LOCAL GOVERNMENT FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

LOCAL GOVERNMENT FEDERAL CREDIT UNION AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Members of the Supervisory Committee and Board of Directors
Local Government Federal Credit Union and Subsidiaries
Raleigh, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Local Government Federal Credit Union and Subsidiaries (the Credit Union), which comprise the consolidated statements of financial condition as of June 30, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 Credit Union'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 Credit Union'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 the Credit Union as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
September 1, 2020

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 480,973,373	$ 148,383,707
Restricted Cash	-	558,336
Investment Securities:		
Available-for-Sale	-	58,235,765
Other Investments	2,807,100	2,616,500
Loans Held-for-Sale	-	12,408,907
Loans to Members, Net of Allowance for Loan Losses	1,997,462,366	1,852,446,126
Accrued Interest Receivable	7,111,775	6,886,047
Due from State Employees' Credit Union, Net	-	1,220,332
Premises and Equipment, Net	64,136,580	63,142,010
NCUSIF Deposit	19,808,241	17,781,228
Credit Union Owned Life Insurance	26,100,513	24,345,843
Split-Dollar Collateral Assignment Life Insurance	20,055,281	14,634,708
Other Assets	7,698,329	7,838,797
Total Assets	$ 2,626,153,558	$ 2,210,498,306
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 2,369,540,174	$ 1,975,479,139
Accrued Interest Payable	596,640	591,315
Due to State Employees' Credit Union, Net	1,770,065	-
Accrued Expenses and Other Liabilities	28,462,161	28,538,566
Total Liabilities	2,400,369,040	2,004,609,020
MEMBERS' EQUITY		
Regular Reserve	8,568,384	8,568,384
Undivided Earnings	217,216,134	199,087,262
Accumulated Other Comprehensive Loss	-	(1,766,360)
Total Members' Equity	225,784,518	205,889,286
Total Liabilities and Members' Equity	$ 2,626,153,558	$ 2,210,498,306

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Loans to Members	$ 107,092,973	$ 98,438,660
Investment Securities and Cash Equivalents	2,586,928	3,833,120
Total Interest Income	109,679,901	102,271,780
INTEREST EXPENSE		
Members' Share and Savings Accounts	20,792,639	18,606,408
Borrowed Funds	64,562	103,533
Total Interest Expense	20,857,201	18,709,941
Net Interest Income before Provision for Loan Losses	88,822,700	83,561,839
PROVISION FOR LOAN LOSSES	18,448,572	21,472,202
Net Interest Income after Provision for Loan Losses	70,374,128	62,089,637
NONINTEREST INCOME		
Service Charges and Fees	40,992,517	38,723,385
Other Noninterest Income	4,783,123	3,837,642
Gain on Impairment and Disposition of Premises and Equipment	129,764	-
Loss on Sale of Investment Securities Available-for-Sale	(161,946)	-
Total Noninterest Income	45,743,458	42,561,027
NONINTEREST EXPENSE		
Compensation and Benefits	29,004,764	26,796,920
Occupancy	2,557,079	1,928,386
Operations	59,590,408	55,706,578
Other Noninterest Expense	6,836,463	6,162,832
Total Noninterest Expense	97,988,714	90,594,716
Net Income	$ 18,128,872	$ 14,055,948

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
NET INCOME	$ 18,128,872	$ 14,055,948
OTHER COMPREHENSIVE INCOME		
Unrealized Holding Gain Arising During the Period	1,604,414	2,592,515
Reclassification for Losses Included in Net Income	161,946	-
Total Other Comprehensive Income	1,766,360	2,592,515
COMPREHENSIVE INCOME	$ 19,895,232	$ 16,648,463

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED JUNE 30, 2020 AND 2019

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCES - JUNE 30, 2018	$ 8,568,384	$ 185,031,314	$ (4,358,875)	$ 189,240,823
Net Income	-	14,055,948	-	14,055,948
Other Comprehensive Income	-	-	2,592,515	2,592,515
BALANCES - JUNE 30, 2019	8,568,384	199,087,262	(1,766,360)	205,889,286
Net Income	-	18,128,872	-	18,128,872
Other Comprehensive Income	-	-	1,766,360	1,766,360
BALANCES - JUNE 30, 2020	$ 8,568,384	$ 217,216,134	$ -	$ 225,784,518

See accompanying Notes to Consolidated Financial Statements.

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 18,128,872	$ 14,055,948
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	3,531,230	2,997,425
Amortization of Premiums and Discounts, Net	406,958	632,087
Provision for Loan Losses	18,448,572	21,472,202
Gain on Impairment and Disposition of Premises and Equipment	(129,764)	-
Loss on Sale of Investment Securities Available-for-Sale	161,946	-
Losses on Foreclosed Assets	394,987	54,417
Effects of Changes in Operating Assets and Liabilities:		
Loans Held-for-Sale	12,408,907	(8,117,959)
Accrued Interest Receivable	(225,728)	(2,284,429)
Due to (from) State Employees' Credit Union, Net	2,990,397	(9,067,414)
Credit Union Owned Life Insurance	(665,651)	(620,608)
Split-Dollar Collateral Assignment Life Insurance	(420,573)	(122,644)
Other Assets	141,730	(210,458)
Accrued Interest Payable	5,325	272,719
Accrued Expenses and Other Liabilities	783,195	4,753,215
Net Cash Provided by Operating Activities	55,960,403	23,814,501
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities and Pay Downs of Investment Securities Available-for-Sale	8,420,601	10,667,750
Proceeds from Sale of Investment Securities Available-for-Sale	51,012,620	-
Proceeds from Sale of FHLB Stock	-	1,275,000
Purchases of FHLB Stock	(190,600)	(1,325,400)
Net Change in Other Investments	-	(500,000)
Purchases of Credit Union Owned Life Insurance	(1,089,019)	(1,085,271)
Purchases of Split-Dollar Collateral Assignment Life Insurance	(5,000,000)	-
Loans to Members, Net of Principal Collections	(164,964,283)	(195,844,446)
Increase in NCUSIF Deposit	(2,027,013)	(1,126,052)
Proceeds from Retirements of Premises and Equipment	712,850	-
Proceeds from Sale of Foreclosed Assets	643,622	1,705,345
Purchases of Premises and Equipment	(5,108,886)	(6,041,074)
Net Cash Used by Investing Activities	(117,590,108)	(192,274,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	394,061,035	177,779,683
Proceeds from Short-Term Borrowings	-	30,000,000
Repayments of Short-Term Borrowings	-	(30,000,000)
Repayments of Secondary Capital Loan	(400,000)	-
Net Cash Provided by Financing Activities	393,661,035	177,779,683
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	332,031,330	9,320,036
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	148,942,043	139,622,007
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 480,973,373	$ 148,942,043
ADDITIONAL NONCASH AND CASH FLOW INFORMATION		
Cash Paid During the Year for Interest is as Follows:		
Interest on Members' Share and Savings Accounts	$ 20,787,314	$ 18,333,689
Interest on Borrowed Funds	$ 64,562	$ 103,533
Transfers from Loans to Members to Foreclosed Assets	$ 1,039,871	$ 1,342,332

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Local Government Federal Credit Union (the Credit Union or LGFCU) is a federally chartered credit union organized under the Federal Credit Union Act of 1934 and administratively responsible to the National Credit Union Administration (NCUA). The primary purpose is to promote thrift among, and create a source of credit for its members. The Credit Union's primary source of revenue is interest earned from providing loans to its members.

The Credit Union serves its members through the State Employees' Credit Union branch network. This network includes 269 offices in 179 North Carolina communities.

Membership

Participation in the Credit Union is limited to those individuals that qualify for membership as defined in the Credit Union's Charter and Bylaws. The primary field of membership consists of local government employees, elected and appointed officials, volunteers, and their families in North Carolina.

Variable Interest Entity

Civic Federal Credit Union (Civic) was chartered by the NCUA in December 2017. LGFCU was instrumental in the chartering of Civic by providing the financial support and management structure necessary to obtain a charter. LGFCU makes a determination at the start of each year whether Civic is considered a variable interest entity (VIE). Civic was determined to be a VIE of LGFCU for the years ended June 30, 2020 and 2019. Civic's financial statements are included in the consolidated financial statements of LGFCU. No significant net income was derived from Civic for the years ended June 30, 2020 and 2019. LGFCU will continue to support Civic financially as well as operationally, and will continue to evaluate Civic's VIE status. See further discussion regarding specific Civic transactions in Notes 11 and 12.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union, Civic, and wholly-owned Credit Union Service Organization (CUSO) subsidiaries, LGFCU Financial Partners, LLC (LGFCUFP), and LGFCU Trustee, LLC. LGFCUFP and LGFCU Trustee, LLC are engaged in providing business loans to local government entities as well as acting in the capacity of trustee under the deed of trust loans made by LGFCU and LGFCUFP. No significant net income is derived from the Credit Union's CUSOs.

All significant intercompany accounts and transactions have been eliminated during consolidation for both the Credit Union's wholly-owned CUSO subsidiaries and Civic.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Preparing Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses. In addition, the Credit Union's membership base and loan portfolio have been impacted by the COVID-19 pandemic. The Credit Union consists of both essential and non-essential industries, some which have been impacted by the shutdown associated with the virus. See further discussion in Note 3 regarding loan modifications granted as a result of the pandemic.

Financial Instruments with Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside within a limited geographical field of membership. In addition, the Credit Union's membership base and loan portfolio have been significantly impacted by COVID-19, which include nonessential industries that have been impacted by the shutdown associated with the virus.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents include funds due from banks, corporate credit unions, and highly-liquid debt instruments with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Restricted Cash

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash.

As of June 30, 2019, restricted cash totaled 558,336, respectively, which represent monies that are held in escrow in the Quorum Center's Master Association. These funds are restricted under the North Carolina Condominium Act and are set aside specifically for the rebuild of the Credit Union's Quorum Center Building. See Note 4. However, as of June 30, 2020, the restricted cash had been fully utilized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary impairment (OTTI) is recorded as a loss in noninterest income.

The Credit Union did not record any OTTI during the years ended June 30, 2020 and 2019.

Federal Home Loan Bank (FHLB) stock and certificates of deposit are stated at cost, and are subject to impairment.

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income. Realized gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans and are recorded in noninterest income. All sales are made without recourse and are sold without the mortgage servicing rights retained by the Credit Union.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members, Net of Allowance for Loan Losses

The Credit Union grants mortgage, member business, and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

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

The Credit Union does not charge fees on certain consumer loans. Fees are charged on mortgage loans; however, such fees are remitted to State Employees' Credit Union as compensation for originating the loans on behalf of the Credit Union. The Credit Union has not capitalized any loan origination costs or fees. The Credit Union does not charge commitment fees.

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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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, and the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

In March 2020, the WHO declared the spread of COVID-19 a worldwide pandemic. The effect of the pandemic and the related efforts to stem the spread of the virus on the Credit Union and its members is difficult to assess as of the date of these financial statements due to the recent occurrence of the event. However, based on the scope and nature of the geographic field of membership of the Credit Union and other factors, management does not believe there will be a significant effect on the level of loan losses due to the Pandemic itself or the related operational challenges the Credit Union is facing.

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 and the impact of current internal and external influences on credit loss and the levels of nonperforming loans.

General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment.

Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowance established for these loans is 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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for member business and residential real estate loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Large groups of smaller balance homogeneous loans are generally collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

On March 22, 2020, Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Interagency Release), was released. The Interagency Release seeks to provide relief from matters institutions have struggled with when structuring modifications with borrowers impacted by COVID-19. As a way to help its members, the Credit Union has offered members the option for extension agreements to assist members impacted by the economic distress resulting from the COVID-19 pandemic. Under the Interagency Release, these loan extensions are not considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous loan portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate: This portfolio consists of residential mortgage loans. The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Commercial: Typical industry commercial portfolios consist of member business loans secured by real estate generally possessing a higher inherent risk of loss than residential real estate portfolio segments. LGFCU provides loans for apparatus, equipment, real estate, and construction for North Carolina Fire, Rescue, and EMS Departments. In addition, Civic provides commercial real estate loans to its members. Historically and currently, losses in this portfolio have been minimal.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Credit Risk Grade 1 – Highest Quality: Assigned to credits which possess the lowest possible risk; the underlying borrower has established a borrowing relationship with LGFCU; and the loan(s) are 110% collateralized by deposits held by LGFCU and Civic.

Credit Risk Grade 2 – Good Quality: Credit is entirely acceptable and extended to the highest quality borrower and based on audited or reviewed financials as well as the following traits: a business entity in existence for a relatively long period, with many years of consecutive profits; strong equity position, good liquidity, excellent debt service ability, and unblemished past performance; relationships with reasonably strong borrowers supported by: a strong guarantor; and/or fully secured cash deposits held by LGFCU and Civic; other collateral with established value that is capable of being liquidated within a reasonable length of time where the maximum original loan-to-value is 80%.

Credit Risk Grade 3 – Acceptable: Credit is acceptable and extended to a borrower not as strong and established as in credit risk grade 2. Financial information must be at minimum compiled financial statements and/or tax returns prepared by an independent accountant and upon analysis must show: no apparent weaknesses, but statement analysis reveals leverage, liquidity, or debt service ability to be less than optimal; credit to a borrower is not strong enough to sustain any major setbacks (typically uncovered during sensitivity analysis) but supported by collateral with established value which is capable of being liquidated.

Credit Risk Grade 4 – Pass: The credit risk is acceptable; however, financial statements cannot be relied upon to objectively and accurately provide the Credit Union with a reliable financial position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Credit Risk Grade 5 – Watch: A credit that is currently an acceptable risk; however, trends are developing that are not promising and should be reversed if the borrower is to continue normal operations in the long run as well as the following traits: performance has not met expectations; however, the credit has not deteriorated sufficiently to be criticized or classified; earnings/cash flow problems are likely within the next 12 months; management may have defined weaknesses; the industry may be cyclically vulnerable or relatively unimportant.

Credit Risk Grade 6 – Other Assets Especially Mentioned (OAEM): Borrower risk rating 6/OAEM is a specific loan classification which is assigned to a credit when the borrower or guarantor has deteriorated or is deteriorating to a level below borrower risk rating 5, but has not reached the level of weakness and/or adverse financial trends that characterize borrower risk rating 7.

Assets subject to Criticism

The following credit risk grades are assigned to loan assets which display risk profiles which are deemed higher than is normally acceptable. As a consequence, depending upon the factors specific to the affected credit, it may be necessary to establish a reserve to absorb any loss which may occur.

Credit Risk Grade 7 – Substandard: Loans so classified must have a clear and well-defined weakness which jeopardizes the repayment of the underlying obligation(s). Loans possessing this classification are strong candidates for nonaccrual.

Credit Risk Grade 8 – Doubtful: A loan subject to this classification has all of the weaknesses inherent in an asset classified substandard, with the added provision, that the weaknesses are pronounced to a point where collection or liquidation in full, on the basis of currently existing facts, conditions and values, is highly questionable and improbable.

Credit Risk Grade 9 – Loss: Loans classified loss are considered uncollectable and of such little value that their continuance as active assets of the Credit Union is not warranted. Assets classified as loss must be charged off.

Each portfolio segment has applicable funding requirements based on the Credit Union's historical loss ratio as determined by the allowance methodology. Net charge-offs are used to calculate historical losses. The Credit Union utilizes a range of 12 to 60 months based on the most applicable charge-off period for the losses present at that date for each portfolio segment, with 60 months being the maximum look-back period. In addition, management considers the impact of current and relevant environmental factors and documents which factors have been used in the analysis and how these factors affect the loss measurements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets and Participating Interests

Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets and Collateral in Process of Liquidation

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense. As of June 30, 2020 and 2019, the amount of foreclosed assets and collateral in process of liquidation included in Other Assets totaled $1,288,789 and 1,598,623, respectively.

Premises and Equipment, Net

Land is carried at cost. Buildings, furniture and equipment, computers, and automobiles are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment, computers, and automobiles are depreciated using the straight-line method over the estimated useful lives of the assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF. During 2019 the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was reported as of June 30, 2019 within other noninterest income and totaled approximately $233,000. There was no NCUSIF equity distribution for 2020.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings, and is not available for the payment of interest and dividends.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Accumulated other comprehensive loss recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale investment securities.

Income Taxes

As a federal instrumentality, both the Credit Union and Civic are exempt from federal and state income taxes. The income from the CUSOs, both organized as an LLC, flows through to the Credit Union, and therefore are not subject to federal and state income taxes.

Retirement Plan

The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable Internal Revenue Service (IRS) limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the plan were $2,213,885 and $1,950,822 for the years ended June 30, 2020 and 2019, respectively.

Credit Union Owned Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies on certain key executives. The policies are recorded at their cash surrender value (CSV) and increases or decreases in their CSV are included in other noninterest income.

Split-Dollar Collateral Assignment Life Insurance

The Credit Union has made nonrecourse loans to select executives to fund life insurance policy premiums. The executives own the policies death benefit and sole control over listed beneficiaries, but the Credit Union holds a first lien on the policies account as security for repayment of the advanced funds plus compounded interest at the long-term applicable federal rate.

According to policy provision, the executives can borrow from the cash surrender values to supplement retirement income. Policy borrowing is strictly limited so that it never puts the policy at risk of lapsing.

As early as possible after specified dates, the Credit Union is repaid the amount it advanced for policy premiums. At the executive's death, the death benefit proceeds are allocated to (i) repay the insurance carrier for the executive's retirement loans, (ii) pay the Credit Union any premium advances amount not recovered from the policy during the executive's life, (iii) pay the Credit Union the interest on its funding amount, and (iv) provide a death benefit for the executive's beneficiaries.

The total value of the loans was $20,055,281 and $14,634,708 at June 30, 2020 and 2019, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising and promotion costs which totaled approximately $4,056,000 and $3,652,000 for the years ended June 30, 2020 and 2019, respectively, are expensed as incurred and included in operations expense on the consolidated statements of income.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Credit Union adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606), which (i) creates a single framework for recognizing revenue from contracts with members 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 foreclosed assets. The majority of the Credit Union's revenues come from interest income on loans and investment securities, which 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 member. Significant services within the scope of ASC 606 include service charges on deposits and interchange income.

On July 1, 2019, the Credit Union adopted the accounting guidance in ASC 606 using the modified retrospective method applied to those contracts with members which were not completed as of July 1, 2019. Results for reporting periods beginning July 1, 2019 are presented under Topic 606. Refer to Note 15 – *Revenue from Contracts with Customers* for further discussion on the Credit Union's accounting policies for revenue sources within the scope of ASC 606. The adoption of this ASU did not have an impact on the pattern of revenue recognition. However, subsequent to adoption, the costs of the Credit Union's member rewards program are netted with interchange income. Previously, such costs were reflected as a component of Operations Expenses on the consolidated statements of income.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The Credit Union adopted the accounting guidance in 2020. Except for the inclusion of restricted cash with cash and cash equivalents on the consolidated statement of cash flows, there was no impact on the consolidated financial statements from this adoption.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial condition and disclosing key information about leasing arrangements. In November 2019, the FASB approved ASU 2019-10, *Financial Instruments- Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842).* The main objective of this ASU was to delay the effective date for the referenced standards. Based upon the new effective dates instituted by ASU 2019-10, ASU 2016-02 is effective for the Credit Union for the fiscal year beginning after December 15, 2020, and all interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements. ASU 2020-05 was issued on June 3, 2020, which further delayed ASU 2016-02, *Leases (Topic 842),* to 2021 and 2022, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB approved ASU 2019-10, *Financial Instruments- Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The main objective of this ASU was to delay the effective date for the referenced standards. Based upon the new effective dates instituted by ASU 2019-10, ASU 2016-13 is effective for the Credit Union for the fiscal year and all interim periods beginning after December 15, 2022. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the consolidated financial statements.

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The guidance requires an entity to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management believes that this standard will not have a material impact on the Credit Union's consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through September 1, 2020, the date the consolidated financial statements were available to be issued.

Subsequent to year-end, the Credit Union and its membership continue to adapt to the changes brought forth by COVID-19. The Credit Union continues to make loan modifications to help members in accordance with the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus.

NOTE 2 INVESTMENT SECURITIES

The Credit Union sold all investment securities available-for-sale during the year ended June 30, 2020, resulting in a net loss of $161,946.

The amortized cost and fair value of investment securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2019				
Federal Agency Mortgage Backed Securities	$ 39,047,712	$ -	$ (1,102,432)	$ 37,945,280
Collateralized Mortgage Obligation Securities	20,954,413	-	(663,928)	20,290,485
Total	$ 60,002,125	$ -	$ (1,766,360)	$ 58,235,765

There were no sales of securities available-for-sale during the year ended June 30, 2019.

Temporarily Impaired Investment Securities

Information pertaining to securities with gross unrealized losses at June 30, 2019, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	2019			
	Continuous Unrealized Losses Existing			
	Less Than 12 Months		Greater Than 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale:				
Federal Agency Mortgage Backed Securities	$ -	$ -	$ (1,102,432)	$ 37,945,280
Collateralized Mortgage Obligation Securities	-	-	(663,928)	20,290,485
Total	$ -	$ -	$ (1,766,360)	$ 58,235,765

At June 30, 2019, 15 securities with unrealized losses depreciated 2.94% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities and does not relate to credit risk. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

NOTE 2 INVESTMENT SECURITIES (CONTINUED)

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other investments at June 30 are summarized as follows:

	2020	2019
Certificates of Deposit	$ 750,000	$ 750,000
FHLB Stock	2,057,100	1,866,500
Total	$ 2,807,100	$ 2,616,500

Certificates of Deposit

The Credit Union has certificates of deposit in another financial institution. These are stated at cost. The certificates of deposit mature within one year.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Atlanta (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and, as such, is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES

The composition of loans to members, net of allowance for loan losses at June 30 is as follows:

	2020	2019
Commercial:		
Member Business	$ 134,205,402	$ 119,906,844
Residential Real Estate:		
First Mortgage	920,178,629	806,301,797
Home Equity Line	105,122,764	100,893,499
Total Residential Real Estate	1,025,301,393	907,195,296
Consumer:		
New Auto	149,505,700	151,384,252
Used Auto	360,695,417	359,640,460
Credit Card	92,137,972	94,096,530
Other	259,284,425	241,363,825
Total Consumer	861,623,514	846,485,067
Subtotal	2,021,130,309	1,873,587,207
Less Allowance for Loan Losses	(23,667,943)	(21,141,081)
Total	$ 1,997,462,366	$ 1,852,446,126

The Credit Union has $22,715,458 and $10,453,102 of mortgage loan commitments at June 30, 2020 and 2019, respectively, not included in the residential real estate loan segment above.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2020 are as follows:

	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning Balance	$ 268,821	$ 1,534,377	$ 19,337,883	$ 21,141,081
Provision for Loan Losses	240,966	1,515,294	16,692,312	18,448,572
Recoveries	11,849	29,325	2,807,839	2,849,013
Charge-offs	(11,849)	(237,710)	(18,521,164)	(18,770,723)
Ending Balance	$ 509,787	$ 2,841,286	$ 20,316,870	$ 23,667,943
Ending Balance:				
Individually Evaluated for Impairment	$ -	$ 351,604	$ 46,891	$ 398,495
Collectively Evaluated for Impairment	509,787	2,489,682	20,269,979	23,269,448
Total	$ 509,787	$ 2,841,286	$ 20,316,870	$ 23,667,943
Loans to members:				
Ending Balance:				
Individually Evaluated for Impairment	$ -	$ 68,601,750	$ 88,535	$ 68,690,285
Collectively Evaluated for Impairment	134,205,402	956,699,643	861,534,979	1,952,440,024
Total	$ 134,205,402	$ 1,025,301,393	$ 861,623,514	$ 2,021,130,309

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2019 are as follows:

	Commercial	Resident Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning Balance	$ 237,837	$ 833,918	$ 15,847,608	$ 16,919,363
Provision for Loan Losses	30,984	921,506	20,519,712	21,472,202
Recoveries	-	300	2,569,921	2,570,221
Charge-offs	-	(221,347)	(19,599,358)	(19,820,705)
Ending Balance	$ 268,821	$ 1,534,377	$ 19,337,883	$ 21,141,081
Ending Balance:				
Individually Evaluated for Impairment	$ 15,862	$ 347,001	$ 364,732	$ 727,595
Collectively Evaluated for Impairment	252,959	1,187,376	18,973,151	20,413,486
Total	$ 268,821	$ 1,534,377	$ 19,337,883	$ 21,141,081
Loans to members:				
Ending Balance:				
Individually Evaluated for Impairment	$ 17,162	$ 62,528,393	$ 717,472	$ 63,263,027
Collectively Evaluated for Impairment	119,889,682	844,666,903	845,767,595	1,810,324,180
Total	$ 119,906,844	$ 907,195,296	$ 846,485,067	$ 1,873,587,207

The following tables show the commercial loan portfolio segment allocated by managements internal risk ratings as of June 30:

Commercial Loan Risk Ratings	2020	2019
Pass (Risk Grade 1 - 4)	$ 133,743,487	$ 119,127,239
Watch	461,915	762,443
Other Assets Especially Mentioned	-	-
Substandard	-	-
Doubtful	-	17,162
Loss	-	-
Total	$ 134,205,402	$ 119,906,844

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Commercial, Residential Real Estate, and Consumer Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's loan portfolio, management tracks the loan's performance and when the loan becomes 90 days past due they are classified as nonperforming loans.

The following tables show the classes within the homogenous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

June 30, 2020	Payment Activity		
	Performing	Nonperforming	Total
Commercial:			
Member Business	$ 134,205,402	$ -	$ 134,205,402
Residential Real Estate:			
First Mortgage	909,434,529	10,744,100	920,178,629
Home Equity Line	104,709,461	413,303	105,122,764
Consumer:			
New Auto	148,701,595	804,105	149,505,700
Used Auto	357,386,976	3,308,441	360,695,417
Credit Card	91,771,897	366,075	92,137,972
Other	258,703,373	581,052	259,284,425
Total	$ 2,004,913,233	$ 16,217,076	$ 2,021,130,309

June 30, 2019	Payment Activity		
	Performing	Nonperforming	Total
Commercial:			
Member Business	$ 119,906,844	$ -	$ 119,906,844
Residential Real Estate:			
First Mortgage	798,591,393	7,710,404	806,301,797
Home Equity Line	100,491,043	402,456	100,893,499
Consumer:			
New Auto	150,432,398	951,854	151,384,252
Used Auto	356,675,107	2,965,353	359,640,460
Credit Card	93,615,942	480,588	94,096,530
Other	240,849,791	514,034	241,363,825
Total	$ 1,860,562,518	$ 13,024,689	$ 1,873,587,207

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show an aging analysis of the loan portfolio at June 30, by time past due:

2020	Accruing Interest Current	Accruing Interest 30-59 Days Past Due	Accruing Interest 60-89 Days Past Due	Nonaccrual 90 Days or More Past Due	Total Loans to Members
Commercial:					
Member Business	$ 134,205,402	$ -	$ -	$ -	$ 134,205,402
Residential Real Estate:					
First Mortgage	887,390,476	16,734,224	5,309,829	10,744,100	920,178,629
Home Equity Line	104,156,414	481,413	71,634	413,303	105,122,764
Consumer:					
New Auto	146,848,372	1,145,252	707,971	804,105	149,505,700
Used Auto	351,700,261	4,194,971	1,491,744	3,308,441	360,695,417
Credit Card	90,621,212	810,285	340,400	366,075	92,137,972
Other	256,200,383	1,768,720	734,270	581,052	259,284,425
Total	$ 1,971,122,520	$ 25,134,865	$ 8,655,848	$ 16,217,076	$ 2,021,130,309

2019	Accruing Interest Current	Accruing Interest 30-59 Days Past Due	Accruing Interest 60-89 Days Past Due	Nonaccrual 90 Days or More Past Due	Total Loans to Members
Commercial:					
Member Business	$ 119,889,682	$ 17,162	$ -	$ -	$ 119,906,844
Residential Real Estate:					
First Mortgage	763,843,265	24,610,346	10,137,782	7,710,404	806,301,797
Home Equity Line	99,950,708	452,021	88,314	402,456	100,893,499
Consumer:					
New Auto	147,498,360	2,215,778	718,260	951,854	151,384,252
Used Auto	346,258,282	7,887,934	2,528,891	2,965,353	359,640,460
Credit Card	91,627,317	1,390,077	598,548	480,588	94,096,530
Other	237,081,864	2,554,215	1,213,712	514,034	241,363,825
Total	$ 1,806,149,478	$ 39,127,533	$ 15,285,507	$ 13,024,689	$ 1,873,587,207

The Credit Union had no loans that were greater than 90 days past due for which the loans were accruing interest at June 30, 2020 and 2019, respectively.

Interest income foregone on nonaccrual loans was deemed immaterial by management for the years ended June 30, 2020 and 2019.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information concerning impaired loans by loan class as of June 30, 2020 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Specific Reserve Recorded:			
Residential Real Estate:			
First Mortgage	$ 32,714,354	$ -	$ 33,120,932
Consumer:			
New Auto	$ -	$ -	$ 5,721
Used Auto	-	-	2,691
Total Consumer	$ -	$ -	$ 8,412
Total	$ 32,714,354	$ -	$ 33,129,344
With Specific Reserve Recorded:			
Commercial:			
Member Business	$ -	$ -	$ 8,581
Residential Real Estate:			
First Mortgage	$ 35,887,396	$ 351,604	$ 32,444,140
Consumer:			
New Auto	$ 33,925	$ 18,006	$ 79,288
Used Auto	54,610	28,885	310,887
Other	-	-	4,417
Total Consumer	$ 88,535	$ 46,891	$ 394,592
Total	$ 35,975,931	$ 398,495	$ 32,847,312
Commercial	$ -	$ -	$ 8,581
Residential Real Estate	68,601,750	351,604	65,565,072
Consumer	88,535	46,891	403,004
Total Loans Individually Evaluated for Impairment	$ 68,690,285	$ 398,495	$ 65,976,656

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information concerning impaired loans by loan class as of June 30, 2019 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Specific Reserve Recorded:			
Residential Real Estate:			
First Mortgage	$ 33,527,510	$ -	$ 27,357,823
Consumer:			
New Auto	$ 11,442	$ -	$ 5,721
Used Auto	5,382	-	5,715
Total Consumer	$ 16,824	$ -	$ 11,436
Total	$ 33,544,334	$ -	$ 27,369,259
With Specific Reserve Recorded:			
Commercial:			
Member Business	$ 17,162	$ 15,862	$ 23,143
Residential Real Estate:			
First Mortgage	$ 29,000,883	$ 347,001	$ 29,351,937
Consumer:			
New Auto	$ 124,651	$ 65,157	$ 166,025
Used Auto	567,164	291,848	638,281
Other	8,833	7,727	4,416
Total Consumer	$ 700,648	$ 364,732	$ 808,722
Total	$ 29,718,693	$ 727,595	$ 30,183,802
Commercial	$ 17,162	$ 15,862	$ 23,143
Residential Real Estate	62,528,393	347,001	56,709,760
Consumer	717,472	364,732	820,158
Total Loans Individually Evaluated for Impairment	$ 63,263,027	$ 727,595	$ 57,553,061

Interest collected on impaired loans for the years ended June 30, 2020 and 2019 was not deemed significant as interest is not accrued on nonaccrual loans or other loans past-due 90 days or more.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

A summary of TDRs by class that were granted during the year and those that were granted, and subsequently defaulted (became 90 days or more delinquent) during the years ended June 30, 2020 and 2019, are as follows. The aggregate amount of charge-offs as a result of restructuring are not significant. A summary of loan modifications by class during the years ended June 30 are as follows:

	Troubled Debt Restructurings			Troubled Debt Restructurings That Subsequently Defaulted		
During the Year Ended June 30, 2020	Number of Loans		Post-Modification Outstanding Balance	Number of Loans		Post-Modification Outstanding Balance
First Mortgage	124	$	14,463,095	21	$	1,841,015
Home Equity Line	24		858,080	2		82,898
New Auto	101		2,067,698	6		138,698
Used Auto	412		4,118,845	24		195,559
Other	209		1,881,995	18		156,653
Total	870	$	23,389,713	71	$	2,414,823

	Troubled Debt Restructurings			Troubled Debt Restructurings That Subsequently Defaulted		
During the Year Ended June 30, 2019	Number of Loans		Post-Modification Outstanding Balance	Number of Loans		Post-Modification Outstanding Balance
First Mortgage	212	$	24,217,329	57	$	6,242,367
Home Equity Line	18		495,945	1		23,458
New Auto	101		2,041,914	4		74,571
Used Auto	418		4,406,197	22		222,416
Other	236		1,947,532	8		98,161
Total	985	$	33,108,917	92	$	6,660,973

The following table shows the types of modifications made during the years ended June 30, 2020 and 2019:

	During the Year Ended June 30, 2020									
		Interest Rate Adjustment		Extended Maturities		Partial Payment		Refinance		Total
First Mortgage	$	782,602	$	9,118,901	$	1,738,428	$	2,823,164	$	14,463,095
Home Equity Line		-		858,080		-		-		858,080
New Auto		-		2,067,698		-		-		2,067,698
Used Auto		-		4,118,845		-		-		4,118,845
Other		-		1,881,995		-		-		1,881,995
Total	$	782,602	$	18,045,519	$	1,738,428	$	2,823,164	$	23,389,713

	During the Year Ended June 30, 2019									
		Interest Rate Adjustment		Extended Maturities		Partial Payment		Refinance		Total
First Mortgage	$	724,926	$	19,808,113	$	1,100,011	$	2,584,279	$	24,217,329
Home Equity Line		-		495,945		-		-		495,945
New Auto		-		2,041,914		-		-		2,041,914
Used Auto		-		4,406,197		-		-		4,406,197
Other		-		1,947,532		-		-		1,947,532
Total	$	724,926	$	28,699,701	$	1,100,011	$	2,584,279	$	33,108,917

NOTE 3 LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Summaries of modified loans in connection with COVID-19 not categorized as TDRs are as follows:

	Modified During Year Ended June 30, 2020		Modified Subsequently to June 30, 2020	
	Number of Loans	Loan Balance	Number of Loans	Loan Balance
Commercial	6	$ 24,217,329	-	$ -
Residential Real Estate	587	495,945	12	1,994,120
Consumer	5,035	2,041,914	263	3,147,890
Total	5,628	$ 26,755,188	275	$ 5,142,010

NOTE 4 PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at June 30 is as follows:

	2020	2019
Land	$ 2,445,660	$ 2,445,660
Building	56,456,002	57,240,036
Furniture and Equipment	3,211,240	3,211,240
Computer Equipment	8,121,125	7,683,768
Automobiles	551,738	551,738
Construction in Process	9,089,249	4,467,721
Total	79,875,014	75,600,163
Less: Accumulated Depreciation and Amortization	(15,738,434)	(12,458,153)
Total	$ 64,136,580	$ 63,142,010

NOTE 5 LEASE COMMITMENTS

Tenants were able to occupy the Quorum Center building space during the year ended June 30, 2020 under the existing noncancelable operating leases expiring in various years until fiscal year 2028. Future minimum lease income receivable under these leases as of June 30 are as follows:

Year Ending June 30,	Amount
2021	$ 333,097
2022	264,278
2023	258,879
2024	192,234
2025	178,906
Subsequent years	515,903
Total	$ 1,743,297

Rental income was $347,455 and $14,577 for the years ended June 30, 2020 and 2019, respectively. This is included in other noninterest income in the consolidated statements of income.

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

A summary of members' share and savings accounts by type at June 30 are as follows:

	2020	2019
Regular Share Accounts	$ 626,472,457	$ 496,930,463
Share Draft Accounts	471,780,281	391,554,664
Money Market Accounts	747,344,163	618,639,992
IRA Share Accounts	211,251,289	192,029,907
Share Term Certificates	312,691,984	276,324,113
Total Members' Share and Savings Accounts	$ 2,369,540,174	$ 1,975,479,139

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $31,901,000 and $24,203,000 at June 30, 2020 and 2019, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled approximately $573,000 and $319,000 at June 30, 2020 and 2019, respectively.

Scheduled maturities of share term certificates for years ending June 30 are as follows:

Year Ending June 30,	Amount
2021	$ 156,700,438
2022	41,763,002
2023	24,608,174
2024	47,903,099
2025	41,717,271
Total	$ 312,691,984

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government.

NOTE 7 BORROWED FUNDS

At June 30, 2020 and 2019, the Credit Union had available lines of credit of approximately $606,109,000 and $547,046,000 with the FHLB and $326,650,000 and $347,849,000 with the Federal Reserve Bank of Richmond (FRB), respectively. The FHLB line is collateralized by mortgage loans and the FRB line is collateralized by auto loans. The interest rates applied on any borrowing are determined on the date of borrowing. The lines have no expiration dates, but are subject to review and change by the issuing institutions. There were no balances outstanding on these lines at June 30, 2020 and 2019.

NOTE 7 BORROWED FUNDS

On October 2, 2017, the Credit Union obtained a secondary capital loan totaling $2 million from the National Federation of Community Development Credit Unions (the Federation) for the purpose of making loans to promote community development. The funds are committed to the Secondary Capital account for a period of seven (7) years. The secondary capital is a form of subordinated debt and is included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. At June 30, 2020 and 2019, the Credit Union applied $1,600,000 and $2,000,000, respectively, of subordinated debt towards the net worth calculation.

Interest is payable quarterly in arrears on January 1, April 1, July 1, and October 1 of each year at a rate of 3.75% per annum. Principal payments will be paid, pending approval from the NCUA, on the anniversary of the disbursement of the loan as follows:

Year Ending June 30,	Amount
2021	$ 400,000
2022	400,000
2023	400,000
2024	400,000
Total	$ 1,600,000

NOTE 8 OFF-STATEMENT OF FINANCIAL CONDITION ACTIVITIES

The Credit Union is a 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 which 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 notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

At June 30, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
Commitments to Grant Loans:		
Commercial	$ 2,641,677	$ 7,678,371
Home-Equity Lines of Credit	75,100,146	66,671,338
Credit Cards	141,158,220	115,104,707
Other Unfunded Commitments	45,636,716	41,558,745
Total	$ 264,536,759	$ 231,013,161

NOTE 8 OFF-STATEMENT OF FINANCIAL CONDITION ACTIVITIES (CONTINUED)

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. Since 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, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include consumer assets, residential real estate, and member share balances.

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

NOTE 9 CONTINGENCIES AND COMMITMENTS

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

At June 30, 2020, the Credit Union estimates the completion of the Quorum Center rebuild to be approximately $3,615,000.

NOTE 10 REGULATORY NET WORTH

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union’s consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union’s assets, liabilities, and certain off-consolidated statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union’s capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE 10 REGULATORY NET WORTH (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNWR ratio as of June 30, 2020, the most recent quarterly regulatory filing date, was 4.51%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of June 30, 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of June 30, 2020, the most recent call reporting period, the NCUA categorized the Credit Union initially as “well capitalized” under the regulatory frame work for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

The consolidated actual capital amounts and ratios as of June 30 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Net Worth	$ 225,784,518	9.41%	$ 157,569,213	6.00%	$ 183,830,749	7.00%
Risk-Based Net Worth Requirement	118,439,525	4.51%	N/A	N/A	N/A	N/A
2019						
Net Worth	$ 207,655,646	9.39%	$ 132,629,898	6.00%	$ 154,734,881	7.00%
Risk-Based Net Worth Requirement	109,640,716	4.96%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 4.51% is less than the net worth ratio of 9.41%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of the current and three preceding quarter-end balances option, as permitted by regulation. For purposes of the net worth calculation, net worth includes all undivided earnings, regular reserves, net worth from an acquisition, and subordinated debt obtained from the Federation.

NOTE 11 RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union and Civic extends credit to members of the Board of Directors, supervisory committee members, and executive officers. Included in Loans to Members, Net of Allowance for Loan Losses and Split-Dollar Collateral Assignment Life Insurance at June 30, 2020 and 2019, are loans to the Credit Union's and Civic's Board of Directors, supervisory committee members, and senior executive staff of approximately $21,749,000 and $16,183,000, respectively. The aggregate principal advances and principal repayments are not significant.

Members' Shares and Savings Accounts (deposits) from the Credit Union's and Civic's Board of Directors, supervisory committee members, and executive officers held by the Credit Union at June 30, 2020 and 2019 are approximately $2,603,000 and $2,563,000, respectively.

The Credit Union provided financial support of $200,000 during the year ended June 30, 2019, to Civic and treated the support as capital gifts. The capital gift was given to Civic with no expectation that the funds would be returned. Therefore, the transaction was treated as an expense to the Credit Union and as equity to Civic. The transaction is eliminated in consolidation.

During the year ended June 30, 2020, LGFCU executed a loan sale of approximately $20,000,000 in first mortgage loans to Civic. As part of this transaction, Civic drew approximately $8,000,000 in funds from its credit facility borrowing agreement with LGFCU. Management of the Credit Unions determined that this transaction met the qualifications for a sale. This transaction is eliminated in consolidation.

LGFCU and Civic currently have common oversight and management. While there are two independent board members for each credit union, the remaining Civic board members are also LGFCU board members. LGFCU will cover expenses on behalf of Civic in return for a service fee outlined in the Support Services Agreement. Had Civic incurred these expenses on a stand-alone basis, the operational support expenses during the fiscal year would have been approximately $9.3 million and $7.5 million during the years ended June 30, 2020 and 2019, respectively. The agreement states that LGFCU will provide substantially all of Civics support services, including property and equipment, system infrastructure and human capital in return for a rate of 25% of the gross revenue of Civic. Operational support expenses incurred by LGFCU on behalf of Civic are included in the Credit Union's consolidated financial statements. LGFCU received approximately $435,000 and $247,000 in services fees from Civic during the years ended June 30, 2020 and 2019, respectively. These fees were eliminated in consolidation.

NOTE 12 VARIABLE INTEREST ENTITY

If an enterprise is the primary beneficiary of a VIE, GAAP requires the assets, liabilities, equity and results of operations of the VIE to be included in the consolidated financial statements of the Credit Union. The Credit Union has determined that Civic is a VIE.

Summarized financial information for Civic as of and for the year ended June 30, is as follows:

	2020	2019
Total Assets	$ 51,551,421	$ 19,324,089
Total Liabilities	45,869,349	13,950,045
Total Members' Equity	$ 5,682,072	$ 5,374,044
Total Revenue	$ 1,748,618	$ 449,918
Total Expense	1,440,589	275,874
Net Income	$ 308,029	$ 174,044

NOTE 13 RELIANCE ON OTHER PARTIES

The Credit Union has an agreement with State Employees' Credit Union of North Carolina (SECU) under which SECU provides substantially all of the Credit Union's operating services including member services, branch facilities, and data processing services. SECU is compensated for such services at a rate of 25% of the gross revenue of the Credit Union, which is paid on a monthly basis. During 2020 and 2019, the Credit Union incurred service fees of $37,522,000 and $35,229,000, respectively, for services rendered under the agreement with SECU, which is included in operations expense on the Consolidated Statements of Income. At June 30, 2020 and 2019, the payable to SECU for service fees under this agreement were approximately $3,254,000 and $3,040,000, respectively.

SECU charges the Credit Union a $0.50 processing charge for the usage of SECU automated teller machines (ATM). Total ATM fees paid to SECU were $2,408,000 and $2,455,000 for fiscal years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, the payable to SECU for services rendered under this agreement was approximately $6,300 and $24,000, respectively.

SECU settles daily member transactions on behalf of the Credit Union. The Credit Union records this activity as a net receivable or payable for amounts settled but not received or paid. The Credit Union had a net receivable from SECU of approximately $1,490,000 and $4,284,000 at June 30, 2020 and 2019, respectively.

NOTE 14 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. There were no assets and liabilities measured at fair value on a recurring basis as of June 30, 2020. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	Balance as of June 30,	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2019					
Federal Agency Mortgage Backed Securities	$ 37,945,280	$ -	$ 37,945,280	$ -	$ 37,945,280
Collateralized Mortgage Obligation Securities	20,290,485	-	20,290,485	-	20,290,485
Total	$ 58,235,765	$ -	$ 58,235,765	$ -	$ 58,235,765

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities: When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union’s securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

NOTE 14 FAIR VALUE (CONTINUED)

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended June 30, 2020 and 2019 consisted of the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
June 30, 2020				
Impaired Loans	$ -	$ -	$ 35,577,436	$ (398,495)
Foreclosed Assets	-	-	1,247,145	(668,758)
Total Nonrecurring	$ -	$ -	$ 36,824,581	$ (1,067,253)
June 30, 2019				
Impaired Loans	$ -	$ -	$ 28,991,098	$ (727,595)
Foreclosed Assets	-	-	1,245,883	(349,946)
Total Nonrecurring	$ -	$ -	$ 30,236,981	$ (1,077,541)

Impaired Loans: In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or 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. 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.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

NOTE 14 FAIR VALUE (CONTINUED)

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	June 30, 2020			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 35,577,436	Appraisals Discounted Expected Cash Flows	Appraisal Adjustment or Discount Rates	Collateral Discount of 8% or 2.75% to 8.25% Discount Rate
Foreclosed Assets	1,247,145	Appraisal	Appraisal Adjustment	16%

	June 30, 2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 28,991,098	Appraisals Discounted Expected Cash Flows	Appraisal Adjustment or Discount Rates	Collateral Discount of 8% or 2.75% to 8.25% Discount Rate
Foreclosed Assets	1,245,883	Appraisal	Appraisal Adjustment	16%

NOTE 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On July 1, 2019, the Credit Union adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent amendments. As stated in Note 1, the implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning July 1, 2019, are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Upon adoption, the Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.

- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.

- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest income such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Significant components of noninterest income considered to be within the scope of Topic 606 is discussed below.

Service Charges and Deposit Account Fees

The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

NOTE 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Interchange Income

When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended June 30, 2020:

In Scope of ASC 606:	
Services Charges and Deposit Account Fees	$ 8,168,964
Interchange Income	32,420,032
Other	3,944,900
Noninterest Income in Scope of ASC 606	44,533,896
Noninterest Income Not Within the Scope of ASC 606 (a)	1,209,562
Total Noninterest Income	$ 45,743,458

(a) This revenue is not within the scope of ASC 606, and includes fees related to loan servicing fees, loss on sale of securities, gain on sale of other assets, Credit Union Owned Life Insurance income, and credit card fees.