# DOMINION ENERGY CREDIT UNION

# FINANCIAL REPORT

# December 31, 2019

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BROWNEDWARDS
*certified public accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Supervisory Committee
of Dominion Energy Credit Union
Richmond, Virginia

We have audited the accompanying financial statements of Dominion Energy Credit Union, which comprise the statements of financial condition as of December 31, 2019 and 2018, and the related statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



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**Opinion**

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
March 12, 2020

## DOMINION ENERGY CREDIT UNION

## STATEMENTS OF FINANCIAL CONDITION
**December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 15,309,679 | $ 3,706,205 |
| Investments available-for-sale (Note 2) | 88,112,171 | 118,614,000 |
| Other investments (Note 3) | 1,024,590 | 1,444,565 |
| Loans to members, net of allowance for loan losses (Note 4) | 191,484,605 | 171,425,860 |
| Accrued interest receivable | 753,486 | 913,601 |
| Leaseholds and equipment (Note 5) | 1,875,853 | 1,202,806 |
| NCUSIF deposit | 2,430,325 | 2,517,408 |
| Other assets | 309,898 | 310,344 |
| Total assets | $ 301,300,607 | $ 300,134,789 |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| LIABILITIES | | |
| Members' deposit accounts (Note 6) | $ 260,228,082 | $ 253,696,757 |
| Lines of credit and advances (Note 8) | - | 10,000,000 |
| Accrued expenses and other liabilities | 1,889,678 | 1,657,665 |
| Total liabilities | 262,117,760 | 265,354,422 |
| MEMBERS' EQUITY (Note 12) | | |
| Regular reserve | 2,229,057 | 2,229,057 |
| Undivided earnings | 36,171,120 | 34,250,196 |
| Accumulated other comprehensive income (loss) | 782,670 | (1,698,886) |
| Total members' equity | 39,182,847 | 34,780,367 |
| Total liabilities and members' equity | $ 301,300,607 | $ 300,134,789 |

The Notes to Financial Statements are an integral part of these statements.

## DOMINION ENERGY CREDIT UNION

## STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
**Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| INTEREST INCOME | | |
| Loans receivable | $ 8,467,120 | $ 7,454,947 |
| Investments | 2,124,674 | 2,341,148 |
| Total interest income | 10,591,794 | 9,796,095 |
| INTEREST EXPENSE | | |
| Dividends on members' shares and savings accounts | 2,625,684 | 2,047,907 |
| Interest on borrowed funds | 66,827 | 146,886 |
| Total interest expense | 2,692,511 | 2,194,793 |
| Net interest income | 7,899,283 | 7,601,302 |
| PROVISION FOR LOAN LOSSES (Note 4) | 410,000 | 360,000 |
| Net interest income after provision for loan losses | 7,489,283 | 7,241,302 |
| NON-INTEREST INCOME | | |
| Fees and charges | 2,376,106 | 2,264,374 |
| Gain on sale of mortgages | 24,731 | 4,050 |
| Gain on sale of investments | 31,153 | - |
| Gain on sale of equipment | 16,017 | - |
| Total non-interest income | 2,448,007 | 2,268,424 |
| NON-INTEREST EXPENSES | | |
| Compensation and benefits (Note 7) | 3,889,210 | 3,244,718 |
| Office and operating expenses | 4,127,156 | 3,689,343 |
| Total non-interest expense | 8,016,366 | 6,934,061 |
| Net income | 1,920,924 | 2,575,665 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Unrealized gain (loss) on investments available-for-sale | 2,512,709 | (373,854) |
| Reclassification adjustment for gains included in net income | (31,153) | - |
| Total other comprehensive income (loss) | 2,481,556 | (373,854) |
| Total comprehensive income | $ 4,402,480 | $ 2,201,811 |

The Notes to Financial Statements are an integral part of these statements.

**DOMINION ENERGY CREDIT UNION**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**
**Years Ended December 31, 2019 and 2018**

| | Regular Reserve | Undivided Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|
| BALANCE, December 31, 2017 | $ 2,229,057 | $ 31,674,531 | $ (1,325,032) | $ 32,578,556 |
| Net income | - | 2,575,665 | - | 2,575,665 |
| Unrealized loss on investments | - | - | (373,854) | (373,854) |
| BALANCE, December 31, 2018 | 2,229,057 | 34,250,196 | (1,698,886) | 34,780,367 |
| Net income | - | 1,920,924 | - | 1,920,924 |
| Unrealized gain on investments | - | - | 2,512,709 | 2,512,709 |
| Reclassification adjustment for gains | - | - | (31,153) | (31,153) |
| BALANCE, December 31, 2019 | $ 2,229,057 | $ 36,171,120 | $ 782,670 | $ 39,182,847 |

The Notes to Financial Statements are an integral part of these statements.

**DOMINION ENERGY CREDIT UNION**

**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 1,920,924 | $ 2,575,665 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 507,980 | 564,051 |
| Provision for loan losses | 410,000 | 360,000 |
| Realized gain on sale of equipment | (16,017) | - |
| Realized gain on sale of investments | (31,153) | - |
| Amortization of investment discounts and premiums, net | 150,236 | 168,245 |
| Accretion of deferred loan fees and costs, net | (2,779) | (4,786) |
| (Increase) decrease in: | | |
| Accrued interest receivable | 160,115 | (127,678) |
| Other assets | 446 | (72,010) |
| Increase (decrease) in accrued expenses and other liabilities | 232,013 | (47,880) |
| Net cash provided by operating activities | 3,331,765 | 3,415,607 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from certificate of deposit | - | 600,000 |
| Purchases of investments available-for-sale | (3,145,500) | (32,936,428) |
| Proceeds from investments available-for-sale | 36,009,802 | 41,000,000 |
| (Increase) decrease in other investments | 419,975 | (392,074) |
| Increase in loans to members, net | (20,465,966) | (17,280,747) |
| Purchases of leaseholds and equipment | (1,191,001) | (379,436) |
| Proceeds from sale of equipment | 25,991 | - |
| Increase (decrease) in NCUSIF deposit | 87,083 | (91,809) |
| Net cash provided by (used in) investing activities | 11,740,384 | (9,480,494) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in members' shares, net | 6,531,325 | (1,463,697) |
| Line of credit advances (payments), net | (10,000,000) | 9,817,485 |
| Net cash provided by (used in) financing activities | (3,468,675) | 8,353,788 |
| Net increase in cash and cash equivalents | 11,603,474 | 2,288,901 |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning | 3,706,205 | 1,417,304 |
| Ending | $ 15,309,679 | $ 3,706,205 |
| **SUPPLEMENTAL CASH FLOW INFORMATION** | | |
| Interest and dividends paid | $ 2,703,031 | $ 2,184,273 |

The Notes to Financial Statements are an integral part of these statements.

## Note 1. Nature of Business and Organization and Significant Accounting Policies

Dominion Energy Credit Union (the "Credit Union") is headquartered in Richmond, Virginia and was organized and chartered in 1940 for the purpose of promoting thrift among its members and creating a source of credit for provident and productive purposes. The Credit Union accepts members' deposits, originates and services consumer and real estate loans, and provides other member services. Participation in the Credit Union is limited to those individuals who qualify for membership as defined in its charter and bylaws.

Cash and Cash Equivalents

For purposes of the Statements of Financial Condition and the Statements of Cash Flows, cash and cash equivalents consist of cash on hand, demand deposits in other financial institutions (including cash items in process of collection), and certificates of deposit with original maturities of three months or less. Interest bearing cash equivalent balances at December 31, 2019 and 2018 totaled \$14,882,513 and \$3,246,943, respectively. Cash and cash equivalents restricted for compensating balances at December 31, 2019 and 2018 were \$182,000 and \$175,900, respectively.

Investments

Debt securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income. Amortization of premiums and accretion of discounts is performed using methods approximating the interest method. Gains and losses on dispositions of securities are computed using the specific identification method.

Other Investments

Investments that are required to be maintained in order for the Credit Union to participate in the services of credit union service organizations, corporate credit unions, and the Federal Home Loan Bank of Atlanta are recorded as other investments. No market value exists for these investments. These investments are carried at cost.

The Credit Union's access to a Corporate Credit Union requires that a membership share deposit be maintained for full participation as a member credit union. The membership shares in the corporate credit union are uninsured and require a three-year notice before withdrawal.

Loans Receivable

Loans receivable are stated at the amount of unpaid principal, net of deferred loan origination fees, and allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. Loan origination fees are deferred, and are recognized as an adjustment to interest income over the estimated life of the loans to which they relate.

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## Note 1. Nature of Business and Organization and Significant Accounting Policies (Continued)

Loans Held For Sale

Mortgage loans held for sale, where the Credit Union has a positive intent to sell these loans, are initially recorded at the principal amount outstanding. Generally these loans are sold within fifteen days of the mortgage loan commitment. The Credit Union evaluates the fair value of these loans prior to the respective year ends. If the difference in the principal amount and the fair value amount of these loans are deemed material by the Credit Union, the loans are adjusted to the lower of the principal amount outstanding or market value. As of December 31, 2019 and 2018, there were no mortgages held for sale.

Real estate loans totaling $2,101,311 were originated for sale and sold during 2019, with gross gains of $24,731 realized. Real estate loans totaling $405,000 were originated for sale and sold during 2018, with gross gains of $4,050 realized.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as is discussed elsewhere for impaired 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 loan balance cannot be collected. Subsequent recoveries, if any, are credited to the allowance.

The Credit Union generally fully or partially charges down to the fair value of collateral securing the loan, if any, when (1) the loan is past due more than 365 days; (2) the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or (3) management judges the loan to be uncollectible.

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**Note 1. Nature of Business and Organization and Significant Accounting Policies (Continued)**

Allowance for Loan Losses (Continued)

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 loan portfolio. Such evaluations consider prior loss experience and the levels of nonperforming loans. In this process, segment loss rates are developed based on an analysis of the historical charge-off experience for the most recent eight calendar quarters. The loss rates are then applied to the portfolio segments. Management performs this evaluation quarterly. Due to the nature of uncertainties related to any estimation process, management's estimate of loan losses inherent in the portfolio and the related allowance for loan losses may change in the near-term.

The Credit Union groups loans into segments according to loan type. This is the level at which the Credit Union develops the allowance for loan losses. The degree of risk varies by loan segment, but for all loans is dependent upon the capacity of the borrower to repay the loan. The segments are as follows:

Unsecured Loans: Unsecured loans generally do not require collateral.

Visa Loans: Credit card loans generally do not require collateral.

Vehicle Loans: Vehicle loans are generally secured by new and used automobiles. The degree of risk for vehicle loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed.

Real Estate Loans: Real estate loans include first trust mortgage loans, home equity mortgage loans, and second trust mortgage loans. The degree of risk for real estate loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed. Private mortgage insurance (PMI) reduces the degree of LTV risk. Home equity mortgage loans and second trust mortgage loans represent greater risk than first trust mortgage loans because these loans are in the second position and they do not generally require PMI.

Other Loans: Other loans include share and certificate secured loans and recreational vehicle loans. Share and certificate loans represent a lower degree of risk to the Credit Union as the loans are generally secured by the borrower's deposit account at the Credit Union. The degree of risk for recreational vehicle loans also depends on the loan amount in relation to the collateral value (LTV). The higher the LTV, the higher degree of risk is assumed.

Other loans also include Troubled Debt Restructuring Loans (TDR). These loans are generally unsecured and do not have collateral.

(Continued)

## Note 1. Nature of Business and Organization and Significant Accounting Policies (Continued)

### Leaseholds and Equipment

Leaseholds and equipment are stated at cost, less accumulated amortization and depreciation. Depreciation is calculated and recorded using the straight-line method over the estimated useful lives of the various assets.

### NCUSIF Deposit and Premiums

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured deposits. The deposit would be refunded to the Credit Union if: (1) the insurance coverage is terminated; (2) the Credit Union converts to insurance coverage from another source; or (3) the operations of the fund are transferred from the NCUA Board.

### Members' Deposit Accounts

Members' deposit accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposit accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' deposit accounts are set by the Credit Union's Asset Liability Management Committee, based on an evaluation of current and future market conditions.

### Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve (regular reserve), which represents a regulatory restriction of members' equity, and which is not available for the payment of interest on deposit accounts. Other appropriated members' equity amounts may be established or transferred at the discretion of the Board of Directors.

### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, which includes unrealized gains and losses on investments available-for-sale.

### Income Taxes

The Credit Union is exempt by statute from federal and state income taxes except for net taxable income from certain products and services such as nonmember ATM transactions, credit life, and disability income. These services have been deemed by the Internal Revenue Service to be unrelated to the Credit Union's exempt purpose, and thus subject to income taxes under the Unrelated Business Income Tax (UBIT) regulations. The Credit Union expects any tax payable as of December 31, 2019 to be immaterial.

(Continued)

## Note 1. Nature of Business and Organization and Significant Accounting Policies (Continued)

Off-balance Sheet 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.

Advertising Costs

The Credit Union charges advertising costs to expense as incurred. Advertising expense was approximately $367,000 and $318,000 for 2019 and 2018, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. 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 loss and the valuation of securities.

Subsequent Events

The Credit Union has evaluated subsequent events through March 12, 2020, the date that the financial statements were available to be issued, and management is not aware of any subsequent event which requires recognition or disclosure in these financial statements.

Adoption of New Accounting Standards

On January 1, 2019, the Credit Union adopted ASU No. 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 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 OREO. The majority of the Credit Union's revenues come from interest income and other sources, including loans and investments, that are outside the scope of ASC 606. The Credit Union's services that fall within the scope of ASC 606 are presented with Non-Interest Income and are recognized as revenue as the Credit Union satisfied its obligations to the member. Services within the scope of ASC 606 include deposit service charges on deposits and interchange income. Refer to Note 14 for further discussion on the Credit Union's accounting policies for revenue sources within the scope of ASC 606.

## Note 2. Investments Available-for-Sale

A summary of the amortized cost, gross unrealized gains and losses, and fair values of available-for-sale securities is summarized as follows:

**December 31, 2019**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $ 18,000,111 | $ 56,005 | $ (6,090) | $ 18,050,026 |
| U.S. government corporation and agency securities | 69,329,390 | 923,763 | (191,008) | 70,062,145 |
| Total available-for-sale securities | $ 87,329,501 | $ 979,768 | $ (197,098) | $ 88,112,171 |

**December 31, 2018**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $ 23,993,645 | $ - | $ (339,335) | $ 23,654,310 |
| U.S. government corporation and agency securities | 96,319,241 | 53,593 | (1,413,144) | 94,959,690 |
| Total available-for-sale securities | $ 120,312,886 | $ 53,593 | $ (1,752,479) | $ 118,614,000 |

The amortized cost and fair value of available-for-sale securities as of December 31, 2019 by contractual maturity is summarized as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| Due within one year | $ 12,002,789 | $ 11,920,369 |
| Due after one year through five years | 75,326,712 | 76,191,802 |
| | $ 87,329,501 | $ 88,112,171 |

(Continued)

## Note 2. Investments Available-for-Sale (Continued)

Information pertaining to available-for-sale securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is summarized as follows:

**December 31, 2019**

| | Less than 12 Months | | 12 Months or More | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and U.S. government corporation and agency securities | $ - | $ - | $ 23,804,095 | $ 197,098 |

**December 31, 2018**

| | Less than 12 Months | | 12 Months or More | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and U.S. government corporation and agency securities | $ 32,847,240 | $ 100,363 | $ 85,766,760 | $ 1,598,523 |

Credit Union management evaluates investments for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

No investments were considered by management to have experienced other-than-temporary impairment as of December 31, 2019 and 2018.

Investments totaling $6,063,516 were sold during 2019, with gross gains of $31,153 realized on those sales. No investments were sold in 2018 with realized gains or losses.

## Note 3. Other Investments

Other investments carried at cost are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Corporate credit union membership shares | $ 250,000 | $ 250,000 |
| FHLB stock and DIA Investment | 270,200 | 685,900 |
| Investments in credit union service organizations | 504,390 | 508,665 |
| | $ 1,024,590 | $ 1,444,565 |

(Continued)

## Note 4. Loans Receivable

Loans receivable are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Unsecured | $ 6,611,790 | $ 5,781,362 |
| VISA | 14,892,556 | 14,994,808 |
| Vehicle | 80,584,733 | 67,781,345 |
| Real estate | 87,964,812 | 81,350,340 |
| Other | 2,088,287 | 2,153,762 |
| | 192,142,178 | 172,061,617 |
| Allowance for loan losses | (629,252) | (604,657) |
| Deferred loan fees | (28,321) | (31,100) |
| Loans receivable, net | $ 191,484,605 | $ 171,425,860 |

Changes in the allowance for loan losses by loan segment and loans receivable evaluated for impairment is summarized below:

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Allowance for loan losses: | | | | | | |
| Balance, beginning of year | $ 108,592 | $ 102,239 | $ 184,706 | $ 156,196 | $ 52,924 | $ 604,657 |
| Loans charged-off | (86,881) | (227,568) | (292,081) | (12,018) | (89,237) | (707,785) |
| Recoveries of loans charged-off | 25,682 | 57,521 | 202,968 | 13,839 | 22,370 | 322,380 |
| Provision for loan losses | 54,176 | 193,671 | 85,573 | 6,014 | 70,566 | 410,000 |
| Balance, end of year | $ 101,569 | $ 125,863 | $ 181,166 | $ 164,031 | $ 56,623 | $ 629,252 |
| Loans individually evaluated for impairment | $ - | $ - | $ - | $ - | $ 9,055 | $ 9,055 |
| Loans collectively evaluated for impairment | 101,569 | 125,863 | 181,166 | 164,031 | 47,568 | 620,197 |
| Balance, end of year | $ 101,569 | $ 125,863 | $ 181,166 | $ 164,031 | $ 56,623 | $ 629,252 |
| Loans receivable: | | | | | | |
| Loans individually evaluated for impairment | $ - | $ - | $ - | $ - | $ 44,268 | $ 44,268 |
| Loans collectively evaluated for impairment | 6,611,790 | 14,892,556 | 80,584,733 | 87,964,812 | 2,044,019 | 192,097,910 |
| Ending balance | $ 6,611,790 | $ 14,892,556 | $ 80,584,733 | $ 87,964,812 | $ 2,088,287 | $ 192,142,178 |

As of December 31, 2019, management has identified $44,268 as TDR loans and these are included in the loan segment "Other." Management believes a specific allowance is needed for these loans, and such allowance was estimated to be $9,055.

## Note 4. Loans Receivable (Continued)

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Allowance for loan losses: | | | | | | |
| Balance, beginning of year | $ 60,040 | $ 75,012 | $ 334,467 | $ 168,405 | $ 56,615 | $ 694,539 |
| Loans charged-off | (143,048) | (113,445) | (375,152) | - | (47,687) | (679,332) |
| Recoveries of loans charged-off | 26,320 | 46,068 | 142,160 | 969 | 13,933 | 229,450 |
| Provision for loan losses | 165,280 | 94,604 | 83,231 | (13,178) | 30,063 | 360,000 |
| Balance, end of year | $ 108,592 | $ 102,239 | $ 184,706 | $ 156,196 | $ 52,924 | $ 604,657 |
| Loans individually evaluated for impairment | $ - | $ - | $ - | $ - | $ 26,742 | $ 26,742 |
| Loans collectively evaluated for impairment | 108,592 | 102,239 | 184,706 | 156,196 | 26,182 | 577,915 |
| Balance, end of year | $ 108,592 | $ 102,239 | $ 184,706 | $ 156,196 | $ 52,924 | $ 604,657 |
| Loans receivable: | | | | | | |
| Loans individually evaluated for impairment | $ - | $ - | $ - | $ - | $ 102,584 | $ 102,584 |
| Loans collectively evaluated for impairment | 5,781,362 | 14,994,808 | 67,781,345 | 81,350,340 | 2,051,178 | 171,959,033 |
| Ending balance | $ 5,781,362 | $ 14,994,808 | $ 67,781,345 | $ 81,350,340 | $ 2,153,762 | $ 172,061,617 |

As of December 31, 2018, management has identified $102,584 as TDR loans and these are included in the loan segment “Other.” Management believes a specific allowance is needed for these loans, and such allowance was estimated to be $26,742.

The Credit Union assigns an internal grade to loans based upon its evaluation of recent credit scores of borrowers. A grade of high, moderate, or low is assigned to each borrower’s loan. The borrower’s credit scores that were used to develop the internal grades were updated on September 30, 2019 and September 30, 2018, respectively. The Credit Union’s historical loss experience indicates that the likelihood of loan charge-offs (loan losses) is greater for loans graded high as compared to those graded moderate and low. However, historical performance is not necessarily indicative of future results.

Loans receivable by internally assigned risk grade are summarized below:

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Low | $ 3,681,666 | $ 12,333,038 | $ 64,350,976 | $ 79,615,945 | $ 1,111,122 | $ 161,092,747 |
| Moderate | 1,882,887 | 1,875,349 | 11,629,283 | 4,275,102 | 527,122 | 20,189,743 |
| High | 1,047,237 | 684,169 | 4,604,474 | 4,073,765 | 450,043 | 10,859,688 |
| | $ 6,611,790 | $ 14,892,556 | $ 80,584,733 | $ 87,964,812 | $ 2,088,287 | $ 192,142,178 |

## Note 4. Loans Receivable (Continued)

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Low | $ 2,941,533 | $ 12,208,426 | $ 52,545,762 | $ 73,945,120 | $ 1,205,687 | $ 142,846,528 |
| Moderate | 1,839,574 | 1,993,260 | 10,099,026 | 5,245,325 | 403,678 | 19,580,863 |
| High | 1,000,255 | 793,122 | 5,136,557 | 2,159,895 | 544,397 | 9,634,226 |
| | $ 5,781,362 | $ 14,994,808 | $ 67,781,345 | $ 81,350,340 | $ 2,153,762 | $ 172,061,617 |

The aging of loans receivable is summarized below:

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 1-30 Days Past Due | 31-60 Days Past Due | 61-90 Days Past Due | 91 Days or More Past Due | Total Loans |
| Unsecured | $ 6,454,941 | $ 75,768 | $ 27,578 | $ 3,519 | $ 49,984 | $ 6,611,790 |
| VISA | 14,487,416 | 154,719 | 84,157 | 21,862 | 144,402 | 14,892,556 |
| Vehicle | 79,549,578 | 548,611 | 121,382 | 74,681 | 290,481 | 80,584,733 |
| Real estate | 87,806,127 | - | 128,835 | - | 29,850 | 87,964,812 |
| Other | 2,002,347 | 24,879 | 16,581 | 19,542 | 24,938 | 2,088,287 |
| | $ 190,300,409 | $ 803,977 | $ 378,533 | $ 119,604 | $ 539,655 | $ 192,142,178 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 1-30 Days Past Due | 31-60 Days Past Due | 61-90 Days Past Due | 91 Days or More Past Due | Total Loans |
| Unsecured | $ 5,676,264 | $ 46,411 | $ 13,186 | $ 10,924 | $ 34,577 | $ 5,781,362 |
| VISA | 14,613,742 | 170,098 | 63,006 | 23,512 | 124,450 | 14,994,808 |
| Vehicle | 67,068,256 | 286,627 | 97,328 | 60,038 | 269,096 | 67,781,345 |
| Real estate | 80,821,657 | 330,476 | 131,288 | - | 66,919 | 81,350,340 |
| Other | 2,069,688 | - | 4,479 | 58,902 | 20,693 | 2,153,762 |
| | $ 170,249,607 | $ 833,612 | $ 309,287 | $ 153,376 | $ 515,735 | $ 172,061,617 |

The Credit Union discontinues the accrual of interest on a loan when the loan becomes thirty-one days delinquent. Income is subsequently recognized only to the extent cash loan payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments has resumed, in which case the loan is returned to an accrual status. The Credit Union considers loans as performing if they are less than 31 days delinquent.

**Note 4. Loans Receivable (Continued)**

The aggregate amount of loans on which the accrual of interest has been discontinued at December 31, 2019 and 2018 was $1,037,792 and $978,398, respectively. Had interest income been recognized for these loans as of December 31, 2019 and 2018, it would have approximated $23,607 and $20,547, respectively.

As of December 31, 2019 and 2018, the Credit Union did not have any loans that were more than thirty-one days past due that were accruing interest.

The credit risk profile by payment activity for each segment of loans receivable is summarized below:

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Performing | $ 6,530,709 | $ 14,642,135 | $ 80,098,189 | $ 87,806,127 | $ 2,027,226 | $ 191,104,386 |
| Non-performing | 81,081 | 250,421 | 486,544 | 158,685 | 61,061 | 1,037,792 |
| | $ 6,611,790 | $ 14,892,556 | $ 80,584,733 | $ 87,964,812 | $ 2,088,287 | $ 192,142,178 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Unsecured | VISA | Vehicle | Real Estate | Other | Total |
| Performing | $ 5,722,675 | $ 14,783,840 | $ 67,354,883 | $ 81,152,133 | $ 2,069,688 | $ 171,083,219 |
| Non-performing | 58,687 | 210,968 | 426,462 | 198,207 | 84,074 | 978,398 |
| | $ 5,781,362 | $ 14,994,808 | $ 67,781,345 | $ 81,350,340 | $ 2,153,762 | $ 172,061,617 |

**Note 5. Leaseholds and Equipment**

Leaseholds and equipment are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Leasehold improvements | $ 617,350 | $ 176,366 |
| Furniture and equipment | 4,034,247 | 3,330,368 |
| | 4,651,597 | 3,506,734 |
| Less accumulated amortization and depreciation | (2,775,744) | (2,303,928) |
| | $ 1,875,853 | $ 1,202,806 |

Depreciation expense for the years ended December 31, 2019 and 2018 was $507,980 and $564,051, respectively, and is included in occupancy and office operations expenses.

(Continued)

## Note 6. Members' Deposit Accounts

Members' deposit accounts are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Regular and club shares | $ 77,555,488 | $ 77,669,886 |
| Draft shares | 28,318,120 | 24,726,654 |
| Money market shares | 101,119,368 | 102,962,946 |
| Share certificates | 53,235,106 | 48,337,271 |
| | $ 260,228,082 | $ 253,696,757 |

Scheduled maturities of share certificate accounts at December 31, 2019 are summarized as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2020 | $ 24,793,899 |
| 2021 | 11,739,429 |
| 2022 | 12,398,154 |
| 2023 | 1,979,303 |
| 2024 | 2,324,321 |
| | $ 53,235,106 |

The aggregate amount of members' term deposit accounts over $250,000 at December 31, 2019 and 2018 was $14,353,596 and $11,908,441, respectively.

## Note 7. Employee Benefit Plans

Defined Benefit Plan

The Credit Union participates in a defined benefit retirement plan sponsored by Dominion Energy. Pension expense for the years ended December 31, 2019 and 2018 was $458,236 and $341,672, respectively, which is based on rates established by Dominion Energy. The Credit Union's contributions are such that the pension obligation is entirely the responsibility of Dominion Energy, which retains all risk relative to asset returns, interest rate changes, and the effects of other trends. No asset or liability has been recorded by the Credit Union for the pension obligation, and upon retirement all benefits are provided by Dominion Energy.

Defined Contribution Plan

The Credit Union participates in a defined contribution retirement plan sponsored by Dominion Energy. Pension expense for the years ended December 31, 2019 and 2018 was $74,937 and $63,224, respectively.

(Continued)

**Note 7. Employee Benefit Plans (Continued)**

Postretirement Health Benefit Plan

The Credit Union participates in a postretirement health benefit plan sponsored by Dominion Energy. The net periodic benefit credit for 2019 and 2018 totaled $145,458 and $224,677, respectively. The Credit Union's arrangements for other postretirement health benefits, as with the pension plan, result in no asset or liability recorded by the Credit Union. Upon retirement, all benefits are provided by Dominion Energy.

**Note 8. Lines of Credit and Advances**

The Credit Union maintains a line of credit with a Corporate Credit Union totaling $10,500,000, collateralized by the deposit account assets of the Credit Union to the extent of the borrowings outstanding. The Credit Union had no outstanding balance at December 31, 2019 and 2018.

The Credit Union is also a member of the Federal Home Loan Bank (FHLB) System which provides approved borrowing opportunities based on total assets of the Credit Union and is secured by the Credit Union's loan portfolio and $12,000,000 in securities held in safekeeping with the FHLB. The total credit available at December 31, 2019 totaled $74,086,250 and $65,330,750 at December 31, 2018. Terms vary depending on the type of lending needed. The Credit Union had an outstanding balance due to the FHLB System of $-0- and $10,000,000 at December 31, 2019 and 2018, respectively.

The Credit Union is also a member of the Federal Reserve Bank of Richmond (FRB) System which provides approved borrowing through its discount window and is secured by United States government agency securities in the amount of $12,000,000 held in safekeeping with the FRB. The total credit available was $11,854,511 and $11,472,703 at December 31, 2019 and 2018, respectively. The Credit Union had no outstanding balance due to the FRB System at December 31, 2019 or 2018.

**Note 9. Related Party Transactions**

Loans to Credit Union officials and senior executive staff as of December 31, 2019 and 2018 amounted to $274,394 and $266,083, respectively, and are made on the same terms and conditions as loans made to other members.

Deposit accounts of Credit Union officials and senior executive staff as of December 31, 2019 and 2018 amounted to $2,499,552 and $2,158,046, respectively.

(Continued)

## Note 10. Commitments, Concentrations, and Contingencies

Lease Commitment

Minimum annual branch operating lease commitments at December 31, 2019 are summarized as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2020 | $ 257,949 |
| 2021 | 264,157 |
| 2022 | 270,537 |
| 2023 | 283,643 |
| 2024 | 285,908 |
| Thereafter | 553,569 |
| | $ 1,915,763 |

Rent expense for 2019 and 2018 was $236,283 and $206,483, respectively.

Credit Extension Commitment

Commitments to extend credit are off-balance sheet agreements to extend credit to a member as long as there is no violation of any condition established in the lending contract. These commitments represent agreements to extend credit on home equity and credit card lines of credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recorded in the financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the member to the financial instrument for commitments to extend credit is represented by the commitment amount of these instruments noted below.

For each commitment to extend credit, the Credit Union evaluates the member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of the commitment, is based on the type of commitment and management's credit evaluation of the member. Collateral, if required, varies but generally includes residential real estate for home equity commitments. The commitments for lines of credit established for credit card accounts are unsecured and require no collateral.

A summary of the Credit Union's credit commitments is as follows:

| | 2019 | 2018 |
|---|---|---|
| Home equity | $ 4,522,113 | $ 4,543,908 |
| Credit card | 62,598,744 | 62,235,491 |
| | $ 67,120,857 | $ 66,779,399 |

## Note 10. Commitments, Concentrations, and Contingencies (Continued)

Mortgage Loan Sale Commitment

As of December 31, 2019 and 2018, the Credit Union did not have any commitments to sell mortgage loans.

Investment Security Concentration

At December 31, 2019, the Credit Union's investment of $88,112,171 in government sponsored enterprise securities is concentrated as follows:

| | Percentage | Amount |
|---|---|---|
| U.S. Treasury | 21% | $ 18,050,026 |
| Federal Agriculture Mortgage Corporation | 10 | 9,124,620 |
| Federal Home Loan Bank | 42 | 36,930,540 |
| Federal Home Loan Mortgage Corporation | 10 | 9,144,420 |
| Federal National Mortgage Association | 17 | 14,862,565 |
| | 100% | $ 88,112,171 |

At December 31, 2018, the Credit Union's investment of $118,614,000 in government sponsored enterprise securities is concentrated as follows:

| | Percentage | Amount |
|---|---|---|
| U.S. Treasury | 20% | $ 23,654,310 |
| Federal Agriculture Mortgage Corporation | 10 | 11,827,620 |
| Federal Farm Credit Bank | 10 | 11,787,210 |
| Federal Home Loan Bank | 28 | 32,997,150 |
| Federal Home Loan Mortgage Corporation | 17 | 20,796,120 |
| Federal National Mortgage Association | 15 | 17,551,590 |
| | 100% | $ 118,614,000 |

U.S. government corporation and agency securities are not an obligation of, and are not guaranteed by, the U.S. government.

Geographical Concentration

The Credit Union has a significant concentration of loans to members residing and employed in the Richmond, Virginia metropolitan area. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' ability to honor their contracts is dependent upon the condition of the local economies within the Richmond, Virginia metropolitan area.

In February 2019, Dominion Energy purchased Southeast Energy Group and that is now part of the Credit Union's field of membership. The field of membership expands to Georgia, North Carolina, and South Carolina.

## Note 10. Commitments, Concentrations, and Contingencies (Continued)

Sponsor Concentration

The Credit Union has a significant concentration of loans to members employed at Dominion Energy. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' ability to honor their contracts is dependent upon the employment stability of this company.

## Note 11. Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The *Codification* requires the use of valuation techniques that are 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 which are 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 which are developed based on the best information available in the circumstances.

In that regard, the *Codification* establishes a fair value hierarchy for 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: Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

(Continued)

## Note 11. Fair Value of Financial Instruments (Continued)

The following methods were used by the Credit Union in estimating fair values of financial instruments:

Investments Available-for-Sale: The fair value of available-for-sale investment securities is estimated based on quoted prices for similar assets quoted by recognized investment broker dealers. This estimate is classified as Level 2 within the valuation hierarchy.

The following table summarizes the investments available-for-sale measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

**December 31, 2019**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments available-for-sale | $ 88,112,171 | $ - | $ 88,112,171 | $ - |

**December 31, 2018**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments available-for-sale | $ 118,614,000 | $ - | $ 118,614,000 | $ - |

Changes in Fair Value Hierarchy

At each reporting date, the Credit Union assesses the classification of the financial instruments measured at fair value. The assessment of the classification in the fair value hierarchy requires judgment, for example the importance of unobservable inputs used in determining the fair value. As a result, the outcome of the classification process may differ between reporting periods. There have been no changes in the classification process or valuation techniques used to measure Level 2 and Level 3 instruments during the period.

Nonrecurring Measurements

The Credit Union may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. Assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at year-end include impaired loans, which are discussed in Note 4.

(Continued)

## Note 12. Regulatory Capital Requirements

The Credit Union is subject to regulatory net worth ratio requirements administered by the NCUA. In addition, the regulators have also established Risk Based Net Worth (RBNW) requirements for complex credit unions, based on risk-weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. Failure to meet minimum regular net worth ratio requirements, or adjusted net worth due to RBNW requirements, can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios of net worth to assets (as defined in the regulations). The minimum regular net worth ratio to be considered well capitalized is 7% for a non-complex credit union. If a credit union's RBNW ratio exceeds 6%, it is considered complex, and the minimum regular net worth ratio requirement of 7% is changed based on the RBNW ratio requirement. As of December 31, 2019, the Credit Union's RBNW ratio was 5.84% and therefore, it was not considered a complex credit union. The Credit Union's net worth ratio as of December 31, 2019 was 12.83% and it was considered to be well capitalized.

The Credit Union's actual capital amounts and ratios are presented in the following table at December 31:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | Ratio Requirement | Amount | Ratio Requirement |
| Risk-based net worth | $ 17,595,955 | 5.84% | $ 19,808,896 | 6.60% |
| Amount needed to be classified as "well capitalized" | $ 17,595,955 | 5.84% | $ 19,808,896 | 6.60% |
| Actual net worth | $ 38,400,178 | 12.83% | $ 36,479,253 | 12.15% |

## Note 13. Merger

Prior to December 31, 2019, the Credit Union approved a Plan of Merger to merge with East Ohio Gas Cleveland Employees Federal Credit Union and East Ohio Gas Youngstown Division Employees Federal Credit Union. The merger is contingent upon regulator and member approval which is still in process.

(Continued)

## Note 14. Revenue Recognition

A description of the Credit Union's revenue streams accounted for under ASC 606 is as follows:

Service Charges on Share Accounts: The Credit Union earns fees from its members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, 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. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfied the performance obligation. 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.

Interchange Income: The Credit Union earns interchange fees from debit/credit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

All of the Credit Union's revenue from contracts with members in the scope of ASC 606 is recognized within fees and charges. The following table presents the Credit Union's sources of Non-Interest Income for the twelve months ended December 31, 2019 and 2018. Items outside of the scope of ASC 606 are noted as such (**).

| | 2019 | 2018 |
|---|---|---|
| Fees and charges | | |
| VISA interchange income (debit/credit) | $ 1,372,836 | $ 1,329,733 |
| Service charges on deposit accounts | 719,604 | 668,593 |
| Loan late fees (**) | 34,044 | 31,860 |
| Gap insurance (**) | 144,740 | 119,681 |
| ATM income | 104,882 | 114,507 |
| | $ 2,376,106 | $ 2,264,374 |