CERTIFIED AUDIT REPORT

SCOTT CREDIT UNION

FINANCIAL STATEMENTS

As of and for the years ended
December 31, 2021 and 2020

INDEPENDENT AUDITOR'S COMMUNICATION

For the year ended December 31, 2021

Nearman
Maynard • Vallez
Certified Public Accountants

Confidential and Proprietary

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INDEPENDENT AUDITOR'S

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of Scott Credit Union, which comprise the statement of financial condition as of December 31, 2021, and 2020, and the related statements of income, changes in members' equity, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scott Credit Union as of December 31, 2021, and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Scott Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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.

In preparing the financial statements, Management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Scott Credit Union's ability to continue as a going concern for one year from the audit date.

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Auditor's Responsibilities for the Audit of the Financial Statements
Our responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on these financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Scott Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Scott Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Nearman, Maynard, Vallez, CPAs, P.A.

Nearman, Maynard, Vallez, CPAs, P.A.
Miami, Florida
March 16, 2022

FINANCIAL STATEMENTS

SCOTT CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

ASSETS

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 18,474	$ 16,624
Investments:		
Equity securities	1,908	1,555
Available-for-sale	159,882	92,828
Held-to-maturity	5,430	2,638
Other	244,597	213,210
Federal Home Loan Bank (FHLB) stock	9,207	7,230
Loans held-for-sale	4,485	8,932
Loans receivable, net of allowance for loan losses	1,109,005	1,031,461
Accrued interest receivable	2,974	2,834
Premises and equipment, net	36,006	36,114
National Credit Union Share Insurance Fund deposit	13,686	11,728
Other assets	41,693	32,235
Total Assets	$ 1,647,347	$ 1,457,389

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2021	December 31, 2020
Liabilities		
Share and savings accounts	$ 1,482,255	$ 1,280,764
Borrowed funds	-	24,000
Interest payable	404	579
Accrued expenses and other liabilities	23,667	18,346
Total liabilities	1,506,326	1,323,689
Commitments and contingent liabilities		
Members' Equity		
Regular reserve	14,229	14,229
Undivided earnings	124,940	117,257
Accumulated other comprehensive (loss) income	(2,151)	2,214
Equity acquired in merger	4,003	-
Total members' equity	141,021	133,700
Total Liabilities and Members' Equity	$ 1,647,347	$ 1,457,389

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

	December 31, 2021	December 31, 2020
Interest Income		
Interest on loans receivable	$ 46,447	$ 46,569
Interest on investments	2,680	2,440
Interest income	49,127	49,009
Interest Expense		
Dividends on share and savings accounts	5,798	7,787
Interest on borrowed funds	476	1,016
Interest expense	6,274	8,803
Net Interest Income	42,853	40,206
Provision for Loan Losses	(1,384)	9,400
Net Interest Income After Provision for Loan Losses	44,237	30,806
Non-Interest Income		
Service charges	10,232	9,154
Card income	9,907	8,222
Other non-interest income	1,453	1,637
NCUA corporate distribution	1,215	-
Insurance Commission income	939	1,055
Equity securities profits, net	427	190
Non-interest income	24,173	20,258
	68,410	51,064
Non-Interest Expense		
Compensation and employee benefits	26,213	23,112
Operations	19,418	11,853
Occupancy	4,002	3,677
Loan servicing	3,710	3,381
Education and promotion	2,608	2,965
Professional and outside services	2,487	1,248
Other components of net periodic pension cost	1,200	-
Other miscellaneous expense	935	314
Loss on disposition of premises and equipment, net	137	-
Loss on disposition of assets acquired in liquidation, net	17	10
Non-interest expense	60,727	46,560
Net Income	$ 7,683	$ 4,504

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY
(DOLLARS IN THOUSANDS)

COMPREHENSIVE INCOME

	December 31, 2021	December 31, 2020
Net Income	$ 7,683	$ 4,504
Other Comprehensive Income (Loss)		
Net unrealized holding (losses)/gains on securities arising during the year	(3,139)	1,961
Adjustment due to pension plan accounting	(1,226)	-
	(4,365)	1,961
Comprehensive Income	$ 3,318	$ 6,465

MEMBERS' EQUITY

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Equity Acquired In Merger	Total
Balance, December 31, 2019	$ 14,229	$ 112,753	$ 253	$ -	$ 127,235
Net income	-	4,504	-	-	4,504
Change in unrealized gain/(loss) on securities	-	-	1,961	-	1,961
Balance, December 31, 2020	14,229	117,257	2,214	-	133,700
Net income	-	7,683	-	-	7,683
Change in unrealized gain/(loss) on securities	-	-	(3,139)	-	(3,139)
Change relating to pension plan accounting	-	-	(1,226)	-	(1,226)
Equity acquired in merger	-	-	-	4,003	4,003
Balance, December 31, 2021	$ 14,229	$ 124,940	$ (2,151)	$ 4,003	$ 141,021

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2021	December 31, 2020
Cash Flows From Operating Activities		
Net income	$ 7,683	$ 4,504
Adjustments to reconcile net income to net cash:		
Provision for loan losses	(1,384)	9,400
Depreciation and amortization of premises and equipment	3,124	2,830
Loss on disposition of premises and equipment, net	137	10
Loss on disposition of assets acquired in liquidation, net	17	-
Amortization of investment premiums/discounts	206	291
Amortization of loan premiums/discounts	(130)	-
Amortization of deferred loan origination fees/costs	2,831	2,292
Changes in operating assets and liabilities:		
Equity securities	(353)	(645)
Trading investments	-	1,400
Loans held-for-sale	4,447	(6,199)
Accrued interest receivable	(140)	(83)
Other assets	(10,684)	(10,660)
Dividends and interest payable	(176)	(221)
Accrued expenses and other liabilities	5,321	3,743
Net cash provided by operating activities	10,899	6,662
Cash Flows From Investment Activities		
Purchases of:		
Available-for-sale securities	(113,800)	(48,274)
Held-to-maturity securities	(3,329)	(1,750)
FHLB stock	(1,977)	(6,030)
Premises and equipment	(3,159)	(5,392)
Proceeds from:		
Maturities, paydowns and sales of available-for-sale securities	42,898	24,678
Maturities and paydowns of held-to-maturity securities	1,039	769
Sale of premises and equipment	6	271
Sale of mortgage loans	71,180	83,729
Net change in:		
Other investments	(31,387)	(83,403)
Loans receivable, net of charge-offs	(150,938)	(151,037)
Assets acquired in liquidation	(17)	
NCUSIF deposit	(1,957)	(1,531)
Merger activity	4,003	-
Recoveries on loans charged off	898	788
Net cash used in investing activities	(186,540)	(187,182)

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	December 31, 2021	December 31, 2020
Cash Flows From Financing Activities		
Net change in share and savings accounts	201,491	195,268
Proceeds from borrowings	-	4,000
Repayments of borrowings	(24,000)	(20,000)
Net cash provided by financing activities	177,491	179,268
Net Change in Cash and Cash Equivalents	1,850	(1,252)
Cash and Cash Equivalents at Beginning of Year	16,624	17,876
Cash and Cash Equivalents at End of Year	$ 18,474	$ 16,624
Supplemental Cash Flow Disclosure		
Dividends and interest paid	$ 6,449	$ 9,024
Non-cash change in investments	$ 3,389	$ -
Non-cash transfer of trading securities to available-for-sale	$ -	$ 1,400

Supplemental Schedule of Noncash Investing and Financing Information

Except for the cash received, the balances acquired in the merger as described in Note 14 of these financial statements are not included in the above because no cash was paid. Rather, only the transactions impacting cash flows after the date of acquisition are reflected in the corresponding sections (operating, investing, and financing) above.

The following schedule describes the Credit Union's noncash investing and financing activities relating to the merger during the year ended December 31, 2021.

	For the year ended December 31, 2021
Cash received in merger	$ 1,545
Acquired assets, net of cash received	47,549
Assumed liabilities	(47,518)
Other accumulated comprehensive income	2,427
Equity acquired in merger	$ 4,003

The accompanying notes are an integral part of these financial statements.

SCOTT CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

Scott Credit Union (the "Credit Union") is a cooperative association organized in accordance with the provisions of the Illinois Credit Union Act for the purposes of promoting thrift among, and creating a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for fair value of assets and liabilities and the assessment of other than temporary impairment on investments. Actual results could differ from these estimates. Material estimates that are particularly subject to change in the near term include the determination of the allowance for loan losses (ALL), valuation of securities, and the fair value of financial instruments.

Basis of Presentation

The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes U.S. GAAP, as detailed in the Accounting Standards Codification (ASC), that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union.

Cash and Cash Equivalents

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

Investments

The Credit Union's investments are classified and accounted for as follows:

Equity Securities/Trading: These investments are reported at fair value. Fair value is generally based on quoted market prices or quoted market prices for similar assets. Realized and unrealized gains and losses are recognized in profits or losses through the statement of income.

Available-for-Sale: Investments are classified available-for-sale when Management anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value. Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in members' equity and comprehensive income.

Held-to-Maturity: Investments which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income.

Other Investments: Investments in this category do not meet the definition of a debt or equity security under U.S. GAAP. Other investments may include certain cash equivalents that Management has elected to classify as investments.

Realized gains and losses on disposition, if any, are computed using the specific identification method. The amortization of premiums and the accretion of discounts are recognized over the term of the related investment by a method that approximates the interest method.

Management periodically performs analyses to test for impairment of various assets. A significant impairment analysis relates to the other than temporary declines in the value of securities. Management conducts periodic reviews and evaluations of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such a decline is other than temporary. If such decline is deemed other than temporary, Management would adjust the amount of the security by writing it down to fair market value through a charge to current period operations.

Charitable Donation Account (CDA)

The Credit Union has a Charitable Donation Account (CDA). This is a hybrid investment which grants credit unions expanded investment powers to fund charitable contributions, whereby 51% of the earnings and capital gains must be distributed to charities at a frequency of no less than five years.

The Charitable Donation Account consists of approximately $4,941 and $4,102 in investments as of December 31, 2021 and 2020, respectively. These investments are marked to market and realized and unrealized gains and losses are recorded in non-interest income.

Federal Home Loan Bank (FHLB) Stock

The Credit Union, as a member of the FHLB of Chicago, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Visa Inc. Stock

The Credit Union received notice of the restructuring of Visa Inc. As part of the restructuring, the Credit Union was issued shares of Class B Common Stock in Visa Inc. The shares represented by this issuance are fully paid and non-assessable. There was a partial redemption of the Credit Union's Class B Common Stock in Visa Inc. leaving a balance of 5,339 shares as of December 31, 2021 and 2020. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union’s financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses are recognized in a valuation allowance by charges to income. All sales are made without recourse.

Loans Receivable

The Credit Union grants mortgage, commercial, and consumer loans to members. The ability of the members to honor their contract is dependent upon the real estate market and general economic conditions. In addition, the Credit Union has purchased commercial, and/or consumer loan participations. The originating lender performs all servicing functions on these loans.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balance outstanding, net of an allowance for loan losses and net deferred loan origination costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due ninety days or more. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts are satisfied to where the loan is less than ninety days past due and future payments are reasonably assured.

Consumer and non real estate secured commercial loans are typically charged off no later than 180 days past due. Residential and commercial real estate loans are evaluated for charge-off on a case-by-case basis and are typically charged-off at the time of foreclosure. Past-due status is based on the contractual terms of the loans. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if the collection of principal and interest is considered doubtful.

Deferred Loan Fees and Costs

A portion of loan origination costs are deferred and amortized over the estimated life of the loan using a method that approximates the interest method. Deferred costs are recognized as an adjustment to interest income on loans over the average life of the related loan.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the required allowance for loan losses balance using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off. Loan losses are charged against the allowance for loan losses when Management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

Due to the nature of uncertainties related to any estimation process, Management's estimate of loan losses inherent in the loan portfolio may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. In addition, the Credit Union's regulator, as an integral part of its examination process, periodically reviews the Credit Union's allowance for loan losses. The regulator may require the Credit Union to adjust the allowance for loan losses based on their judgments of information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, full payment under the loan terms is not expected. Impairment is generally evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, but may be evaluated on an individual loan basis if deemed necessary. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

Premises and Equipment

Land is carried at cost. Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and leasehold amortization. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the respective leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

Servicing Rights

Servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. Capitalized servicing assets are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

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

Assets Acquired in Liquidation

Assets acquired in liquidation in lieu of loan foreclosure are initially recorded at the lower of the Credit Union's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

The Credit Union has no foreclosed residential real estate property held for sale as of December 31, 2021 and 2020, respectively. In addition, the Credit Union has $53 and zero loans collateralized by residential real estate in the process of foreclosure as of December 31, 2021 and 2020, respectively.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insurable 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.

Share and Savings Accounts

Shares include savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Shares and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on share and savings accounts, except for interest on certificates of deposit which is set in advance, is based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required by regulation to maintain a statutory reserve, "regular reserve." The regular reserve, which represents a regulatory restriction of undivided earnings, is not available for the payment of dividends to members.

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this accounting method regular reserves and undivided earnings, of the acquiree are combined on the acquirer's statement of financial condition as a component of equity called merged equity. This component of equity is considered part of net worth as defined by regulations established by the National Credit Union Administration.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. Management has determined there are no material uncertain tax positions.

Comprehensive Income

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

Advertising Costs

Advertising costs are expensed as incurred.

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

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 at the measurement date.

Level 2 Inputs

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

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 remeasure 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.

Subsequent Events

In preparing these financial statements, the Credit Union evaluated events and transactions for potential recognition or disclosure through March 16, 2022, the date on which the financial statements were available to be issued.

Reclassifications

Certain 2020 financial statement amounts have been reclassified to conform with classifications adopted in the current year. This reclassification did not have any change on net income or members' equity.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2016-13, “Financial Instruments-Credit Losses,” (Topic 326)

This ASU requires an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides a simplified accounting model for purchased financial assets with credit deterioration since their origination.

The ASU requires credit unions to measure impairment on their existing loan portfolios on the basis of the current estimate of contractual cash flows not expected to be collected. The estimate of expected credit losses is based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable supportable forecasts that affect the expected collectability of the assets’ remaining contractual cash flows. This new model is called the Current Expected Credit Loss (CECL) model.

The transition to the CECL model will bring with it significantly greater data requirements and demand a more complex methodology to accurately account for expected losses under the new parameters. The transition will also require a significant increase in the allowance for loan and lease losses (ALLL) account balance. FASB has allowed for this one-time increase in the ALLL to come directly from undivided earnings, rather than reflected through the provision for loan losses expense account. The increase, or the adjustment to the ALLL, will reduce net worth, however it does spare a negative impact to the income statement. This ASU applies to all financial assets that are not accounted for at fair value and are exposed to potential credit risk.

(DOLLARS IN THOUSANDS)

The implementation date for "private" companies, which includes credit unions, is for fiscal years beginning after December 15, 2022. Early application of the standard is permitted for fiscal years beginning after December 15, 2018. Since all credit unions' fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2023.

ASU No. 2016-02 "Leases," (Topic 842)
The ASU is intended to improve financial reporting about leasing transactions and affects all companies and other organizations. The ASU will require organizations that lease assets (referred to as "lessees") to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases.

While the accounting by the lessor will remain largely unchanged from current GAAP, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The effective date for credit unions is for fiscal years beginning after December 15, 2021. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Since all credit unions' fiscal year end is December 31st due to regulatory reporting, the first date to implement is January 1, 2022.

NOTE 2: INVESTMENTS

Equity Securities

Investments classified as equity securities, at fair value, consist of the following:

	December 31, 2021	December 31, 2020
Equities	$ 1,908	$ 1,555

Net equity securities profits (losses) are computed as follows:

	December 31, 2021	December 31, 2020
Unrealized gains recognized on equity securities still held at the year end	$ 199	$ 125
Net gains recognized during the period on equity securities sold during the period	138	31
Equity securities profits, net	$ 337	$ 156

(DOLLARS IN THOUSANDS)

Available-for-Sale

Investments classified as available-for-sale securities consist of the following:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities and U.S. Government obligations securities	$ 84,537	$ 12	$ (951)	$ 83,598
Federal agency mortgage backed securities	73,269	736	(723)	73,282
Corporate bonds	3,000	9	(7)	3,002
Total	$ 160,806	$ 757	$ (1,681)	$ 159,882

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency mortgage backed securities	$ 54,173	$ 1,998	$ -	$ 56,171
Federal agency securities	34,010	124	-	34,134
Corporate bonds	2,431	100	(8)	2,523
Total	$ 90,614	$ 2,222	$ (8)	$ 92,828

The aggregate amortized cost of pledged investment securities was approximately $153,271 and $88,183 on December 31, 2021 and 2020, respectively. The Credit Union has agreed to pledge these securities to secure a line-of-credit with the Federal Reserve Bank.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020, are as follows:

	December 31, 2021			
	Less than 12 months		12 months or greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency securities and U.S. Government obligations securities	$ 78,725	$ (951)	$ -	$ -
Federal agency mortgage backed securities	41,838	(723)	-	-
Certificates of deposit	2,572	(7)	-	-
Total	$ 123,135	$ (1,681)	$ -	$ -

(DOLLARS IN THOUSANDS)

	December 31, 2020			
	Less than 12 months		12 months or greater	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Corporate bonds	$ 235	$ (8)	$ -	$ -

There are a total of 128 and 14 securities with unrealized losses as of December 31, 2021 and 2020, respectively. The unrealized losses associated with these securities are considered temporary as the Credit Union has the ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2021	
	Amortized Cost	**Fair Value**
Within 1 year	$ 32	$ 33
1 to 5 years	50,734	50,085
5 to 10 years	36,771	36,482
Subtotal	87,537	86,600
Mortgage-backed securities	73,269	73,282
Total	$ 160,806	$ 159,882

Mortgage-backed securities classified as available-for-sale represent participation interest in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities. However, the guarantee of these types of securities relates to the principal and interest payments, and not to the market value of such securities.

Mortgage-backed securities are issued by lenders, such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities, which provide for the periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or on specific dates. Mortgage-backed securities provide periodic payments which are, in effect, a "pass-through" of the interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. A mortgage-backed security will mature when all the mortgages in the pool mature or are prepaid. Mortgage-backed securities do not have a fixed maturity and their expected maturities may vary when interest rates rise or fall.

(DOLLARS IN THOUSANDS)

Held-to-Maturity

Investments classified as held-to-maturity securities consist of the following:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 4,840	$ -	$ -	$ 4,840
Federal agency mortgage backed securities	590	18	-	608
Total	$ 5,430	$ 18	$ -	$ 5,448

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$ 1,750	$ 30	$ -	$ 1,780
Federal agency mortgage backed securities	888	32	-	920
Total	$ 2,638	$ 62	$ -	$ 2,700

The aggregate amortized cost of pledged securities was approximately $590 and $888 on December 31, 2021 and 2020, respectively. The Credit Union has agreed to pledge these securities to secure a line-of-credit with the Federal Reserve Bank.

The amortized cost and estimated fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	December 31, 2021	
	Amortized Cost	Fair Value
Within 1 year	$ 846	$ 846
1 to 5 years	4,243	4,243
5 to 10 years	249	249
Subtotal	5,338	5,338
Mortgage-backed securities	590	608
Total	$ 5,928	$ 5,946

Other Investments

Other investments consist of the following:

	December 31,	
	2021	2020
Other deposit accounts	$ 243,814	$ 213,060
Certificates of deposit	498	-
Perpetual capital at Alloya Corporate Federal Credit Union	285	150
Total	$ 244,597	$ 213,210

(DOLLARS IN THOUSANDS)

Perpetual contributed capital is not subject to share insurance covered by the National Credit Union Share Insurance Fund or any other deposit insurer. The perpetual contributed capital is redeemable only at the option of corporate credit union provided regulatory approval is obtained. Perpetual contributed capital cannot be pledged against borrowings, has no scheduled maturity, and offers non-cumulative dividends.

NOTE 3: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

Loans receivable consist of the following:

	December 31, 2021	December 31, 2020
Residential first mortgage real estate	$ 281,224	$ 232,947
Residential second mortgage real estate	30,067	24,628
Consumer secured	734,623	705,599
Consumer unsecured	49,436	49,924
Commercial real estate	15,404	24,496
Other commercial	6,918	8,667
	1,117,672	1,046,261
Allowance for loan losses	(8,667)	(14,800)
Loans receivable, net	$ 1,109,005	$ 1,031,461

Included in the amounts above are approximately $3,434 and $2,278 of deferred loan origination fees/costs as of December 31, 2021 and 2020, respectively. Also, included in the amounts above are approximately $549 and $0 of discounts on loans acquired as of December 31, 2021 and 2020, respectively.

Allowance for Loan Losses Account

The following summarizes the activity in the allowance for loan losses account:

For the year ending December 31, 2021	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 963	$ 1,258	$ 12,579	$ 14,800
Provision for loan losses	141	(663)	(863)	(1,385)
Recoveries on previous loan losses	2	-	897	899
Loans receivable charged off	(563)	(41)	(5,043)	(5,647)
Ending balance	$ 543	$ 554	$ 7,570	$ 8,667
Loans receivables:				
Individually evaluated for impairment	$ 22,322	$ 266	$ 2,292	$ 24,880
Collectively evaluated for impairment	-	311,025	781,767	1,092,792
Total loans receivables	$ 22,322	$ 311,291	$ 784,059	$ 1,117,672
Allowance for loan losses:				
Individually evaluated for impairment	$ 543	$ 17	$ 657	$ 1,217
Collectively evaluated for impairment	-	537	6,913	7,450
Total allowance for loan losses	$ 543	$ 554	$ 7,570	$ 8,667

(DOLLARS IN THOUSANDS)

	For the year ending December 31, 2020			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 452	$ 195	$ 10,535	$ 11,182
Provision for loan losses	524	1,079	7,797	9,400
Recoveries on previous loan losses	9	-	778	787
Loans receivable charged off	(22)	(16)	(6,531)	(6,569)
Ending balance	$ 963	$ 1,258	$ 12,579	$ 14,800
Loans receivables:				
Individually evaluated for impairment	$ 33,163	$ 459	$ 5,105	$ 38,727
Collectively evaluated for impairment	-	257,116	750,418	1,007,534
Total loans receivables	$ 33,163	$ 257,575	$ 755,523	$ 1,046,261
Allowance for loan losses:				
Individually evaluated for impairment	$ 963	$ 25	$ 2,127	$ 3,115
Collectively evaluated for impairment	-	1,233	10,452	11,685
Total allowance for loan losses	$ 963	$ 1,258	$ 12,579	$ 14,800

Impaired Loans

The Credit Union considers loans impaired when, based on current information, it is probable that the Credit Union will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Credit Union's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual status when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of “minimal delay” in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

(DOLLARS IN THOUSANDS)

The following table includes the unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Also presented is the average ending principal balance of the impaired loans and the related allowance recognized during the time the loans were impaired.

	As of December 31, 2021		
	Unpaid Principal Balance	**Related Allowance**	**Average Ending Principal Balance**
With a related allowance recorded:			
Residential first mortgage real estate	$ -	$ -	$ -
Residential second mortgage real estate	21	17	21
Consumer secured	2,136	619	12
Consumer unsecured	156	38	3
Commercial real estate	-	-	-
Other commercial	772	96	257
With no related allowance recorded:			
Residential first mortgage real estate	245	-	49
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ 266	$ 17	$ 44
Consumer	$ 2,292	$ 657	$ 10
Commercial	$ 772	$ 96	$ 257

(DOLLARS IN THOUSANDS)

	As of December 31, 2020		
	Unpaid Principal Balance	**Related Allowance**	**Average Ending Principal Balance**
With a related allowance recorded:			
Residential first mortgage real estate	$ -	$ -	$ -
Residential second mortgage real estate	32	25	32
Consumer secured	4,979	2,125	12
Consumer unsecured	126	2	5
Commercial real estate	-	-	-
Other commercial	-	-	-
With no related allowance recorded:			
Residential first mortgage real estate	427	-	61
Residential second mortgage real estate	-	-	-
Consumer secured	-	-	-
Consumer unsecured	-	-	-
Commercial real estate	-	-	-
Other commercial	-	-	-
Total:			
Residential real estate	$ 459	$ 25	$ 57
Consumer	$ 5,105	$ 2,127	$ 12
Commercial	$ -	$ -	$ -

Past Due Loans by Class

The following tables present the aging of the recorded investment in past due loans by class of loans:

	As of December 31, 2021			
	Current	**60-89 Days Past Due**	**90 Days or > Past Due**	**Total**
Residential first mortgage real estate	$ 280,880	$ 99	$ 245	$ 281,224
Residential second mortgage real estate	30,046	-	21	30,067
Consumer secured	730,390	2,096	2,137	734,623
Consumer unsecured	48,896	384	156	49,436
Commercial real estate	15,404	-	-	15,404
Other commercial	6,104	42	772	6,918
Total	$ 1,111,720	$ 2,621	$ 3,331	$ 1,117,672

(DOLLARS IN THOUSANDS)

	As of December 31, 2020			
	Current	60-89 Days Past Due	90 Days or > Past Due	Total
Residential first mortgage real estate	$ 232,380	$ 140	$ 427	$ 232,947
Residential second mortgage real estate	24,571	25	32	24,628
Consumer secured	697,991	2,629	4,979	705,599
Consumer unsecured	49,607	191	126	49,924
Commercial real estate	24,496	-	-	24,496
Other commercial	8,667	-	-	8,667
Total	$ 1,037,712	$ 2,985	$ 5,564	$ 1,046,261

The accrual of interest income on loans, is discontinued at the time the loan is ninety days past due or when the collection of interest or principal becomes uncertain, unless the credit is well-secured and in the process of collection. Loans on which the accrual of interest has been discontinued approximated $3,331 and $5,564 as of December 31, 2021 and 2020, respectively. There were no loans ninety days or more past due and still accruing interest as of December 31, 2021 or 2020.

Credit Quality

Loans are assessed for credit quality based on the contractual aging status of the loan and payment activity. Such assessment is completed at the end of each audit period.

The following is a summary of loans based on credit quality:

	As of December 31, 2021		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 280,979	$ 245	$ 281,224
Residential second mortgage real estate	30,046	21	30,067
Consumer secured	732,486	2,137	734,623
Consumer unsecured	49,280	156	49,436
Commercial real estate	15,404	-	15,404
Other commercial	6,146	772	6,918
Total	$ 1,114,341	$ 3,331	$ 1,117,672

	As of December 31, 2020		
	Performing	Nonperforming	Total
Residential first mortgage real estate	$ 232,520	$ 427	$ 232,947
Residential second mortgage real estate	24,596	32	24,628
Consumer secured	700,620	4,979	705,599
Consumer unsecured	49,798	126	49,924
Commercial real estate	24,496	-	24,496
Other commercial	8,667	-	8,667
Total	$ 1,040,697	$ 5,564	$ 1,046,261

(DOLLARS IN THOUSANDS)

Internally assigned loan grades are defined as follows:

Performing - A performing loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Nonperforming - A loan classified as nonperforming is considered potentially uncollectible with a likelihood of charge-off. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it means that charge-off is likely in the near future.

Troubled Debt Restructurings (TDR)
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 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 interest 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 deemed to be a concession, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The following is a summary of information pertaining to troubled debt restructurings that occurred during the audit periods:

	For the year ending December 31, 2021			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Balance	Number of Loans	Balance
Residential real estate	-	$ -	-	$ -
Consumer	55	683	-	-
Commercial	-	-	-	-
	55	$ 683	-	$ -

	For the year ending December 31, 2020			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Balance	Number of Loans	Balance
Residential real estate	-	$ -	-	$ -
Consumer	240	3,231	30	380
Commercial	-	-	-	-
	240	$ 3,231	30	$ 380

(DOLLARS IN THOUSANDS)

The pre-modification and post-modification balances for trouble debt restructurings are generally the same.

NOTE 4: SERVICING RIGHTS

Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans are approximately $177,635 and $128,615 as of December 31, 2021 and 2020, respectively.

Capitalized servicing rights are included in other assets on the balance sheet. Activity for capitalized servicing rights are as follows:

	December 31, 2021	December 31, 2020
Balance, beginning of year	$ 901	$ 464
Additions	551	538
Amortization of servicing rights	(181)	(101)
	1,271	901
Valuation allowance	-	-
Balance, end of year	$ 1,271	$ 901

NOTE 5: PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31, 2021	December 31, 2020
Land	$ 8,960	$ 8,608
Buildings	35,181	31,929
Furniture and equipment	20,245	20,248
Leasehold improvements	2,498	2,192
Construction in process	779	352
	67,663	63,329
Less accumulated depreciation and amortization	(31,657)	(27,215)
Premises and equipment, net	$ 36,006	$ 36,114

NOTE 6: SHARE AND SAVINGS ACCOUNTS

Share and savings accounts consist of the following:

	December 31, 2021	December 31, 2020
Share draft accounts	$ 395,730	$ 340,580
Money market accounts	152,632	128,194
Share accounts	704,348	580,746
Certificate accounts	229,545	231,244
Total	$ 1,482,255	$ 1,280,764

The aggregate amount of certificate accounts in denominations of $250 or more were approximately $20,125 and $15,686 as of December 31, 2021 and 2020, respectively.

(DOLLARS IN THOUSANDS)

The aggregate amount of share and saving accounts maintaining a negative balance that were reclassed to loans receivable were approximately $302 and $224 as of December 31, 2021 and 2020, respectively.

As of December 31 2021, scheduled maturities of certificate accounts are as follows:

Year Ending December 31,	Amount
2022	$ 130,472
2023	43,147
2024	37,040
2025	12,765
2026	6,121
Total	$ 229,545

The National Credit Union Share Insurance Fund insures members' shares up to $250. This includes all account types, such as savings, checking, money market, and certificates of deposit. Individual Retirement Account coverage is an additional $250.

NOTE 7: EMPLOYEE BENEFITS

401(k) Plan

The Credit Union has a defined contribution 401(k) plan covering substantially all employees. Employees may make salary contributions up to the Federal limit. For every 1% of employee contribution, the Credit Union will make 0.25% match, up to a maximum of 1% of employer contributions to 4% employee contribution. The match must be approved by the Board of Directors on an annual basis. The Credit Union's contribution charged to expense was $167 and $157 for the years ended December 31, 2021 and 2020, respectively.

The 401(k) plan has a profit sharing plan feature which allows for annual employer contributions. The non-discretionary contribution is 3% of eligible wages and the discretionary contribution is approved by the Board of Directors on an annual basis. The discretionary contribution approved for 2021 and 2020 was 1%. The Credit Union's contribution charged to expense was $757 and $630, for the years ended December 31, 2021 and 2020, respectively.

Deferred Compensation 457(b) Plan

The Credit Union also maintains an unqualified Section 457(b) deferred compensation plan for management level employees. Contributions charged to expense was $27 and $28 for the years ended December 31, 2021 and 2020.

Split Dollar Life Insurance

The Credit Union provides certain individuals with a Supplemental Retirement Plan (SERP). The SERP is being funded via life insurance policies and split dollar loan agreements have been entered into with the participants of the executives covered under the SERP. As part of the split dollar loan agreements, the executives have assigned the policies to the Credit Union as collateral. This assignment secures repayment of any advances and accrued interest for the policy premiums and any other advances under any agreement. The loans have a fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually. Total split dollar loans and accrued interest outstanding at December 31, 2021 and 2020, respectively, was $18,462 and $13,902, and is included in other assets in the accompanying balance sheets.

(DOLLARS IN THOUSANDS)

SERP Plan

The Credit Union initiated a Supplemental Executive Retirement Plan (SERP). The Credit Union's expense for the plan years 2021 and 2020 were $57 and $199, respectively.

Defined Benefit Plan

The Credit Union acquired as part of a merger, a qualified, non-contributory, defined benefit pension plan for the benefit of the acquiree's employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The Plan has been frozen during the Plan year 2021.

The Codification requires the Credit Union to recognize the funding status of its defined benefit pension plan in the statements of financial condition, with a corresponding adjustment to accumulated other comprehensive income. Net unrecognized actuarial losses and unrecognized prior service costs are recognized as net periodic benefit cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic benefit cost in the same period will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income.

The following table sets forth the Plan's funded status and amounts recognized in the statements of financial condition as of December 31, 2021, using a measurement date of the same date:

Funded status	**December 31, 2021**
Benefit obligation	$ (1,025)
Fair value of plan assets	1,680
Funded status	$ 655
Accumulated benefit obligation	$ (1,025)
Amounts recognized in statement of financial position	
Noncurrent assets	$ 655
Net amount recognized	$ 655
Amount recognized in accumulated other comprehensive income	
Other losses	$ 413
Prior service costs	700
Total	$ 1,113

SCOTT CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)

Other disclosures		**Year ended December 31, 2021**
Net periodic benefit cost	$	1,481
Total recognized in other comprehensive income		(1,486)
Total recognized in net periodic benefit cost and other comprehensive income	$	(5)
Change in plan assets		
Return on plan assets	$	39
Employer contribution	$	-
Benefits payments	$	2,785

The fair value of the Credit Union's defined benefit pension plan assets by asset category are as follows:

	Fair Value Measurement at December 31, 2021							
		Total		**Level 1**		**Level 2**		**Level 3**
Guaranteed Contracts	$	1,680	$	-	$	-	$	1,680

Fair value measurements of assets and liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

Stable Value		**Year ended December 31, 2021**
Beginning balance	$	4,426
Included in earnings (or changes in net assets)		39
Purchases, issuances, and settlements		(2,785)
Ending balance	$	1,680

Assumptions used to determine benefit obligation	**Year ended December 31, 2021**
Weighted average discount rate	3.00%
Assumed rate of future compensation increases	0.00%
Assumptions used to determine net periodic benefit cost	
Weighted average discount rate	2.75%
Assumed rate of future compensation increases	2.25%
Expected long-term rate of return on plan assets	5.00%

Plan investment objectives

Pension fund is invested entirely in fixed investment to safeguard the benefits promised to employees.

(DOLLARS IN THOUSANDS)

Basis used to determine discount rate

The discount rate is determined using the FTSE Pension Liability Index (Double A Above Median). The result is rounded to the nearest quarter percent..

Basis used to determine long term rate of return on assets

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

Cash flows		Amount
Expected contributions for period ending:	2022	$ -
Expected benefit payments for period ending:	2022	$ -
	2023	49
	2024	463
	2025	283
	2026	58
	Five years thereafter	381
	Total	$ 1,234

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union has entered into various leasing agreements. The minimum remaining non-cancelable lease obligations are approximately the following as of December 31, 2021:

Year Ending December 31,	Amount
2022	$ 419
2023	424
2024	398
2025	400
2026	402
2027 and after	574
Total	$ 2,617

Total rental expenses approximated $443 and $502 for the years ended December 31, 2021 and 2020, respectively.

Legal Contingencies

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate of which, in Management's opinion, would not be material to the Credit Union's financial condition.

Off-Balance-Sheet Risk

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 the amount recognized in the financial statements.

(DOLLARS IN THOUSANDS)

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 loans recorded in the financial statements.

Unfunded loan commitments under lines-of-credit are summarized as follows:

	December 31, 2021	December 31, 2020
Credit card	$ 70,789	$ 65,142
Home equity	31,356	22,209
Overdraft protection	13,571	13,710
Commercial	4,351	4,259
Other consumer	1,142	1,150
Construction	1,421	55
Total	$ 122,630	$ 106,525

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

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

Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Southwestern Illinois and St. Louis County, Missouri. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

In addition to the above noted credit risk, the Credit Union may be exposed to credit risk as a result of the COVID-19 virus. Credit Union members may still be affected due to the increase in unemployment and/or business slow down. As a result, increases in loan delinquency and loan losses may be affected. The Credit Union is monitoring member loans affected as a result of the pandemic, and has set aside a reserve. The Credit Union has not experienced an increase in delinquency or loan losses due to the Pandemic as of the financial statement date, and will continue to monitor the membership and the loan portfolio and will either reduce or fund the allowance for loan and lease losses account for COVID through the provision for loan loss expense as additional information is obtained.

(DOLLARS IN THOUSANDS)

NOTE 9: BORROWED FUNDS

Corporate Line-of-Credit

As of December 31, 2021 and 2020, the Credit Union had an unused line-of-credit with Alloya Corporate Federal Credit Union. The terms of the agreement require the pledging of all present and future loans and equipment as security for obligations under this line-of-credit agreement. The interest rate terms under this line-of-credit agreement are variable. The total line-of-credit was $7,500 as of December 31, 2021 and 2020, respectively. There were no outstanding borrowings as of these dates.

Federal Reserve Bank

The Credit Union participates in the Borrower-In-Custody program with the Federal Reserve. The Borrower-In-Custody program allows the Credit Union to pledge automobile loans as collateral for borrowing at rates determined by the lender at the time of borrowing. The collateral is valued monthly by the Federal Reserve based on the terms of the pledged loans. As of December 31, 2021 and 2020, the balance of loans pledged was approximately $97,361 and $90,132 respectively. The collateral value as of December 31, 2021 and 2020 was approximately $72,500 and $66,691, respectively.

The Federal Reserve Bank also allows the Credit Union to borrow against securities pledged as collateral. As of December 31, 2021 and 2020, the value of the pledged securities was $153,271 and $88,214, respectively. The maximum amount that could be borrowed as of December 31, 2021 and 2020 was $148,305 and $89,182, respectively.

Federal Home Loan Bank

As a member of the FHLB of Chicago, and in accordance with an agreement with them, the Credit Union is required to maintain qualified collateral for advances. Qualified collateral, as defined in the FHLB Statement of Credit Policy, is free and clear of liens, pledges, and encumbrances. The FHLB has established a Credit Availability of $222,482 and $187,900 as of December 31, 2021 and 2020 respectively. As of December 31, 2021 and 2020, the outstanding balances, maturities, and interest rates of these loans were as follows: There were no advances outstanding as of December 31, 2021.

			December 31,	
Description	**Maturity Date**	**Interest Rate**	**2021**	**2020**
Loan No. 6	03/31/21	3.02%	$ -	$ 20,000
Loan No. 7	05/24/21	0.00%	-	4,000
			$ -	$ 24,000

(DOLLARS IN THOUSANDS)

NOTE 10: CAPITAL REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy 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-balance-sheet items as calculated under accounting standards generally accepted in the United States of America. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Furthermore, credit unions over $50,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. The minimum risk-based net worth ratio to be considered complex under the regulatory framework is 6.00%. If the Credit Union falls under the "complex" category, an additional Risk-Based Net Worth (RBNW) requirement may be imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

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

	Risk Based Net Worth Ratio	
	December 31, 2021	**December 31, 2020**
Risk Based Net Worth Ratio	6.10%	4.86%
Credit Union considered complex?	Yes	No

	General Capital Requirements			
	December 31, 2021		**December 31, 2020**	
	Amount	**Requirement /Ratio**	**Amount**	**Requirement /Ratio**
Amount needed to be classified as "well capitalized"	$ 115,314	7.00%	$ 102,017	7.00%
Regulatory net worth	$ 143,172	8.69%	$ 131,485	9.03%

NOTE 11: RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties as of December 31, 2021 and 2020, were approximately $1,973 and $2,249, respectively. Shares from related parties as of December 31, 2021 and 2020, amounted to approximately $2,047 and $2,202, respectively.

(DOLLARS IN THOUSANDS)

NOTE 12: FAIR VALUE MEASUREMENTS

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 - Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 159,882	$ -	$ 159,882	$ -
Equity securities	$ 1,908	$ 1,908	$ -	$ -

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Available-for-sale investments	$ 92,828	$ -	$ 92,828	$ -
Equity securities	$ 1,555	$ 1,555	$ -	$ -

Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities 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. The following tables present the balances of the assets and liabilities measured at fair value on a nonrecurring basis:

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 1,271	$ -	$ -	$ 1,271

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Servicing rights	$ 901	$ -	$ -	$ 901

Available-for-Sale Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Equity Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, or on discounted cash flow models based on the expected payment characteristics of the underlying instruments.

Servicing Rights: Servicing rights do not trade in an active, open market with readily observable prices. While sales of servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of servicing rights using discounted cash flows models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discounts rates, prepayment speeds, and default rates.

NOTE 13: REVENUE RECOGNITION

Revenue is recorded when earned, which is generally over the period services are provided and no contingencies exist. The following summarizes the Credit Union's revenue recognition policies as they relate to certain noninterest income line items in the Statement of Income.

Service Charges

Service charges include fees for insufficient funds, overdrafts and other banking services. Uncollected fees are included in outstanding loan balances with an amount recorded for estimated uncollectible service fees receivable. Uncollected fees are generally written off when a fee receivable reaches 60 days past due. Investment and brokerage services revenue consists primarily of asset management fees and brokerage income.

Card Income

Card income includes fees such as interchange, cash advance, annual, late, over-limit and other miscellaneous fees. Uncollected fees are included in customer card receivables balances with an amount recorded in the allowance for loan and lease losses for estimated uncollectible card receivables. Uncollected fees are generally written off when a card receivable reaches 180 days past due.

Other Non-Interest Income

Other non-interest income includes income from various sources. The amounts from these various sources are not significant revenue source and excluded from the scope of FASB's revenue guidance.

Insurance Commission Income

Insurance Commission Income includes commissions the Credit Union earns on insurance products sold to Credit Union members by third parties.

NOTE 14: MERGER

Effective September 1, 2021, the Credit Union completed the merger of South Division Union, the acquiree in this business combination. South Division Credit Union was a state chartered credit union located in Illinois, founded as a cooperative association for the purposes of promoting thrift among, and creating a source of credit for its members. The reason for the merger is to further promote thrift among its members consistent with purpose when founded. The merger is a business combination of two mutual entities accounted for in accordance with the provisions of acquisition method accounting. The application of acquisition method accounting requires that the acquiree credit union's assets and liabilities be recorded at fair value. The difference between the fair value of assets and liabilities obtained during the merger are reflected in either a bargain purchase gain or goodwill. In addition, the acquirer in a combination of mutual entities recognizes the acquiree's net assets as a direct addition to equity in its statement of financial position, not as an addition to retained earnings. Based on the asset size of South Division Credit Union, amortized cost is equivalent to its fair market value and is reflected in the attached audited financial statements. In addition, merged equity as a result of the merger approximated $4,003.

☆☆☆☆☆

INDEPENDENT AUDITOR'S COMMUNICATION

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

COMMUNICATING MATTERS RELATED TO A CREDIT UNION'S INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Scott Credit Union (the "Credit Union") as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Credit Union's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scott Credit Union's internal control. Accordingly, we do not express an opinion on the effectiveness of Scott Credit Union's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow Management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Credit Union's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be a material weakness. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of Management, the Board of Directors, Supervisory Committee, and the Regulators, and is not intended to be, and should not be, used by anyone other than these specific parties.

The accounting principles and auditing standards referred to throughout this report and used to conduct our audit are those principles and standards generally accepted in the United States of America and promulgated by the American Institute of Certified Public Accountants.

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March 16, 2022

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

MATTERS REQUIRED TO BE COMMUNICATED TO THE SUPERVISORY COMMITTEE

As part of our responsibility under accounting pronouncements, certain matters are required to be communicated by the CPA Firm to those charged with governance. We are responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. In addition, we are responsible for determining the overall audit strategy and the audit plan including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. The following summarizes those matters required to be communicated to the Supervisory Committee.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements prepared by Management are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the Credit Union. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

Independence

Generally accepted auditing standards require independence for all audits. Relevant matters to consider in reaching a conclusion about independence include circumstances or relationships that create threats to auditor independence and the related safeguards that have been applied to eliminate those threats or reduce them to an acceptable level.

It is the policy of our firm that all Associates be familiar with and adhere to the independence, integrity, and objectivity policies of the firm. In this regard, any transaction, financial interest, event, circumstance, or action that would impair the firm's independence is prohibited. We are familiar with the AICPA's Code of Professional Conduct and subsequent auditing standards, and their interpretations and rulings which require that we are independent in fact and in appearance. All of our Associates are required to sign an Independence Representation Form when hired and annually thereafter. In addition, we inform all Associates on an ongoing basis whenever a new client engages our services in order that our Associates can review their independence with the new client at that time. Any conflicts must be reported to the Quality Control Director. For the period covered by the attached audited financial statements, all of our Associates involved in this engagement are independent of your Credit Union.

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Supervisory Committee
Scott Credit Union

In accordance with our professional standards for this engagement, it is required that ***all*** Associates of Nearman, Maynard, Vallez, CPAs, P.A. who were involved in this engagement, are ***independent*** and no conflict of interest exists between our Associates and the Credit Union, its staff, and any of its representatives, and we have not assumed any management responsibilities. All Associates of Nearman, Maynard, Vallez, CPAs, P.A. were independent in fact and appearance with this engagement and no conflict of interest exists.

It is the responsibility of Management to make all management decisions and perform all management functions with the information provided to them as a result of this engagement and designate a competent individual to oversee the services preferably within senior management, who possesses suitable skill, knowledge, and/or experience to oversee any financial statement preparation services, bookkeeping services, tax services, or other services Nearman, Maynard, Vallez, CPAs, P.A. provides. Management should assess and be satisfied that such an individual understands the services to be performed, the scope, risk, and frequencies of activities which is sufficient to oversee them. These management decisions and functions include, but are not limited to, accepting responsibility for the implementation of and/or the decision to implement the results of the services performed and to evaluate the adequacy of procedures performed and the findings resulting from the performance of those procedures. They also conduct ongoing monitoring activities. It is also part of Management's responsibility for designing, implementing, and maintaining the process of internal controls and to monitor those internal controls to assess the quality of their performance over time. Monitoring activities are procedures performed to assess whether components of internal control are present and functioning. Monitoring can be accomplished through ongoing evaluations, or separate evaluations, or some combination of the two. Ongoing evaluations are generally defined, routine operations built into the Credit Union's business processes and performed on a real-time basis. Ongoing evaluations, including managerial activities and everyday supervision of employees, monitor the presence and functioning of the components of internal control in the ordinary course of managing the business.

Significant Accounting Policies
Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised Management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Credit Union are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the audit year. We noted no transactions entered into by the Credit Union during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We have evaluated and considered Management's judgments and accounting estimates as part of our audit procedures.

Significant Audit Adjustments
For purposes of this letter, the professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Credit Union that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed one audit adjustment as noted in the *Other Reportable Matters'* section of this report. Other than the adjustment noted, we proposed no audit

adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Credit Union's financial reporting process.

Significant Unusual Transactions
For purposes of this letter, the professional standards define a significant unusual transaction as those that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature. To our knowledge, there were no such transactions.

Uncorrected Misstatements
Our audit procedures are designed to accumulate all known and likely misstatements identified during the audit. There is a possibility that immaterial misstatements, considered to us to be trivial, may have been identified during the audit. In addition, these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated. Any such immaterial misstatements would have been discussed with Management at the conclusion of the audit.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with Management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants
In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Credit Union's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the Credit Union's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit
Serious difficulties encountered in dealing with Management that relate to the performance of the audit are required to be brought to the attention of the Supervisory Committee. We encountered no difficulties in dealing with and assistance we received from Management and the entire Credit Union staff during our audit. If we can be of any further assistance, please contact us.

Nearman, Maynard, Vallez, CPAs, P.A.

Nearman, Maynard, Vallez, CPAs, P.A.
Miami, Florida
March 16, 2022

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Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

OTHER REPORTABLE MATTERS

During our audit, we became aware of the following matters that we feel should be reported. We believe that the related comments may lead to opportunities for strengthening internal controls, operating efficiencies, and/or improving accounting applications. The following summarizes our comments and suggestions regarding those matters. We will review the status of these comments during our next audit engagement.

We have already discussed all of these comments and suggestions with various Credit Union personnel, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

During our review of other assets, we noted an amount for loans in process that would be better classified as loans on the balance sheet on December 31, 2021. Approximately $3,947,000 of participations were purchased at year end and the Credit Union did not receive the actual file from the servicer until January. These purchased participations are loans and should be classified as such on the balance sheet. For the audit, we reclassified this amount from other assets to loans as of December 31, 2021.

We recommend when the Credit Union purchases these participations, and there is a delay in the information being sent to the Credit Union, these amounts be classified as loans on the balance sheet each month end.

This report is intended solely for the information and use of the Supervisory Committee, Management, Board of Directors, and others within the organization and should not be used by anyone other than these specified parties.

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GRAPHICAL ANALYSIS

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Edwardsville, Illinois

INDEPENDENT AUDITOR'S REPORT ON THE GRAPHICAL ANALYSIS

We have audited the financial statements of Scott Credit Union as of and for the year ended December 31, 2021, and our report thereon dated March 16, 2022, which expressed an unmodified opinion on those financial statements, appears on page A-1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The graphical analysis, which is the responsibility of Management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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March 16, 2022

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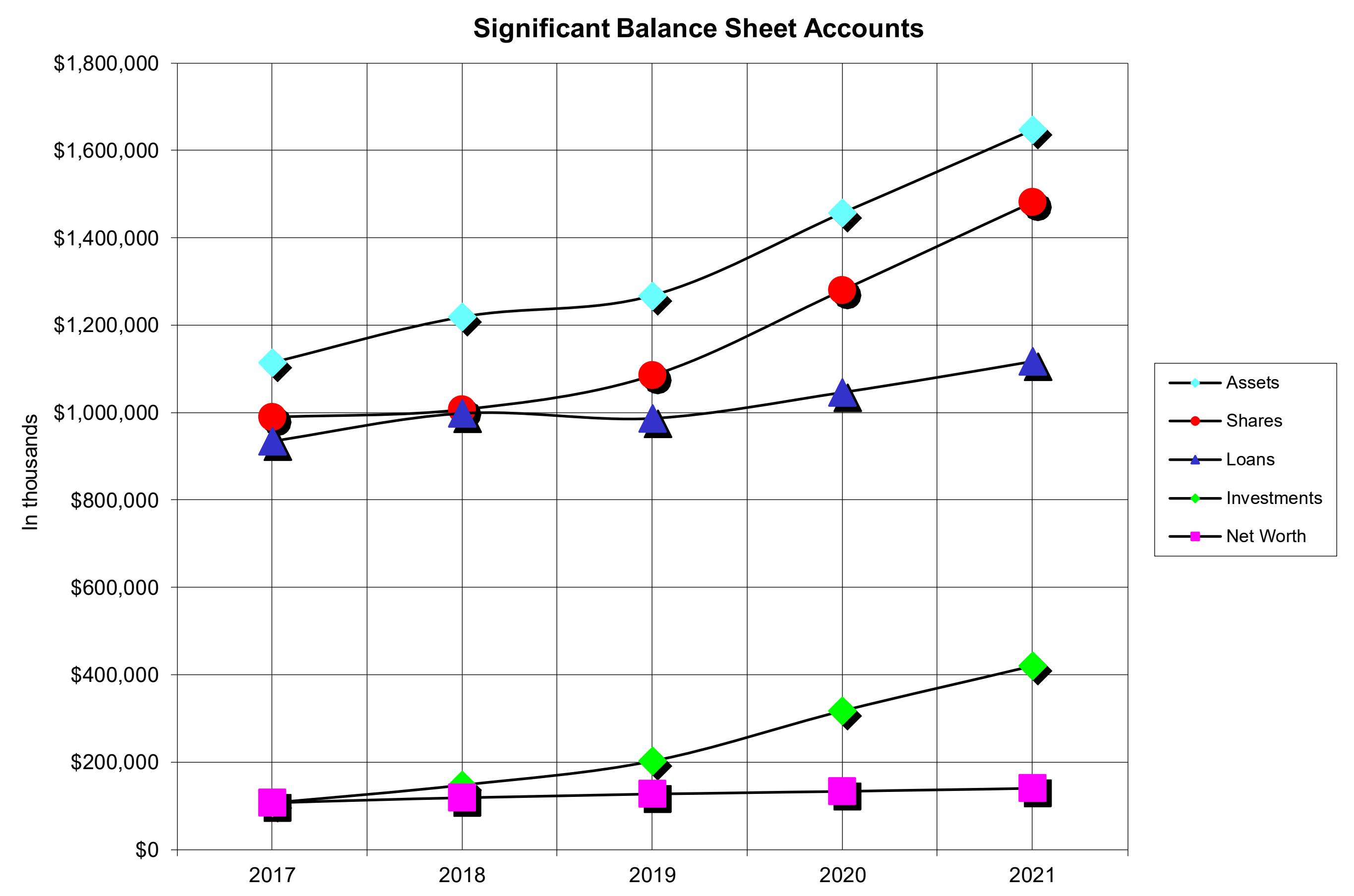
Scott Credit Union
December 31, 2021
Graphical Analysis

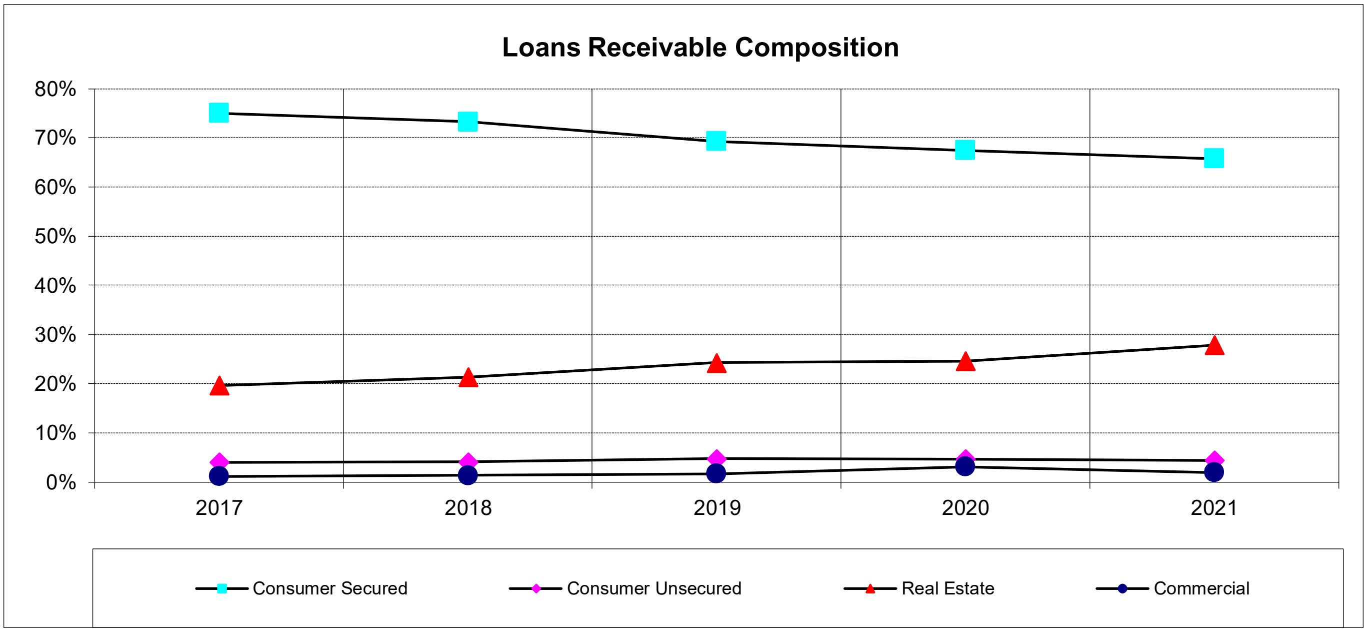
Peer Group Asset Range: 1b - 5b

Changes	December 31, 2020 Dollar Change	Percentage Change	December 31, 2021 Dollar Change	Percentage Change	Peer Group Average
Assets	$ 189,254,710	14.9%	$ 189,957,967	13.0%	10.1%
Loans Receivable	$ 58,446,412	5.9%	$ 71,418,135	6.8%	6.2%
Investments	$ 114,923,675	56.7%	$ 103,563,738	32.6%	18.7%
Shares	$ 195,268,681	18.0%	$ 201,490,999	15.7%	13.8%
Net Worth	$ 4,504,232	3.5%	$ 11,686,594	8.9%	7.5%

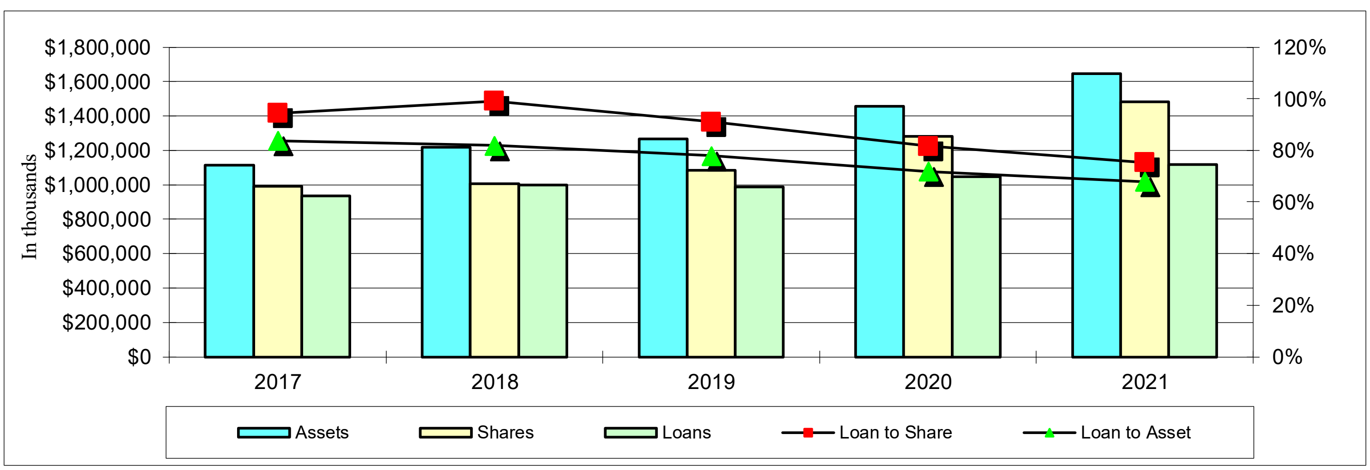


Unaudited, this information is for discussion purposes only.

Loans Receivable Mix	December 31, 2020 Balance	Percentage of Total	December 31, 2021 Balance	Percentage of Total	Peer Group Average
Consumer Secured	$ 705,597,901	67%	$ 735,424,185	66%	44%
Consumer Unsecured	49,924,562	5%	49,436,691	4%	8%
Real Estate	257,575,224	25%	311,290,929	28%	41%
Commercial	33,163,134	3%	21,527,151	2%	7%
Total	$1,046,260,821	100%	$ 1,117,678,956	100%	100%

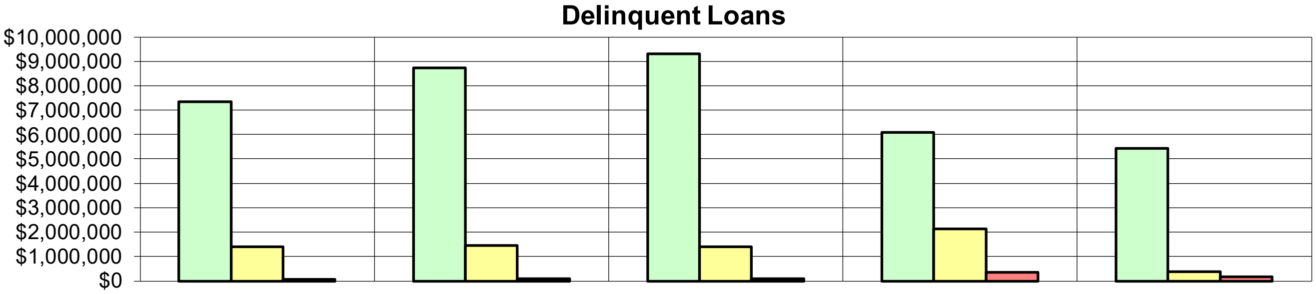


Other Loan Ratios	December 31, 2020	2021	Peer Group Average
Loan to Share	81.7%	75.4%	71.1%
Loan to Asset	71.8%	67.8%	62.4%



Unaudited, this information is for discussion purposes only.

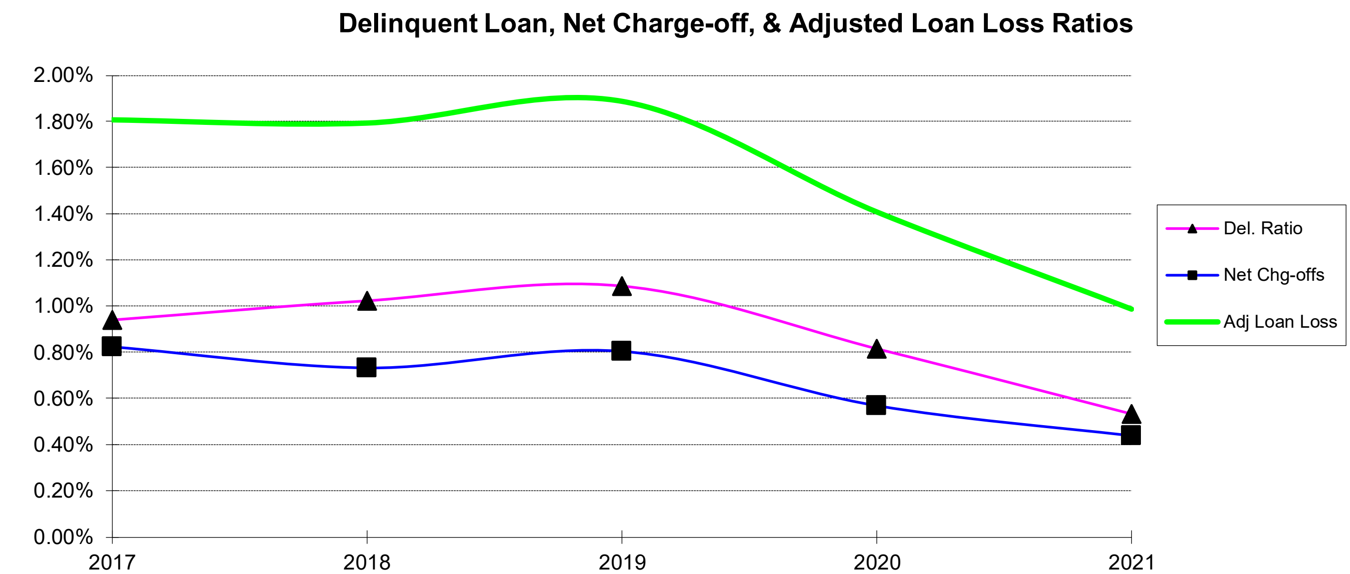
Delinquent Loans	December 31, 2020	December 31, 2021	Dollar Change
Delinquent 60 -179 days	$ 6,080,317	$ 5,428,832	$ (651,485)
Delinquent 180 - 359 days	2,115,515	368,388	(1,747,127)
Delinquent 360 days >	353,470	154,001	(199,469)
Total	$ 8,549,302	$ 5,951,221	$ (2,598,081)



	2017	2018	2019	2020	2021
60 - 179	7,341,602	8,724,832	9,297,683	6,080,317	5,428,832
180 - 359	1,395,457	1,445,046	1,382,179	2,115,515	368,388
360 +	60,972	69,614	73,067	353,470	154,001

Loan Performance Ratios	December 31, 2020	December 31, 2021	Peer Group 2020	Peer Group 2021
* Delinquent Loans > 60 days / Total Loans	0.82%	0.53%	0.46%	0.25%
* Net Charge-offs / Average Loans	0.57%	0.44%	0.39%	0.21%
**Adjusted Loan Loss Ratio	1.41%	0.99%	0.79%	0.40%

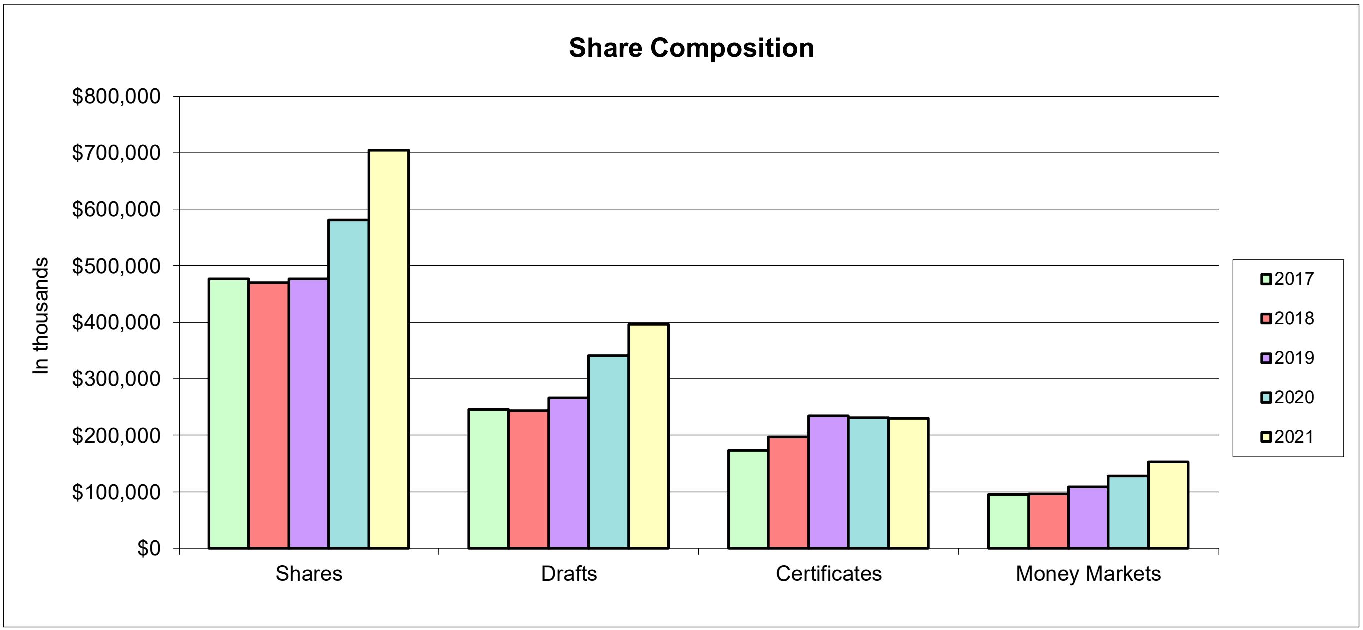
** ((Del. Loans > 60 days + Net Chg-offs) / Avg. Loans)



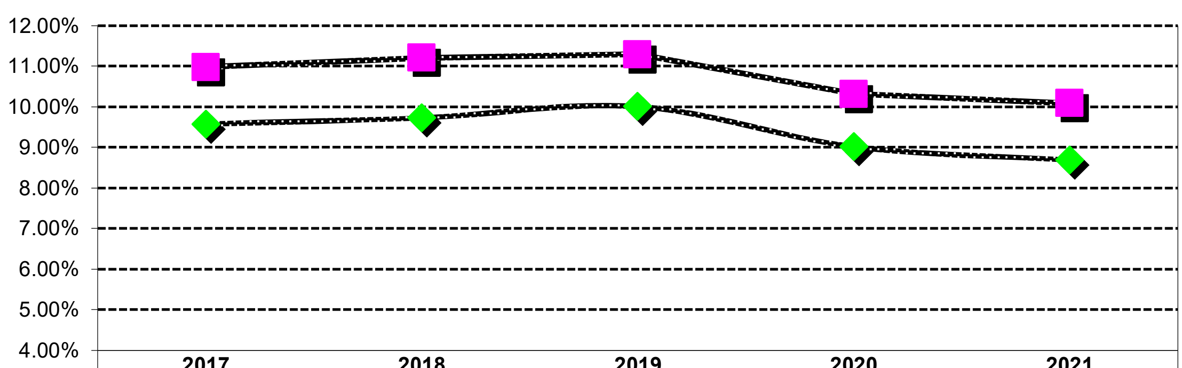
Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Share Mix	December 31, 2020 Balance	Percentage of Total	December 31, 2021 Balance	Percentage of Total	Peer Group Average
Shares	$ 580,746,453	45%	$ 704,348,169	48%	46%
Drafts	340,579,820	27%	395,729,624	27%	21%
Certificates	231,244,464	18%	229,545,398	15%	18%
Money Markets	128,193,555	10%	152,632,100	10%	15%
Total	$ 1,280,764,292	100%	$ 1,482,255,291	100%	100%



Net Worth Ratio	December 31, 2020	December 31, 2021	Basis Point Change	Peer Group Average
* Net Worth / Total Assets	9.02%	8.69%	(33)	10.09%



	2017	2018	2019	2020	2021
Peer Group	10.98%	11.21%	11.30%	10.32%	10.09%
Credit Union	9.58%	9.73%	10.01%	9.02%	8.69%

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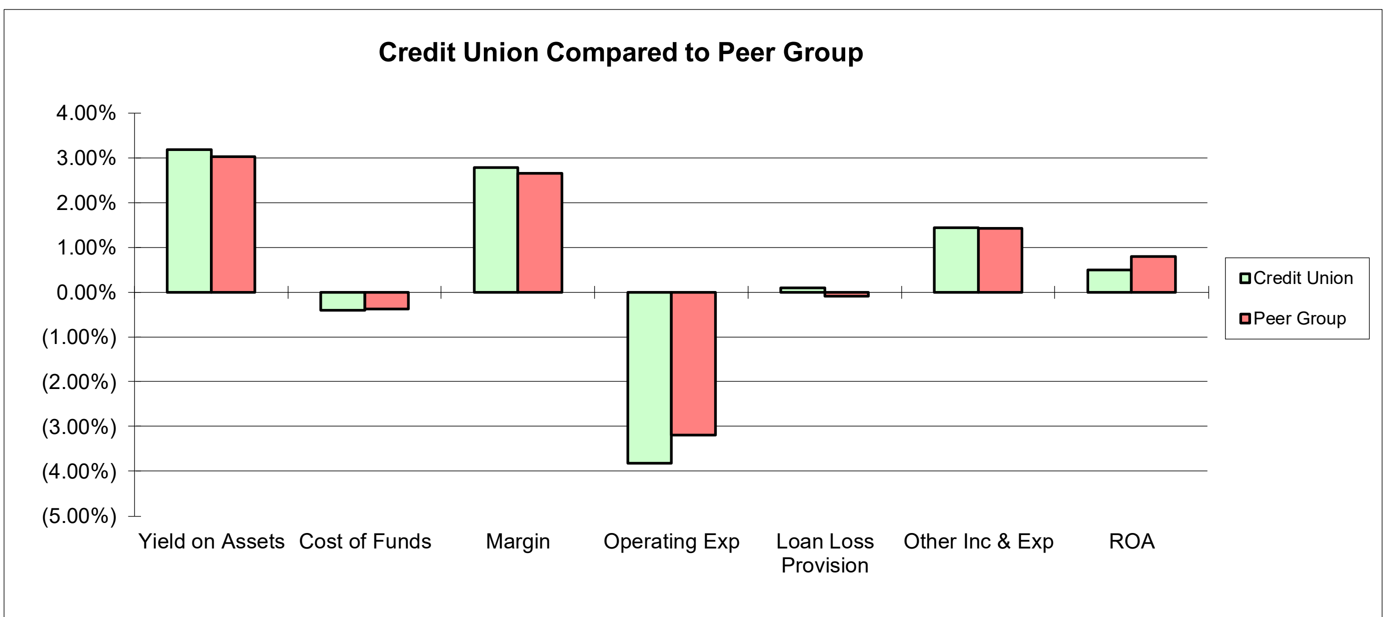
*** - Key Financial Performance Ratio**

Credit Union	<A> For the Period Ended December 31, 2020	2021	Basis Point Change	<B> Peer Group Average	<A> - <B> Basis Point Comparison to Peer Group
Profitability Ratios					
Yield on Assets / Average Assets	3.61%	3.19%	(42)	3.03%	16
Cost of Funds / Average Assets	(0.65%)	(0.40%)	25	(0.38%)	(2)
Net Interest Margin	2.96%	2.79%	(17)	2.65%	14
Operating Expenses / Average Assets	(3.42%)	(3.82%)	(40)	(3.20%)	(62)
Provision for Loan Loss / Average Assets	(0.69%)	0.09%	78	(0.09%)	18
Other Income & Expense / Average Assets	1.47%	1.44%	(3)	1.43%	1
* Return on Average Assets (ROA)	0.32%	0.50%	18	0.79%	(29)
Combined Operating Expense Ratio & Other Income/Expense Ratio	(1.95%)	(2.38%)	(43)	(1.77%)	(61)

Peer Group	For the Period Ended December 31, 2020	2021	Basis Point Change
Profitability Ratios			
Yield on Assets / Average Assets	3.54%	3.03%	(51)
Cost of Funds / Average Assets	(0.63%)	(0.38%)	25
Net Interest Margin	2.91%	2.65%	(26)
Operating Expenses / Average Assets	(3.41%)	(3.20%)	21
Provision for Loan Loss / Average Assets	(0.39%)	(0.09%)	30
Other Income & Expense / Average Assets	1.36%	1.43%	7
* Return on Average Assets (ROA)	0.47%	0.79%	32
Combined Operating Expense Ratio & Other Income/Expense Ratio	(2.05%)	(1.77%)	28

Key Ratio Summary	
Del. Loans	0.53%
Net Chg-offs	0.44%
Net Worth	8.69%
ROA	0.50%



Unaudited, this information is for discussion purposes only.

*** - Key Financial Performance Ratio**

Nearman
Maynard • Vallez
Certified Public Accountants

Cecil D. Maynard, CPA, MPA, CFE, FCPA, CFF
Christopher J. Vallez, CPA, MBA
Jennifer N. Hoskins, CPA, MPA, CAMS
Ellen E. Vargo, CPA, CFE, FCPA
Lynn M. Franzosa, CPA, MACC, NCCO

Supervisory Committee
Scott Credit Union
Edwardsville, Illinois

VERIFICATION SUMMARY

Nearman, Maynard, Vallez, CPAs, P.A. conducted a Verification of Members' Accounts as part of the services contracted to perform for Scott Credit Union. The level of service Nearman, Maynard, Vallez, CPAs, P.A. was contracted to provide to Scott Credit Union for the year ended December 31, 2021 was to complete an audit performed in accordance with Generally Accepted Auditing Standards (GAAS). This type of audit is also commonly referred to as an "opinion audit".

National Credit Union Administration (NCUA) Rules and Regulations offers guidance to Supervisory Committees regarding the acceptable account verification methods available to fulfill the account verification requirement. NCUA requires members' accounts be verified at least once every two years. Additionally, required sampling techniques are outlined in the American Institute of Certified Public Accountants (AICPA), and our Professional Standards. Our firm recognizes the importance of the verification process and follows both the NCUA and AICPA guidance on the verification of member accounts. Verification of members' accounts has been tailored to follow state statute when necessary. Our audit procedures are designed to ensure both audit objectives and regulatory compliance is achieved. Our research, experience, Peer Reviews, and correspondence with the AICPA have evolved into a process, which has been incorporated into all of our audits.

We verified member loans and shares as of September 30, 2021, which was three months prior to the audit date. We do this in order to leave adequate time for the member to respond to our written request. A combination of detail testing and analytical procedures are performed to bring the results of the verification process forward from the verification date to the audit date.

A statistical sampling method was used to determine the number of member's accounts to be verified for this account verification, which meets both NCUA Rules and Regulations and any applicable state requirements.

Our sampling of member loans and shares is based on a statistical sampling method known as "Discovery Sampling". Discovery sampling is a form of attribute sampling that is used to statistically estimate the actual occurrence rate of an attribute. In this case the attribute tested is referred to as a "valid error". Following this method allows for a statistically based conclusion that no exceptions exist in the population that potentially would have a material effect on the financial statements. The following summarizes the populations identified and the method of sample size determination.

Based upon our knowledge of the credit union industry, we believe the populations can be summarized into three separate populations. The three populations are in-house system loan/shares, off-system loans, and closed accounts. Within all three populations, all accounts within that population have an equal chance of being selected. All samples will be made either randomly or systematically.

The sample size is derived from the table below based on the size of the population, expected number of deviations, and planned control risk assessment.

Based on our knowledge of the client's control environment, all populations will assume a low risk and 90% confidence level is assumed. The number of deviations assessed by population is as follows:

In house System Loans/ Shares	2
Off System Loans	1
Closed Accounts	0

In-house loans/shares are assessed with a deviation of 2 based upon the Credit Union has complete control over these accounts and our knowledge of the internal controls over these types of accounts. Off System Loans are assessed a deviation of 1 based upon these accounts are serviced by third party providing an additional layer of control as well as we confirm the amount of loans being serviced directly with the third party. Lastly, closed accounts are assessed a deviation of 0 due to the expectation of no errors in this population.

Sampling Table Based on Population Size—90% confidence Level						
	Control Risk Assessment & Population Size					
	Low (5–7% Tolerable Rate)			**Moderate (8–10% Tolerable Rate)**		
No. of Deviations	< 100	100 - 200	> 200	< 100	100 - 200	> 200
0	30	35	40	20	22	25
1	45	50	60	30	35	40
2	65	75	90	45	50	60

Our verifications were a combination of “positive” and "negative". Due to the ongoing relationship with the Credit Union, knowledge of their business and industry, and assessed risk; we believe the use of positive and negative verifications is warranted and gives us the highest degree of audit assurance. All accounts were used as a population for random selection, and all have an equal chance to be selected for both the positive as well as the negative samples.

Supervisory Committee
Scott Credit Union

Positive verifications require the member to respond to our request whether the account is fairly stated or has an error. Therefore, every member account selected for a positive verification must either respond in writing or have alternate procedures performed on the account to ensure authenticity. Negative verifications only require the member to respond to our request if the account is either not fairly stated or there is an error. No alternate procedures are performed on those accounts that do not receive a reply, they are assessed to be fairly stated and free from error.

Alternate procedures are performed on those members' accounts that do not respond to our positive verification letters. These procedures may include a review of documents and/or a review of account activity subsequent to the verification date. Generally, our firm will perform the entire verification process. However, if, as part of the engagement, the Internal Auditor is to assist us in performing audit procedures, we may have the Internal Auditor perform alternate procedures.

Alternate procedures are also performed on those members' accounts that do not respond to our verification letters because of bad addresses. These procedures may include a review of documents, review of account activity, or contacting the member directly to investigate and verify our requested information. Generally, our firm will perform the entire verification process. However, if, as part of the engagement, the Internal Auditor is to assist us in performing audit procedures, we may have the Internal Auditor perform alternate procedures.

The AICPA states the verification process should include a review of accounts closed during the audit period. Closed accounts are susceptible to undetected errors and fraud, more so than current accounts. Balances on inactive accounts can be easily transferred to other accounts then closed. We performed a statistical sample on closed accounts closed for the twelve months ended September 30, 2021. The sample size is based on the total number of accounts closed for this period and a general knowledge of the client's internal controls using the "Sampling Table Based on Population Size - 90% confidence Level" and a zero-deviation expected. If the verification process does not reveal a single valid exception, the auditor may conclude with an 90% reliability, that zero accounts having a valid exception would have been included (if it exists) in the sample size examined.

See Appendix for summary of verification results.

We appreciate this opportunity to be of service to Scott Credit Union and wish to express our appreciation for the cooperation and assistance we received from Management and the entire Credit Union staff during our audit. If we can be of any further assistance, please contact us.

Nearman, Maynard, Vallez, CPAs, P.A.

Nearman, Maynard, Vallez, CPAs, P.A.
March 16, 2022

Appendix

Summary of Positive Verifications

Population	**Sent**	**Bad Addresses**	**Confirmed/ Received**	**Alternate Procedures**	**Resolved Exceptions**	**Valid Errors**
Loans *	30	-	4	25	1	-
Shares	30	-	4	26	-	-
Total Positive Sent	60	-	8	51	1	-

* Loans include all loan types and systems.

% Received, No Error	13.3%
% No Response, Alt Procedures	85.0%
% Resolved Exceptions	1.7%
% Valid Errors	0.0%

Summary of Negative Verifications

Population	**Sent**	**Bad Addresses**	**Response Received**	**Alternate Procedures**	**Resolved Exceptions**	**Valid Errors**
Loans*	200	-	-	-	-	-
Shares	100	-	-	-	-	-
Closed Accounts	40	-	-	-	-	-
Total Negative Sent	340	-	-	-	-	-

The testing results from the negative samples were as expected and supports the positive verification sample in that there is a low risk of material misstatement concerning the member shares or loans.

* Loans include all loan types and systems.

Total Verifications Sent

Loans	**230**
Shares	**130**
Closed Accounts	**40**
Total	**400**