $32,803 and $107,796 have been pledged as collateral to secure advances from the Federal Reserve Bank discount window as of June 30, 2021 and 2020, respectively, as more fully disclosed in Note 8. Securities with fair value of $7,822 and $8,219 have been pledged as collateral to secure advances from the Federal Home Loan Bank as of June 30, 2021 and 2020, respectively.

Investments in debt securities by contractual maturity as of June 30, 2021, are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Operating investments		
Collateralized debt obligations	$ 63,965	$ 66,746
Residential mortgage-backed securities	1,078,269	1,094,309
Commercial mortgage-backed securities	2,266,259	2,286,109
Charitable donation account		
Less than 1 year maturity	1,104	1,116
1-5 years maturity	9,917	10,304
5-10 years maturity	9,230	9,429
Employee benefit funding account		
Less than 1 year maturity	5,416	5,472
1-5 years maturity	51,851	53,593
5-10 years maturity	44,975	45,903
	$ 3,530,986	$ 3,572,981

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 2 – Investments (continued)

Expected maturities of collateralized debt obligations and mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date.

Gross unrealized losses and fair value by length of time the individual debt securities have been in a continuous unrealized loss position at June 30 are as follows:

	2021				
	Fair Value Associated with Unrealized Losses Existing for		Continuous Unrealized Losses Existing For		Total
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Unrealized Losses
Available for Sale					
Operating investments					
Residential mortgage-backed securities	$ 448,444	$ 3,342	$ 3,952	$ 18	$ 3,970
Commercial mortgage-backed securities	716,773	39,847	9,907	187	10,094
Charitable donation account					
Fixed income bonds	2,812	395	40	24	64
Employee benefit funding account					
Fixed income bonds	16,604	1,807	229	203	432
	$ 1,184,633	$ 45,391	$ 14,128	$ 432	$ 14,560

	2020				
	Fair Value Associated with Unrealized Losses Existing for		Continuous Unrealized Losses Existing For		Total
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Unrealized Losses
Available for Sale					
Operating investments					
Residential mortgage-backed securities	$ 128,651	$ 23,048	$ 428	$ 176	$ 604
Commercial mortgage-backed securities	74,936	121,164	483	853	1,336
Charitable donation account					
Fixed income bonds	2,810	434	123	95	218
Employee benefit funding account					
Fixed income bonds	15,266	2,681	635	735	1,370
	$ 221,663	$ 147,327	$ 1,669	$ 1,859	$ 3,528

At June 30, 2021 and 2020, the investment portfolio included 164 and 128 available for sale debt securities, respectively, with unrealized losses.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 2 – Investments (continued)

As of June 30, 2021, unrealized losses on the Credit Union's investment portfolio were primarily attributable to market interest rate volatility, rather than to credit risk. Current characteristics of each security owned, such as delinquency rates, foreclosure levels, credit enhancements, and projected losses, are reviewed periodically by management. Accordingly, it is expected these securities would not be settled at a price less than the amortized cost of the Credit Union's investment.

Because the Credit Union does not have the intent to sell these investments and it is not likely the Credit Union will be required to sell these investments before anticipated recovery of fair value, which may be at maturity, the Credit Union did not consider any of its investments to be other-than-temporarily impaired as of June 30, 2021 or 2020.

The gain (loss) recognized on equity securities in the Consolidated Statement of Income was composed of the following for the years ended June 30:

	2021	2020
Net gain (loss) recognized on equity securities	$ 13,022	$ (5,353)
Less net gain (loss) recognized on equity securities sold	2,954	(3,870)
Unrealized gain (loss) recognized on equity securities held	$ 10,068	$ (1,483)

Other investments consist of the following as of June 30:

	2021	2020
FHLB of Atlanta stock	$ 3,263	$ 6,702
Certificate of deposit	5,300	5,144
Co-op stock	20	20
	$ 8,583	$ 11,866

The Credit Union views its investment in FHLB of Atlanta stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recoverability of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by factors such as 1) the significance of the decline in net assets of the institution as compared to the investment amount and length of time a decline has persisted, 2) impact of legislative and regulatory changes on the institution, and 3) the liquidity position of the institution. The Credit Union does not believe that its investment in the FHLB of Atlanta stock is impaired as of June 30, 2021.

The certificate of deposit is held at All In Credit Union, accrues dividends at 3%, and matures July 22, 2022.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net

Loans consist of the following at June 30:

	2021		
	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Member business loans	$ 3,271	$ 155,949	$ 159,220
Residential real estate and home equity	6,608	1,012,379	1,018,987
Consumer loans	6,359	1,834,226	1,840,585
Total loans	$ 16,238	$ 3,002,554	3,018,792
Less allowance for loan losses			(31,224)
			$ 2,987,568

	2020		
	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Member business loans	$ 3,316	$ 171,177	$ 174,493
Residential real estate and home equity	7,231	714,941	722,172
Consumer loans	8,848	1,646,115	1,654,963
Total loans	$ 19,395	$ 2,532,233	2,551,628
Less allowance for loan losses			(34,957)
			$ 2,516,671

The Credit Union had net deferred loan origination costs included in the above loan balances of $12,414 and $11,378 as of June 30, 2021 and 2020, respectively.

The total loan amount includes $217,009 and $112,351 in loans originated through the Rural King program as of June 30, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

A summary of the activity in the allowance for loan losses is as follows for the years ended June 30:

	2021			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 1,920	$ 6,053	$ 26,984	$ 34,957
Provision for (recapture of) loan losses	93	(1,212)	13,390	12,271
Loans charged off	(310)	(318)	(21,680)	(22,308)
Recoveries of loans	41	465	5,798	6,304
Balance at end of year	$ 1,744	$ 4,988	$ 24,492	$ 31,224

	2020			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 1,377	$ 4,124	$ 20,048	$ 25,549
Provision for loan losses	713	2,316	25,183	28,212
Loans charged off	(187)	(742)	(23,091)	(24,020)
Recoveries of loans	17	355	4,844	5,216
Balance at end of year	$ 1,920	$ 6,053	$ 26,984	$ 34,957

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid/balloon, which consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to a variable rate using the fully indexed rate, which can result in significant payment adjustment to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

Pursuant to the CARES Act passed in March 2020, the Credit Union funded loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Credit Union received a fee of 1%-50% from the SBA depending on the loan amount. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at June 30, 2021, was $18,697.

As a result of the of the adoption of the CARES Act, certain loans were modified to assist members through this time of uncertainty. The majority of these loans are consumer and mortgage.

Note 3 – Loans, Net (continued)

The allowance for loan losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio at June 30, 2021. However, no assurance can be given the Credit Union will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of the prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

Management considers a loan to be impaired when, based on current information and events, it is determined the Credit Union will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan to be impaired, the impairment is measured based on the present value of expected future cash flows, and discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs, is utilized instead of discounted cash flows. If management determines the value of the impaired loan is less than the recorded investment in the loan, net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount, impairment is recognized through an allowance or a charge-off to the allowance.

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

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount. Also presented are the average recorded investments in the impaired loans. The average balances are calculated based on the month end balances of the loans receivable of the period reported.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

Information about impaired loans is as follows as of and for the years ended June 30:

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Member business loans					
Real estate secured	$ 2,507	$ 2,507	$ 694	$ 2,538	$ 9
SBA guaranteed	36	36	9	42	-
Other Secured	69	69	50	75	-
Unsecured	131	131	121	146	1
Total member business loans	2,743	2,743	874	2,801	10
Residential real estate and home equity					
First mortgage	4,469	4,469	2,424	4,516	10
Second mortgage	64	64	64	64	-
Home equity lines of credit	1,244	1,244	1,244	1,310	4
Total real estate and home equity	5,777	5,777	3,732	5,890	14
Consumer loans - collateralized					
Automobile	1,151	1,151	395	1,221	4
Indirect automobile	3,270	3,195	1,337	3,506	10
Other secured	484	482	216	520	1
Total consumer loans - collateralized	4,905	4,828	1,948	5,247	15
Consumer loans - unsecured					
Unsecured	165	165	165	194	1
Credit cards	347	347	347	725	-
Total consumer loans - unsecured	512	512	512	919	1
Total impaired loans with an allowance recorded	13,937	13,860	7,066	14,857	40
Without an allowance recorded					
Member business loans					
Real estate secured	502	502	-	518	1
Other Secured	6	6	-	9	-
Unsecured	20	20	-	20	-
Total member business loans	528	528	-	547	1
Residential real estate and home equity					
First mortgage	776	776	-	955	6
Second mortgage	13	13	-	13	-
Home equity lines of credit	42	42	-	92	-
Total real estate and home equity	831	831	-	1,060	6
Consumer loans - collateralized					
Automobile	307	306	-	449	1
Indirect automobile	383	370	-	516	1
Other secured	252	251	-	273	-
Total consumer loans - collateralized	942	927	-	1,238	2
Total impaired loans without an allowance recorded	2,301	2,286	-	2,845	9
Total	$ 16,238	$ 16,146	$ 7,066	$ 17,702	$ 49

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Member business loans					
Real estate secured	$ 2,528	$ 2,528	$ 631	$ 2,568	$ 8
SBA guaranteed	169	169	34	171	-
Unsecured	33	33	33	34	-
Total member business loans	2,730	2,730	698	2,773	8
Residential real estate and home equity					
First mortgage	4,461	4,461	2,577	4,574	14
Second mortgage	45	45	45	46	-
Home equity lines of credit	1,603	1,603	1,599	1,662	7
Total real estate and home equity	6,109	6,109	4,221	6,282	21
Consumer loans - collateralized					
Automobile	2,331	2,331	1,034	2,504	7
Indirect automobile	4,272	4,186	2,127	4,572	11
Other secured	574	572	269	591	2
Total consumer loans - collateralized	7,177	7,089	3,430	7,667	20
Consumer loans - unsecured					
Unsecured	264	264	264	304	1
Credit cards	523	523	523	369	-
Total consumer loans - unsecured	787	787	787	673	1
Total impaired loans with an allowance recorded	16,803	16,715	9,136	17,395	50
Without an allowance recorded					
Member business loans					
Real estate secured	574	574	-	588	-
SBA guaranteed	6	6	-	7	-
Unsecured	6	6	-	11	-
Total member business loans	586	586	-	606	-
Residential real estate and home equity					
First mortgage	1,071	1,071	-	1,094	4
Second mortgage	4	4	-	7	-
Home equity lines of credit	47	47	-	50	-
Total real estate and home equity	1,122	1,122	-	1,151	4
Consumer loans - collateralized					
Automobile	372	372	-	481	1
Indirect automobile	207	200	-	302	-
Other secured	305	304	-	334	-
Total consumer loans - collateralized	884	876	-	1,117	1
Total impaired loans without an allowance recorded	2,592	2,584	-	2,874	5
Total	$ 19,395	$ 19,299	$ 9,136	$ 20,269	$ 55

Note 3 – Loans, Net (continued)

Credit quality indicators – The Credit Union utilizes internal risk ratings for its credit quality indicators. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio, (2) promptly identify deterioration of loan quality and the need for remedial action, and (3) emphasize areas requiring upgrading of policies, procedures, or documentation.

The internal risk ratings are as follows:

For member business loans, management's judgment about the quality of each individual loan is made at the time the loan is granted and the collectability of each loan is reviewed periodically and changed when warranted, based on the status of the loan or business. Loans are classified on a nine-point system ranging from Excellent to Probable Loss. Loans classified as Excellent are generally secured by marketable collateral such as deposit accounts pledged to the Credit Union or government backed securities. Strong loans are generally secured by pledged liquid collateral such as publicly traded stocks or corporate bonds with an adequate margin of safety. Satisfactory loans have sound credit quality overall but may indicate a slight potential weakness in the financial analysis. Loans classified as Acceptable have sound credit quality overall but may indicate several moderate trends toward weakness in the financial analysis or may be a startup business with less than 12 months of financial history. Pass with Caution loans have strained liquidity, unfavorable payment trends, management weakness or erratic profitability and financial performance. Loans classified as Other Loans Especially Mentioned (OLEM) have been downgraded at first 30 days past due and placed on the watch list. Substandard loans are problem loans and likely to deteriorate over the near term. Loans classified as Doubtful have deteriorated and there is no defined source of repayment, identified deficiencies cannot be corrected, and loan loss is expected. Probable Loss loans have no repayment ability and loan loss is near certain.

Real estate loans, home equity, and consumer loans are generally risk based priced at the time the loan is made based on the borrower's or co-borrower's beacon score. Loans are classified as A, B, C, D, E, or Not Rated. Loans classified as A are the highest quality and the borrower's current beacon score is in the highest desirable range. E loans are generally loans with a beacon score below 620. Loans that are classified as Not Rated were either made prior to risk based pricing implementation or the borrower has no established credit score available. Real estate loans in the Not Rated category are loans granted prior to April 2011 and were generally approved based on strict underwriting guidelines. Loan classifications are performed at the time of origination.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

The following table presents the credit exposure of the loan classes as of June 30:

	2021				
Member business loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
1 Excellent	$ -	$ 32	$ 17,681	$ 312	$ 18,025
2 Strong	1,845	10	-	-	1,855
3 Satisfactory	19,593	35	40	1,131	20,799
4 Acceptable	78,885	6,911	2,788	6,696	95,280
5 Pass with Caution	20,192	147	59	26	20,424
6 Other Especially Mentioned	473	104	45	66	688
7 Substandard	2,053	47	-	-	2,100
8 Doubtful	-	12	-	37	49
9 Probable Loss	-	-	-	-	-
Total	$ 123,041	$ 7,298	$ 20,613	$ 8,268	$ 159,220

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$ 27,774	$ 28	$ 17,068	$ 44,870
A	513,604	4,691	90,877	609,172
B	148,887	3,053	37,523	189,463
C	114,495	4,071	12,458	131,024
D	23,033	883	3,841	27,757
E	15,904	322	475	16,701
Total	$ 843,697	$ 13,048	$ 162,242	$ 1,018,987

Consumer loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 1	$ -	$ 4,108	$ 4,109
A	258,485	329,228	163,048	750,761
B	122,774	223,026	73,353	419,153
C	41,836	60,223	24,466	126,525
D	18,241	21,816	9,807	49,864
E	8,012	5,815	748	14,575
Total	$ 449,349	$ 640,108	$ 275,530	$ 1,364,987

Consumer loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 9,371	$ 689	$ 10,060
A	68,515	157,408	225,923
B	49,193	101,523	150,716
C	17,704	38,008	55,712
D	4,905	12,690	17,595
E	1,675	13,917	15,592
Total	$ 151,363	$ 324,235	$ 475,598

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

	2020				
Member business loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
1 Excellent	$ -	$ -	$ 30,044	$ 180	$ 30,224
2 Strong	897	20	-	-	917
3 Satisfactory	30,167	39	73	508	30,787
4 Acceptable	48,153	6,051	3,223	4,799	62,226
5 Pass with Caution	45,728	356	46	1,114	47,244
6 Other Especially Mentioned	-	211	69	4	284
7 Substandard	2,137	90	-	6	2,233
8 Doubtful	325	32	169	52	578
9 Probable Loss	-	-	-	-	-
Total	$ 127,407	$ 6,799	$ 33,624	$ 6,663	$ 174,493

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$ 36,598	$ 93	$ 23,661	$ 60,352
A	270,082	5,338	92,596	368,016
B	93,652	4,596	39,656	137,904
C	89,393	4,601	13,249	107,243
D	23,884	1,067	4,346	29,297
E	18,158	575	627	19,360
Total	$ 531,767	$ 16,270	$ 174,135	$ 722,172

Consumer loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 1	$ -	$ 4,862	$ 4,863
A	219,837	297,157	103,313	620,307
B	112,981	214,555	53,301	380,837
C	42,252	63,788	17,589	123,629
D	20,354	23,687	7,605	51,646
E	10,097	7,572	839	18,508
Total	$ 405,522	$ 606,759	$ 187,509	$ 1,199,790

Consumer loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 7,187	$ 810	$ 7,997
A	80,302	125,979	206,281
B	56,891	89,957	146,848
C	19,819	33,861	53,680
D	6,008	14,300	20,308
E	2,384	17,675	20,059
Total	$ 172,591	$ 282,582	$ 455,173

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

The following table is an aging analysis of loans receivable as of June 30:

	2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Member business loans							
Real estate secured	$ -	$ -	$ -	$ -	$ 123,041	$ 123,041	$ -
Unsecured	87	7	27	121	7,177	7,298	-
SBA guaranteed	-	-	-	-	20,613	20,613	-
Other secured	-	-	37	37	8,231	8,268	-
Residential real estate and home equity							
First mortgage	-	826	1,926	2,752	840,945	843,697	-
Second mortgage	-	13	64	77	12,971	13,048	-
Home equity lines of credit	606	120	255	981	161,261	162,242	-
Consumer loans - collateralized							
Automobile	2,179	837	429	3,445	445,904	449,349	-
Indirect automobile	5,164	1,886	1,279	8,329	631,779	640,108	-
Other secured	1,182	331	339	1,852	273,678	275,530	-
Consumer loans							
Unsecured	1,036	279	63	1,378	149,985	151,363	-
Credit cards	2,845	1,235	218	4,298	319,937	324,235	-
Total	$ 13,099	$ 5,534	$ 4,637	$ 23,270	$ 2,995,522	$ 3,018,792	$ -

	2020						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Member business loans							
Real estate secured	$ -	$ -	$ 325	$ 325	$ 127,082	$ 127,407	$ -
Unsecured	48	46	97	191	6,608	6,799	-
SBA guaranteed	-	-	169	169	33,455	33,624	-
Other secured	-	-	-	-	6,663	6,663	-
Residential real estate and home equity							
First mortgage	25	692	1,819	2,536	529,231	531,767	-
Second mortgage	-	-	45	45	16,225	16,270	-
Home equity lines of credit	371	78	613	1,062	173,073	174,135	-
Consumer loans - collateralized							
Automobile	1,864	496	790	3,150	402,372	405,522	-
Indirect automobile	5,609	1,257	1,761	8,627	598,132	606,759	-
Other secured	670	154	419	1,243	186,266	187,509	-
Consumer loans							
Unsecured	851	186	55	1,092	171,499	172,591	-
Credit cards	2,169	852	366	3,387	279,195	282,582	-
Total	$ 11,607	$ 3,761	$ 6,459	$ 21,827	$ 2,529,801	$ 2,551,628	$ -

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

The following table presents nonaccrual loans by asset class as of June 30:

	2021	2020
Member business loans		
Real estate secured	$ -	$ 325
Unsecured	27	97
SBA guaranteed	-	169
Other secured	37	-
Total member business loans	64	591
Residential real estate and home equity		
First mortgage	1,926	1,819
Second mortgage	64	45
Home equity lines of credit	255	613
Total residential real estate and home equity loans	2,245	2,477
Consumer loans - collateralized		
Automobile	429	790
Indirect automobile	1,279	1,761
Other secured	339	419
Total collateralized consumer loans	2,047	2,970
Consumer loans - unsecured		
Unsecured	63	55
Credit cards	218	366
Total unsecured consumer loans	281	421
Total loans	$ 4,637	$ 6,459
Forgone interest on nonaccrual loans	$ 100	$ 145

Troubled debt restructurings – At June 30, 2021 and 2020, impaired loans of $7,069 and $8,221, respectively, were classified as troubled debt restructurings. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is modified.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

Payment modification – A modification in which the payment amount is changed.

Combination modification – Any other type of modification, including the use of multiple types of modifications.

The following table presents loans identified as restructured during the years ended June 30:

	2021		
	Number of Loans	Pre-Modification Outstanding Balance	Modification Outstanding Balance
Member business loans			
Unsecured	2	$ 39	$ 39
Total member business loans	2	39	39
Residential real estate and home equity			
First mortgage	2	211	212
Home equity lines of credit	2	114	114
Total residential real estate and home equity loans	4	325	326
Consumer loans - collateralized			
Automobile	19	271	271
Indirect automobile	15	249	249
Total collateralized consumer loans	34	520	520
Total loans	40	$ 884	$ 885

	2020		
	Number of Loans	Pre-Modification Outstanding Balance	Modification Outstanding Balance
Residential real estate and home equity			
First mortgage	7	$ 925	$ 928
Second mortgage	1	45	45
Home equity lines of credit	6	265	265
Total residential real estate and home equity loans	14	1,235	1,238
Consumer loans - collateralized			
Automobile	51	630	629
Indirect automobile	43	758	754
Other secured	3	64	64
Total collateralized consumer loans	97	1,452	1,447
Total loans	111	$ 2,687	$ 2,685

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 3 – Loans, Net (continued)

The Credit Union defines default as loans that went 91 days or more past due after the modification, loans that were charged off during the year, or loans that encounter a subsequent modification. The following table presents subsequent defaults within 12 months of the modification date on troubled debt restructurings during the years ended June 30:

	2021		2020	
	Number of Loans	Total Balance	Number of Loans	Total Balance
Member business loans				
Real estate secured	-	$ -	1	$ 325
Total member business loans	-	-	1	325
Residential real estate and home equity				
First mortgage	-	-	1	63
Second mortgage	-	-	1	45
Home equity lines of credit	-	-	2	18
Total residential real estate and home equity loans	-	-	4	126
Consumer loans - collateralized				
Automobile	18	102	31	240
Indirect automobile	19	206	10	108
Total collateralized consumer loans	37	308	41	348
Total loans	37	$ 308	46	$ 799

Pursuant to the CARES Act passed in March 2020, the Credit Union funded loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Credit Union received a fee of 1%-50% from the SBA depending on the loan amount. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at June 30, 2021, was $18,697.

As a result of the of the adoption of the CARES Act, certain loans were modified to assist members through this time of uncertainty. The majority of these loans are consumer and mortgage.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 4 – Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at June 30 are summarized as follows:

	2021	2020
Mortgage loan portfolio serviced for Fannie Mae	$ 644,112	$ 701,775
Mortgage loan portfolio serviced for Freddie Mac	11	14
Mortgage loan portfolio serviced for City of Huntsville	252	272
	$ 644,375	$ 702,061

Mortgage servicing rights, net of impairment, in the amounts of $2,719 and $2,632 at June 30, 2021 and 2020, respectively, are classified as other assets in the consolidated statements of financial condition.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares in the consolidated statements of financial condition, were $6,170 and $6,491 at June 30, 2021 and 2020, respectively.

The activities in capitalized mortgage servicing rights for the years ended June 30 are summarized as follows:

	2021	2020
Mortgage servicing rights		
Balance, beginning of year	$ 2,864	$ 2,586
Additions	1,209	1,245
Amortization	(1,351)	(967)
Balance, end of year	2,722	2,864
Reserve for impairment of mortgage servicing rights		
Balance, beginning of year	232	1
(Recovery) impairment	(229)	231
Balance, end of year	3	232
Net book value	$ 2,719	$ 2,632
Fair value	$ 3,347	$ 2,908

The key market assumptions used in determining the fair value of mortgage servicing rights at June 30 were as follows:

	2021	2020
Prepayment speed per year	14.42 CPR	19.74 CPR
Weighted-average discount rate	13.32%	11.50%

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 5 – Property and Equipment

Property and equipment are summarized as follows at June 30:

	2021	2020
Land	$ 24,542	$ 22,863
Land improvements	11,194	10,185
Building and building improvements	150,092	139,051
Leasehold improvements	5,526	5,467
Furniture and equipment	63,350	58,180
Lease right-of-use asset	1,314	1,813
	256,018	237,559
Accumulated depreciation and amortization	(105,791)	(94,046)
	$ 150,227	$ 143,513

Depreciation and amortization expense totaled $13,645 and $11,612 for the years ended June 30, 2021 and 2020, respectively.

Imputed interest of $170 and $459 for the years ended June 30, 2021 and 2020, respectively, is included in the cost of buildings.

Note 6 – Leases

The Credit Union leases 17 buildings and offices and 13 automobiles under noncancelable operating leases. Substantially all of the leases provide the Credit Union with the option to extend the lease term one or more times following expiration of the initial term.

Lease position

The table below presents the lease right-of-use assets and lease liabilities recorded on the consolidated statement of financial condition as of June 30:

	Classification on the Consolidated Statements of Financial Condition	2021	2020
Assets			
Operating right-of-use lease assets	Property and equipment	$ 1,314	$ 1,813
Liabilities			
Operating lease liabilities	Accrued expenses and liabilities	$ 1,206	$ 1,634
Weighted-average remaining lease term			
Operating leases		4.90 years	3.99 years
Weighted-average discount rate			
Operating leases		1.73%	1.93%

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 6 – Leases (continued)

All other leases held by the Credit Union were not considered material for purposes of reporting the right-of-use assets and liabilities and therefore were not included in these amounts.

Lease costs – All right-of-use leases were classified as operating leases. The table below presents lease costs for years ended June 30:

	2021	2020
Operating lease cost		
Buildings and offices	$ 653	$ 764
Automobiles	53	91
Total lease cost	$ 706	$ 855

Undiscounted cash flows – The table below presents the undiscounted cash flows remaining on all lease liabilities recorded on the consolidated statements of financial position:

	Operating Leases
Years ending June 30,	
2022	$ 592
2023	401
2024	49
2025	18
Thereafter	221
Total minimum lease payments	1,281
Less amount of lease payments representing interest	(75)
Lease obligations	$ 1,206

Note 7 – Members' Shares

Members' shares are summarized as follows at June 30:

	2021	2020
Regular shares	$ 2,827,804	$ 2,284,022
Share draft accounts	1,161,669	984,549
Money market accounts	1,585,034	1,260,086
Individual retirement accounts	51,123	45,059
Other savings	33,690	29,434
Certificates	602,531	751,930
	$ 6,261,851	$ 5,355,080

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 7 – Members' Shares (continued)

Certificates by contractual maturity as of June 30 are summarized as follows:

2022	$ 252,021
2023	113,255
2024	65,043
2025	21,715
2026	23,743
Thereafter	126,754
	$ 602,531

Regular shares, share draft accounts, money market accounts, individual retirement accounts, and other savings have no contractual maturity. The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. As of July 21, 2010, Congress permanently applied the minimum NCUSIF coverage to $250 on member share accounts. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. Individual retirement account and Keogh account coverage remains at up to $250 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of $250 or more was $72,864 and $87,494 at June 30, 2021 and 2020, respectively.

Overdraft demand shares reclassified to loans totaled $2,015 and $1,472 at June 30, 2021 and 2020, respectively.

Note 8 – Borrowed Funds

The Credit Union utilizes a demand loan agreement with the FHLB of Atlanta. The advances are collateralized by FHLB of Atlanta stock and pledged mortgage loan collateral, which includes residential first mortgages, home equity lines of credit, and second mortgages, under an Advances and Security Agreement between the FHLB and the Credit Union. The amount of loans pledged as collateral at June 30, 2021, is $893,364. Based on the qualifying collateral, the agreement provides for a maximum borrowing amount of approximately $653,758. There were no borrowings outstanding as of June 30, 2021. Borrowings outstanding as of June 30, 2020, were $42,242.

The Credit Union has available lines of credit with the Federal Reserve Bank of Atlanta, and the Federal Home Loan Bank of Atlanta, which are secured by pledged investments from the Credit Union's investment portfolio. The terms of the agreements provide for primary credit up to the market value of the securities pledged. There were no borrowings under these agreements as of June 30, 2021 or 2020.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 9 – Off-Balance-Sheet Activities

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Outstanding loan commitments total $48,229 and $73,736 at June 30, 2021 and 2020, respectively. Letters of credit outstanding totaled $1,152 and $77 as of June 30, 2021 and 2020, respectively.

ACH origination limits for business customers outstanding totaled approximately $7,610 and $7,109 as of June 30, 2021 and 2020, respectively.

Unfunded loan commitments under lines of credit are summarized as follows at June 30:

	2021	2020
Credit card	$ 1,413,385	$ 1,103,707
Home equity line of credit	221,583	204,313
Overdraft line of credit	48,470	48,227
Member business	51,326	20,307
Other consumer	10,846	11,412
	$ 1,745,610	$ 1,387,966

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under member business lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

The Credit Union is regularly a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 10 – Contingent Liabilities

In the ordinary course of business, the Credit Union sells loans that may have to be subsequently repurchased due to defects that occurred during the origination of the loan. The defects are categorized as documentation errors, underwriting errors, early payment defaults, and fraud. When a loan sold to an investor without recourse fails to perform, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Credit Union may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no defects, the Credit Union has no commitment to repurchase the loan.

Note 11 – Employee Benefits

Defined benefit pension plan – The Credit Union sponsors a defined benefit pension plan (Plan) for the benefit of its employees. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The Plan's status is:

	As of and for the Years Ended June 30, 2021	As of and for the Years Ended June 30, 2020
Projected benefit obligation	$ (139,955)	$ (134,454)
Fair value of plan assets	165,229	131,832
Funded status	$ 25,274	$ (2,622)
Accumulated benefit obligation	$ 98,382	$ 92,704
Net pension cost	$ 4,949	$ 5,698
Employer contribution	-	65,400
Benefit payments	1,354	1,246

The components of pension expense are as follows:

	Years Ended June 30, 2021	Years Ended June 30, 2020
Service cost	$ 6,508	$ 4,667
Interest cost	3,632	3,649
Expected return on Plan assets	(9,164)	(4,783)
Amortization of loss	3,973	2,165
Net periodic pension cost	$ 4,949	$ 5,698

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

Amounts recognized in the consolidated statements of financial condition consist of:

	June 30, 2021	June 30, 2020
Defined pension (asset) liability	$ (25,274)	$ 2,622

Amounts recognized in accumulated other comprehensive loss consist of:

	June 30, 2021	June 30, 2020
Unrealized losses	$ 29,273	$ 62,118

Components of net periodic pension cost over the next fiscal year ending June 30, 2021:

Amortization of loss	$ 1,066

Expected long-term return on Plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The Plan seeks to beat inflation, meet actuarial assumptions, meet or exceed benchmark returns, and fund Plan operating needs. The goal is to control risk through portfolio diversification and to reflect, among other possible factors, the previously stated objectives in conjunction with current and anticipated funding levels and economic and industry trends. Plan assets are primarily invested in funds with a high degree of liquidity and/or marketability. Quantitative and qualitative determinants will establish the appropriate asset allocation on a periodic, but not less than annual basis.

	2021	2020
Assumptions used to determine benefit obligation		
Discount rate	2.85%	2.72%
Rate of compensation increase	5.00%	5.00%
Assumptions used to determine net pension cost		
Discount rate	2.85%	2.72%
Expected long-term return on Plan assets	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%

The Credit Union does not expect to contribute to the Plan in fiscal year 2022.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

The Credit Union's pension plan weighted average asset allocations by asset category are as follows as of June 30:

	2021	2020
Equity securities	67.9%	43.8%
Fixed income	30.3%	9.9%
Money market funds and cash	1.8%	46.3%

The following pension benefits, which reflected expected future service, as appropriate, are expected to be paid as follows:

Years ending June 30,	
2022	$ 1,788
2023	2,087
2024	2,444
2025	2,826
2026	3,153
2027–2031	21,628
	$ 33,926

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

The following table discloses the fair value of Pension Plan assets by level:

June 30, 2021	Total	in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	$ 2,958	$ 2,958	$ -	$ -
Mutual funds				
Domestic equity				
Blended funds	76,112	76,112	-	-
International equity	29,219	29,219	-	-
Specialty funds	6,804	6,804	-	-
Fixed income	50,136	50,136	-	-
	$ 165,229	$ 165,229	$ -	$ -

June 30, 2020	Total	in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	$ 61,068	$ 61,068	$ -	$ -
Mutual funds				
Domestic equity				
Blended funds	40,252	40,252	-	-
International equity	13,945	13,945	-	-
Specialty funds	3,524	3,524	-	-
Fixed income	13,043	13,043	-	-
	$ 131,832	$ 131,832	$ -	$ -

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

Postretirement benefit plan – The Credit Union provides certain health care benefits for all retired employees who meet eligibility requirements. The Credit Union's share of the benefits that will be paid after retirement is being accrued by charges to expense over each employee's service period to the dates they are fully eligible for benefits.

The status of the Plan is as follows:

	Years Ended June 30, 2021	Years Ended June 30, 2020
Projected benefit obligation	$ (17,238)	$ (16,427)
Funded status	$ (17,238)	$ (16,427)
Benefit cost	$ 839	$ 852
Employer contribution	348	123
Participant contribution	8	8
Benefit payments	357	131

The components of postretirement benefit expense are as follows:

	Years Ended June 30, 2021	Years Ended June 30, 2020
Service cost	$ 424	$ 375
Interest cost	415	477
Net periodic pension cost	$ 839	$ 852

The Credit Union expects to contribute $480 to the Plan in fiscal year 2022.

Amounts recognized in the consolidated statements of financial condition consist of:

	June 30, 2021	June 30, 2020
Accrued expenses and other liabilities	$ 17,238	$ 16,427
Total recognized	$ 17,238	$ 16,427

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

Amounts recognized in accumulated other comprehensive (gain) loss consist of the following:

	June 30, 2021	June 30, 2020
Unrealized (gains) losses	$ 1,720	$ 1,399

The following are assumptions used to determine net periodic benefit cost for the Plan at June 30:

	2021	2020
Weighted-average assumptions as of June 30,		
Discount rate	2.72%	2.56%
Healthcare cost trend		
Current	5.30%	5.30%
Ultimate	3.84%	3.84%

The following benefits are expected to be paid as follows:

Years ending June 30,	
2022	$ 481
2023	554
2024	636
2025	662
2026	688
2027–2031	4,208
	$ 7,229

Defined contribution retirement savings plan – The Credit Union has a 401(k) defined contribution plan (Plan) that allows employees to defer a portion of their salary into the Plan. The Credit Union matches a portion of employees' wage reductions. The Credit Union contributed $3,184 and $2,990 in matching contributions to the Plan for the years ended June 30, 2021 and 2020, respectively.

Deferred compensation plans – The Credit Union has a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457(b). The Plan permits the eligible employees to defer a portion of their salary until future years. The recorded obligation of approximately $644 and $345 as of June 30, 2021 and 2020, respectively, was included in other liabilities.

The Credit Union had a Plan created in accordance with IRC Section 457(f) that allowed the Credit Union to contribute to a segregated investment account (see SERP account in Note 1). The investment returns were intended to fund obligations to eligible employees when they retire. This SERP account was closed and the assets liquidated in 2020. The recorded obligation of $1,094 as of June 30, 2020, was recorded in other liabilities.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 11 – Employee Benefits (continued)

On July 28, 2020, the Credit Union entered into split dollar insurance agreements which are collateral assignment arrangements between the Credit Union and certain members of executive management. The agreements involve a method of paying for insurance coverage for the executives by splitting the elements of the life insurance policies. Under the agreements, the executives are the owners of the policies and make a collateral assignment to the Credit Union in return for a full recourse loan equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The loan balances under these agreements are classified within other assets in the consolidated statements of financial condition and were approximately $9,404 as of June 30, 2021.

Note 12 – Members' Equity

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and 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. Further, credit unions over $10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered complex under the regulatory framework. The Credit Union's RBNW requirement was 6.68% and 6.38% as of June 30, 2021 and 2020, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of June 30, 2021 and 2020, the Credit Union meets all capital adequacy requirements to which it is subject.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	2021		2020	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as well capitalized for RBNW	$ 471,147	6.68%	$ 389,428	6.38%
Amount needed to be classified as well capitalized	493,717	7.00%	427,272	7.00%
Actual net worth	715,511	10.14%	623,820	10.22%

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 12 – Members' Equity (continued)

As of June 30, 2021 and 2020, the 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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category. In performing its calculation of total assets, the Credit Union used the quarter end balance option, as permitted by regulation.

Note 13 – Changes in Accumulated Other Comprehensive Income (Loss) Balances

The changes in the balances of each component of accumulated other comprehensive income (loss) are as follows:

	Net Change in (Losses) Gains, Prior Service Cost, and Transition Obligation on Defined Benefit Pension Plan	Net Change in Losses and Prior Service Cost on Postretirement Benefit Plan	Net Unrealized (Losses) Gains on Investments in Available-for-Sale Debt Securities	Net Unrealized (Losses) Gains on Equity Investments	Total
Balance as of June 30, 2019	$ (37,245)	$ 181	$ 19,237	$ 1,349	$ (16,478)
Other comprehensive income (loss) before reclassifications	(24,873)	(1,580)	64,474	-	38,021
Amounts reclassified from accumulated other comprehensive (income) loss	-	-	4,062	-	4,062
Net current period other comprehensive income (loss)	(24,873)	(1,580)	68,536	-	42,083
Reclassification related to the adoption of ASU 2016-01	-	-	-	(1,349)	(1,349)
Balance as of June 30, 2020	(62,118)	(1,399)	87,773	-	24,256
Other comprehensive income (loss) before reclassifications	32,845	(321)	(36,244)		(3,720)
Amounts reclassified from accumulated other comprehensive loss	-	-	(9,534)	-	(9,534)
Net current period other comprehensive income (loss)	32,845	(321)	(45,778)	-	(13,254)
Balance as of June 30, 2021	$ (29,273)	$ (1,720)	$ 41,995	$ -	$ 11,002

Note 14 – Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, committee members, and executive officers. The aggregate loans to related parties are $502 and $274 at June 30, 2021 and 2020, respectively. Deposits from related parties amounted to $8,197 and $6,347 at June 30, 2021 and 2020, respectively.

Note 15 – Fair Value Measurements

The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets.

Fair value measurements are disclosed by level within the fair value hierarchy. 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. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. (Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.)

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. (Valuations are obtained from 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 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. (Level 3 valuations incorporate certain assumptions and projections for which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.)

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values follows:

Cash and cash equivalents – The carrying amounts of cash and cash equivalents approximate their fair value.

Money market account – The money market deposit accounts are public investment vehicles valued using $1 for the net asset value. The money market deposit accounts are classified within Level 2 of the valuation hierarchy.

Note 15 – Fair Value Measurements (continued)

Investments – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities would include U.S. agency debentures and agency issued mortgage-backed securities. In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

U.S. agency and agency issued mortgage-backed securities are generally based upon a matrix pricing model from an investment reporting and valuation service. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities’ relationship to other benchmark quoted securities.

Fixed income bonds in the Charitable donation account and Employee benefit funding account are valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Equity securities in the Charitable donation account and Employee benefit funding account are valued at the closing price reported on the active market on which the individual securities are traded.

Loans held for sale – Loans held for sale are valued at the lower of cost or market value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Loans that are committed with firm investor pricing are classified as Level 1. In the absence of a commitment, these are classified as Level 2.

Loans, net – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are estimated using a discounted cash flow calculation that applies interest rates currently being offered similar loans to a schedule of aggregated expected monthly maturities of these loans. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 15 – Fair Value Measurements (continued)

Impaired loans – The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2021 and 2020, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with Accounting Standards Codification Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate loans, the Credit Union obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis, and contractual sales information.

Mortgage servicing rights – Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Mortgage servicing rights would be classified within Level 3 of the valuation hierarchy.

Fair value on a recurring basis – The table below presents the balances of assets and liabilities measured and presented in the consolidated statement of financial condition at fair value on a recurring basis:

June 30, 2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts				
Charitable Donation Account	$ 375	$ -	$ 375	$ -
Employee Benefit Funding Account	1,889	-	1,889	-
Available-for-sale debt securities				
Operating Investments				
Collateralized debt obligation	66,746	-	66,746	-
Residential Mortgage-backed securities	1,094,309	-	1,094,309	-
Commercial Mortgage-backed securities	2,286,109	-	2,286,109	-
Charitable Donation Account - fixed income bonds	20,849	-	20,849	-
Employee Benefit Funding Account - fixed income bonds	104,968	-	104,968	-
Equity securities				
Charitable Donation Account	9,171	9,171	-	-
Employee Benefit Funding Account	45,635	45,635	-	-
	$ 3,630,051	$ 54,806	$ 3,575,245	$ -

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 15 – Fair Value Measurements (continued)

June 30, 2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts				
Charitable Donation Account	$ 491	$ -	$ 491	$ -
Employee Benefit Funding Account	2,588	-	2,588	-
Available-for-sale debt securities				
Operating Investments				
Federal agency debt securities	89,740	-	89,740	-
Collateralized debt obligation	82,375	-	82,375	-
Residential Mortgage-backed securities	1,162,868	-	1,162,868	-
Commercial Mortgage-backed securities	1,552,203	-	1,552,203	-
Charitable Donation Account - fixed income bonds	20,128	-	20,128	-
Employee Benefit Funding Account - fixed income bonds	100,893	-	100,893	-
Equity securities				
Charitable Donation Account	6,684	6,684	-	-
Employee Benefit Funding Account	33,417	33,417	-	-
	$ 3,051,387	$ 40,101	$ 3,011,286	$ -

Fair value on a nonrecurring basis – Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the statements of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021				
Restructured and impaired loans	$ 6,871	$ -	$ -	$ 6,871
June 30, 2020				
Restructured and impaired loans	$ 7,667	$ -	$ -	$ 7,667

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 15 – Fair Value Measurements (continued)

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ended June 30 along with the valuation techniques used, are shown in the following table:

	Fair Value at June 30, 2021	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Restructured loans	$ 1,904	Present value	Discount rate	3% - 53% (24%)[1]
Impaired loans	4,967	Fair market value	Collateral value	1% - 90% (39%)[2]

[1] Discount to the present value of the expected cash flows based on the revised loan terms.
[2] Discount to the estimated value of the collateral that secures the loan. Various methods of valuation are used.

	Fair Value at June 30, 2020	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Restructured loans	$ 2,024	Present value	Discount rate	4% - 78% (24%)[1]
Impaired loans	5,643	Fair market value	Collateral value	1% - 92% (46%)[2]

[1] Discount to the present value of the expected cash flows based on the revised loan terms.
[2] Discount to the estimated value of the collateral that secures the loan. Various methods of valuation are used.

Note 16 – Collaborative Arrangement with Rural King

The Credit Union has a contract with RK Family, Inc., Rural King Holdings, LLP, and RK Finance, LLC (collectively referred to as Rural King) under which the Credit Union will provide financial services to Rural King customers. Revenue and expenses are included in the consolidated statement of income, net of reimbursements provided by Rural King as described in Note 1.

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 16 – Collaborative Arrangement with Rural King (continued)

Results for the years ended June 30, 2021 and 2020, were as presented below.

	Years Ended June 30, 2021	Years Ended June 30, 2020
Interest income		
Loans	$ 16,448	$ 4,335
Interest expense		
Borrowed funds	826	608
Net interest income	15,622	3,727
Provision for loan losses	11,041	3,353
Net interest income after provision for loan losses	4,581	374
Other income		
Credit card and interchange income	5,572	2,044
Loan fees	1,763	483
Total other income	7,335	2,527
Other expense		
Salary and benefits	4,726	1,832
Office occupancy	229	186
Data processing	1,078	445
Credit card processing	3,221	1,688
Cash back rebate on credit and debit cards	4,426	1,769
Member education and promotion	658	353
Loan servicing	1,346	1,241
Professional and outside	61	28
Uncollectible accounts	747	1,330
Other operating expense	5,476	6,559
Total other expense	21,968	15,431
Net program income (loss)	(10,052)	(12,530)
Profit sharing income (loss)	(5,026)	(6,265)
Redstone Federal Credit Union's share of net program income (loss)	$ (5,026)	$ (6,265)

Notes to Consolidated Financial Statements (dollar amounts in thousands)

Note 17 – Other Non-Interest Income and Operating Expense

Other non-interest income is composed of the following for the years ended June 30:

	2021	2020
Account fees	$ 3,372	$ 3,293
Marketing incentives	3,024	3,343
Subsidiary income	6,843	2,992
Other non-interest income	1,816	1,782
Gain on other assets	106	146
	$ 15,161	$ 11,556

Other operating expense is composed of the following for the years ended June 30:

	2021	2020
Communications (telephone and postage)	$ 3,218	$ 3,000
Armored car service	2,549	2,826
Subsidiary expenses	3,322	1,065
Maintenance of equipment and vehicles	814	1,008
Insurance	898	809
Supplies	656	623
Other operating expenses	3,733	2,291
	$ 15,190	$ 11,622

MOSSADAMS