2019 ANNUAL REPORT

Michigan State University
Federal Credit Union
Building Dreams Together

Federally Insured by NCUA

OUR MISSION IS TO PROVIDE
SUPERIOR SERVICE WHILE ASSISTING OUR
(288,083) MEMBERS & (907) EMPLOYEES
TO ACHIEVE FINANCIAL SECURITY, THEIR GOALS,
AND ULTIMATELY, THEIR DREAMS.

a message from the chair

Dear Members,

As I look back on 2019 and my first year serving as the Chair of MSU Federal Credit Union's Board of Directors, I am proud to support and represent this outstanding organization. Your Credit Union continues to grow and uphold its reputation of superior service and as an award-winning workplace.

MSUFCU continued to increase our investment in our members through new products and services like Fran,SM the Credit Union's first virtual assistant, and the new Visa Signature® Credit Card which features generous cash back rewards and no international transaction fees. We also introduced Member2Member,SM available in the mobile app and ComputerLine, with which members are able to transfer funds instantly to other members — at no cost.

2019 was a notable year for branch growth, too. MSUFCU opened its nineteenth branch in Berkley, Michigan, to support its long-term growth strategy of expanding in Oakland County. The Credit Union also celebrated the groundbreaking of its Holt Branch, which is expected to open in 2020. Further expanding its branch services, MSUFCU announced it will open two branches in Traverse City to better serve its members living in that region. We also announced a regional office in Auburn Hills, which will house a branch as well as support services including a call center, IT, and human resources. The regional office will also include a student intern center and a community meeting room.

As a result of its commitment to creating a positive culture for employees, and providing excellent benefits and competitive wages, MSUFCU is an employer of choice, and has received numerous awards at the national, regional, and local levels. Fortune named MSUFCU one of the Best Workplaces for Women as well as one of the Best Workplaces in Financial Services and Insurance. Forbes ranked MSUFCU in the top five Michigan credit unions for its Best-In-State Credit Unions award. Additionally, the Detroit Free Press recognized MSUFCU as a Top Workplace in the large employer category for the seventh consecutive year. In 2019, the Credit Union had an employee retention rate of 91%.

On behalf of the Board of Directors, I would like to thank the leadership team and employees — and more important, our members — for their continued support and confidence in our organization.

Sincerely,

Angela W. Brown
Chair of the Board

board of directors

Back Row
John Brick
Gregory Deppong, Vice Chair
Steven Kurncz
Bill Beekman
Michael Hudson

Front Row
Ernest Betts, Treasurer
Susan Carter, Secretary
Angela Brown, Chair
Janet Lillie

a message from the president/ceo

Dear Members,

Each and every day, I am humbled to lead the Credit Union team. Our employees live our mission daily by creating "Mission Moments" for our members. They do this in ways small and large to help members achieve financial success. From kind service with a calming voice, to a loan approval for a dream car or home, to stopping fraud attempts, to supporting families in need, our work reflects the relationships we've built with members and community partners.

While the Credit Union continues to expand its presence throughout the state with more convenient local branches, we are equally committed to maintaining our culture of superior service to our members. I often hear "Mission Moments" from our members about the quality of service they receive from our friendly and knowledgeable employees. Because of this service, our members are proud to refer their friends and family to the Credit Union.

In 2019, we increased new members by 33,465 (6.96%) to 288,083, a strong endorsement of our commitment to our members and the communities where they live and work. Assets increased 11.84% to $4.73 billion, well above the industry average of 8.16% growth. The Credit Union remains well capitalized with net worth at 10.45%, an important indicator of a financial institution's safety and soundness, and far above the NCUA requirement of 7%. We also achieved positive financial growth, ending 2019 with $479,904,133 in members' equity.

The Credit Union continued its commitment to the community through 1,127 financial education events, 3,602 volunteer hours, and $245,014 in employee donations. When we support local organizations through philanthropy and volunteerism, our communities thrive and we create places where everyone can achieve their dreams. We also increased our commitment to giving back to our universities and communities through the establishment of the Desk Drawer Fund, our foundation whose name honors our roots as we first operated out of a desk drawer in the MSU Physical Plant. Both the foundation and the Credit Union continue to support several community programs, which provide access to arts and culture, education programs, stable housing, and social services. It is because of your membership that we are able to continually enhance our positive impact.

Whether in person or via digital services, we focus on exceeding your expectations with every interaction. Thank you for choosing to be a member of the Credit Union and for trusting us as your financial partner.

Sincerely,

April Clobes
President/CEO










executive team

April Clobes
President/CEO

Deidre Davis
Chief Marketing Officer

Jeffrey Jackson
Chief Lending Officer

Jim Hunsanger
Chief Risk Officer

Lea Ammerman
Chief Operating Officer

Samantha Amburgey
Chief Information Officer

Sara Dolan
Chief Financial Officer

Silvia Dimma
Chief Human Resources Officer

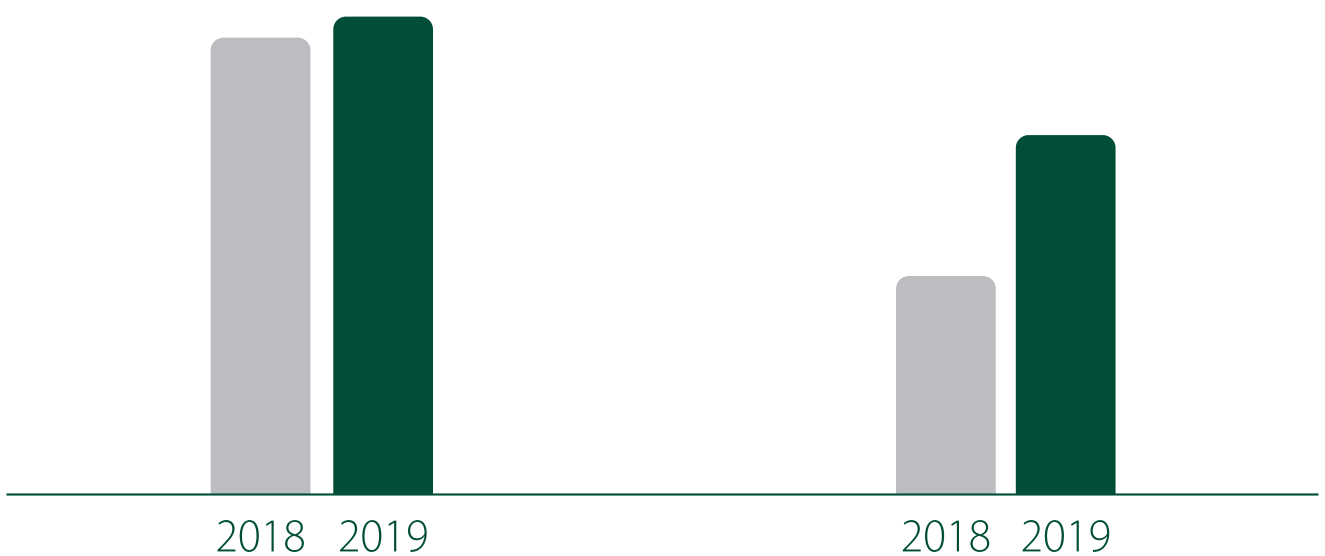
Steve Owen
Chief Legal Counsel

Whitney Anderson-Harrell
Chief Community Development Officer

supporting

MEMBER DREAMS

MSUFCU was established 82 years ago to provide a safe place where members could borrow and save money. Over the years, we've built a strong foundation of relationships with our members — ultimately helping them achieve their dreams. Our employees live our mission every day to spark those moments for members to find financial freedom and security, as they purchase their first cars and homes, start their own businesses, and save for their children's futures.



$14,033,428
interest saved
▲ 4.63%

$10,554,737
dividends earned
▲ 64.41%

Every year, we prioritize helping our members save more money by educating them about our interest and dividend rates. By refinancing their high-rate loans from other financial institutions to MSUFCU at lower rates or putting their deposits into high-earning savings accounts, we are able to help members save and earn millions. Members can use that extra money to build up their emergency funds, pay off other debt, or make purchases they may not have been able to otherwise.

we helped:

10,091 members buy new vehicles

1,134 members buy new homes

2,999 businesses secure funding

3,778 youth members open new accounts

4,163 MSU and OU students open new accounts

mission moment

"I'm speechless because of all of the places I've been and all of the things I've encountered trying to get a loan for my vehicle, and when I got to you guys it only took 10 minutes. I had my check the next day and my vehicle the day after that. I've been singing your praises ever since! I was born maize and blue, but have changed to green and white. I'm grateful for how you helped me because this van has transformed my life and brought a level of independence that I've been missing for so long. **– Louella**" growing

OUR CONNECTIONS

Whether we're at MSU or OU campus events, or serving our nearly 42,000 members living outside Michigan, our extended Call Center hours, online Live Chat, and social media engagement help us stay connected to our members — wherever they are.

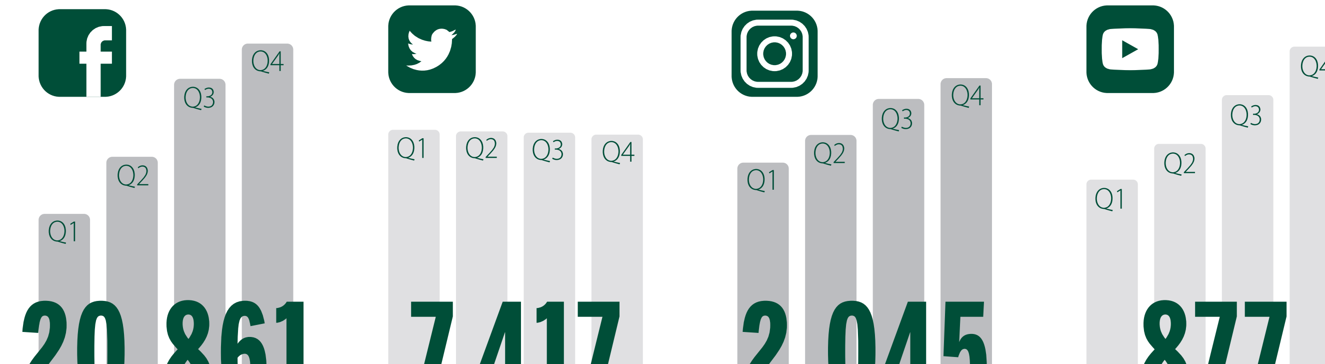
33,465
new members

MEMBERSHIP GROWTH

- **12,558** Indirect Lending
- **5,309** Family Members
- **3,778** Youth
- **3,417** MSU Students
- **2,885** Select Employee Groups
- **2,399** MSU Alumni
- **1,721** Oakland County
- **746** OU Students
- **652** MSU Faculty and Staff

SOCIAL MEDIA CONNECTIONS

To increase brand awareness, promote products and services, present financial education tips and communicate industry news, we use our social media channels to engage with current members and to attract new members.



20,861
Facebook likes
▲ 28.56%

7,417
Twitter followers
▼ 0.48%

2,045
Instagram followers
▲ 45.56%

877
YouTube subscribers
▲ 55.77%

mission moment

"MSUFCU is the best! They recently helped my husband and me refinance our mortgage and purchase a new car! Both processes were quick, and easy. The employees were friendly, knowledgeable, and willing to go above and beyond. We found during the car buying process that the Call Center having later hours than the branches ended up being very convenient, and much appreciated! Thanks, MSUFCU! **– Mary**"

REMOTE MEMBER SERVICES

Since our membership is worldwide, it's important that our members have many options to quickly and conveniently contact us. In 2019, we launched our Live Chat service in the MSUFCU Mobile app and implemented new phone menu options, allowing us to serve members more quickly.

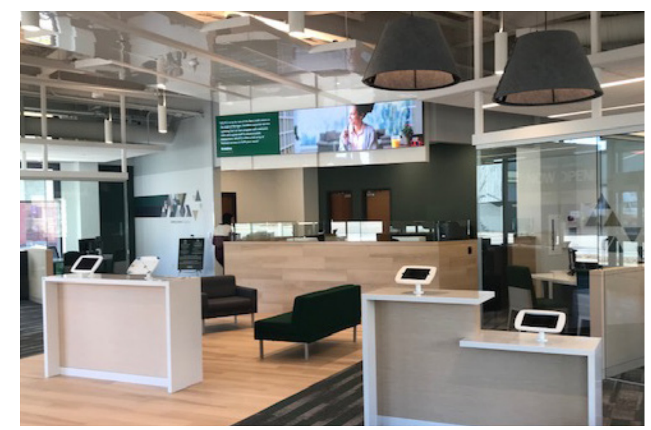
302,268
Live Chats & eMessages

684,725
Call Center calls

celebrating
BRANCH GROWTH

BERKLEY BRANCH **GRAND OPENING**

We celebrated the Grand Opening of our new branch in Berkley, Michigan, on November 8, 2019. The Berkley Branch is MSUFCU's fifth location in Oakland County, and nineteenth branch overall. The location allows us to serve more members residing in Oakland County, as well as offer products and services to prospective members. More than 16,500 members live within 10 miles of the branch and more than 53,000 members live in Oakland County.



19

Credit Union branches and counting

5,296,011

branch transactions

3,467,308

ATM transactions

HOLT BRANCH **GROUNDBREAKING**

In April 2019, representatives from MSUFCU and the Holt community celebrated the groundbreaking of the new branch location in Holt, Michigan. The branch will feature an integrated design, with one-on-one stations staffed by knowledgeable employees able to assist members with all of their financial needs.

The branch will also feature drive-up Video Tellers, which connect members to Financial Service Representatives via video chat. Members can make transfers, cash withdrawals, check deposits, loan payments, and account inquiries — providing them with personalized service conveniently from their vehicles. Members may also use the Video Tellers as 24/7 ATMs.

ORTONVILLE BRANCH **RENOVATION**

After eight weeks of construction, the Ortonville Branch welcomed members to an updated space, featuring a modern interior layout and restored exterior brick walls. This renovation allowed us to transform members' branch visits into consultative experiences and support the growth of the Ortonville community.

mission moment

"Ortonville truly appreciates your commitment to our downtown area. You have done an amazing job in creating a beautiful branch for us and I know your investment in the community will help others do the same. **– Dale**"

future EXPANSION

AUBURN HILLS **REGIONAL OFFICE**

MSUFCU announced plans to build a regional office in Auburn Hills, Michigan. Construction will begin in 2020 and is expected to be completed late 2021. Upon completion of this project, the Auburn Hills Branch will relocate from its current location to the new building. Several support departments will also occupy the regional office, including a call center, human resources, IT, facilities, and learning and talent development. There will also be an intern center, which will provide professional experience to college students in Oakland County and the surrounding area.

2,447

existing members live in the Traverse City community

TRAVERSE CITY **BRANCHES**

MSUFCU is planning two locations in Traverse City, Michigan. The new branches — one set to open in 2020 and the other in 2021 — will serve members living and traveling in northern Michigan by providing increased account access, mortgage services, and additional ATMs.

introducing
VISA SIGNATURE

TAKING UNLIMITED CASH BACK TO A NEW LEVEL

With the new MSUFCU Visa Signature® Credit Card, members receive more cash back on everyday purchases, such as groceries and gas, while still enjoying a low rate. Visa Signature cardholders also have access to exclusive travel and entertainment offers, and there are no international transaction fees.

3%
cash back on groceries

2%
cash back on travel, gas, and universities

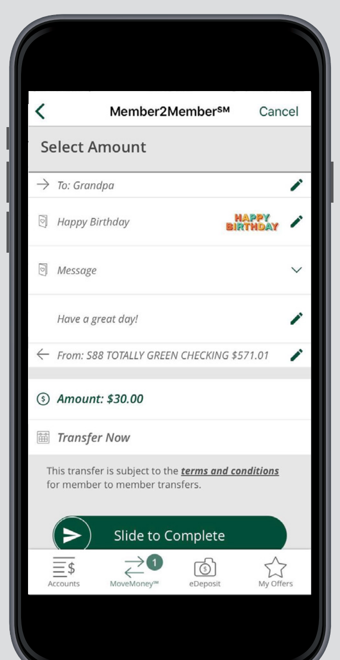
1%
cash back on all other purchases

We also added Tap to Pay technology to Visa Signature. This form of payment allows members to hold their cards near card readers instead of inserting or swiping their cards for a faster and more convenient payment option.

rewards received

$3,920,000 in total cash back received by members who used their MSUFCU Signature or Platinum Plus Visa Credit Cards

enhancing
DIGITAL OFFERINGS

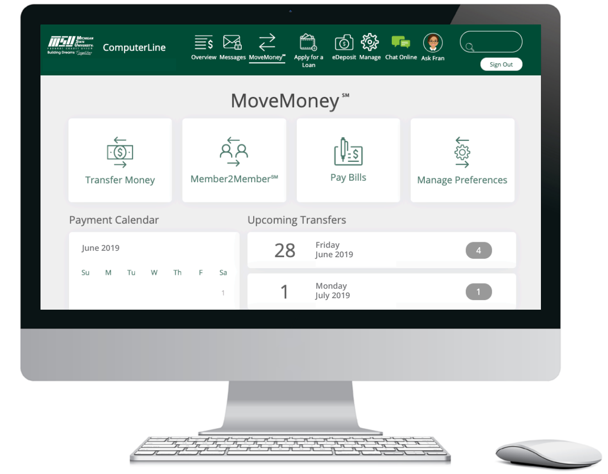


MEMBER2MEMBER℠ TRANSFERS

The launch of Member2Member (M2M℠) offers a free and convenient way to send funds to friends and family instantly within the Credit Union's digital landscape. With the option of adding digital greeting cards, members can send congratulatory notes to recipients, wish them a happy birthday, or send one of several other greetings from the MSUFCU Mobile app or ComputerLine.

15,960 members enrolled

64,037 transfers completed



MOVEMONEY℠

In addition to the introduction of M2M, we redesigned the money transfer platform within ComputerLine, our online account management tool. The new design of MoveMoney features a clean dashboard for all money transfer needs.

MoveMoney is secure and free, allowing members to send money, make loan payments, pay bills, and transfer money within MSUFCU and external accounts. Members can also view scheduled automatic transfers and manage transaction preferences.

online account access

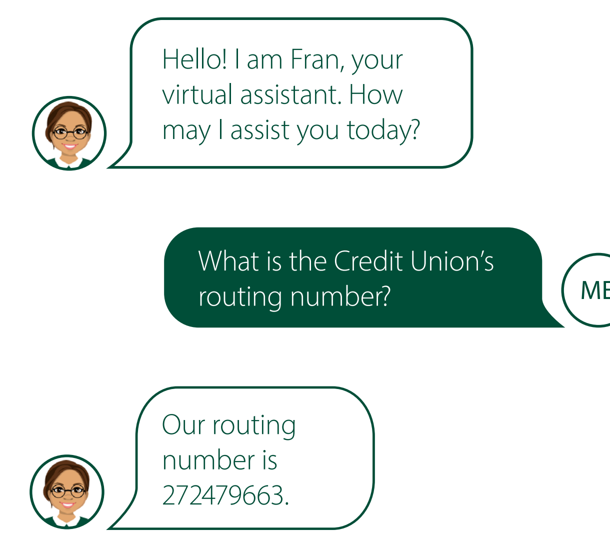
24,560,410 total mobile app logins (approximately 47 logins per minute)

&

11,941,173 total ComputerLine logins (approximately 23 logins per minute)

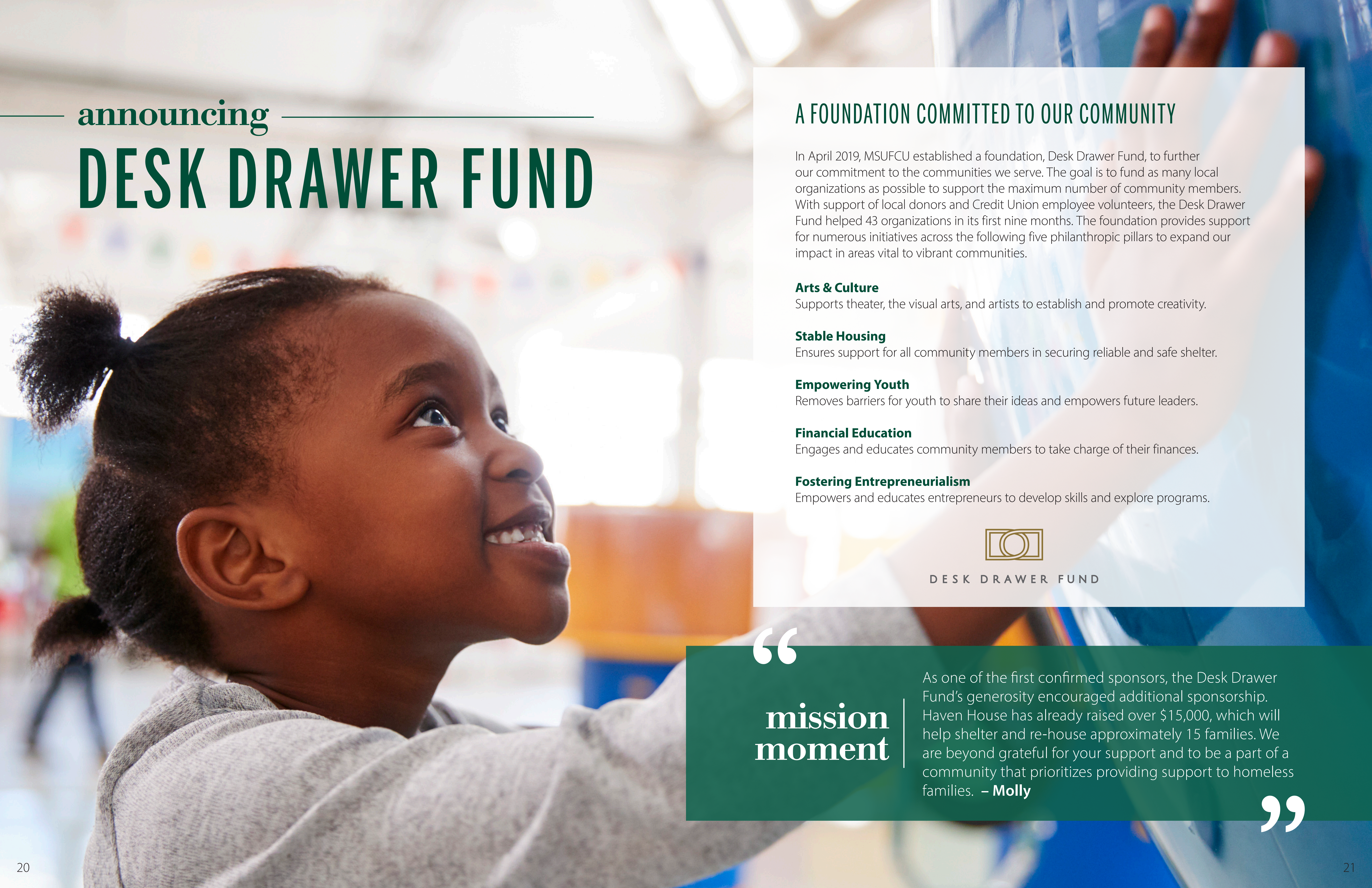
ASK FRAN℠

Fran is the Credit Union's first virtual assistant. Using an artificial intelligence software, Fran is programmed by MSUFCU's in-house IT department to securely answer member questions and requests when visiting our website. Fran is named in honor of Frances (Fran) Lesnieski, MSUFCU's first manager whose role later evolved to be president/CEO.



4,284 Fran users

8,231 chats exchanged



announcing

DESK DRAWER FUND

A FOUNDATION COMMITTED TO OUR COMMUNITY

In April 2019, MSUFCU established a foundation, Desk Drawer Fund, to further our commitment to the communities we serve. The goal is to fund as many local organizations as possible to support the maximum number of community members. With support of local donors and Credit Union employee volunteers, the Desk Drawer Fund helped 43 organizations in its first nine months. The foundation provides support for numerous initiatives across the following five philanthropic pillars to expand our impact in areas vital to vibrant communities.

Arts & Culture
Supports theater, the visual arts, and artists to establish and promote creativity.

Stable Housing
Ensures support for all community members in securing reliable and safe shelter.

Empowering Youth
Removes barriers for youth to share their ideas and empowers future leaders.

Financial Education
Engages and educates community members to take charge of their finances.

Fostering Entrepreneurialism
Empowers and educates entrepreneurs to develop skills and explore programs.

DESK DRAWER FUND

mission moment

“As one of the first confirmed sponsors, the Desk Drawer Fund’s generosity encouraged additional sponsorship. Haven House has already raised over $15,000, which will help shelter and re-house approximately 15 families. We are beyond grateful for your support and to be a part of a community that prioritizes providing support to homeless families. **– Molly**”

making a DIFFERENCE

MSUFCU is committed to making a positive impact on our members and communities by helping them achieve financial security, and ultimately, their dreams. Because of our members' involvement, we are able to invest in our communities to help create a positive place where people are proud to live, work, and visit. From volunteering at and donating to charitable organizations, to hosting free events to help teach individuals of all ages the importance of money management, we are dedicated to our core value of giving back to the communities we serve.

financial education

1,127 financial education seminars and events

27,411 seminar and event attendees

charitable giving

$245,014 donated by employees to our charity partners: ***Be Nice Mental Health Foundation, Capital Area United Way, Child & Family Charities, and Hope Against Trafficking***

1. Donating school supplies for youth in need
2. Surprising community members with lunch, gas gift cards, coffee, and many other random acts of kindness during our annual Pay It Forward initiative
3. Helping clean up the south Lansing area
4. Building a playground for children in foster care at Angel House
5. Recording an episode for our new podcast, Wallet Watch
6. Hosting a Financial Reality Fair for high school students
7. Teaching local kids how to play our youth gaming apps at Lansing SAVE night

recognition

Best and Brightest Places to Work For
West Michigan's 101 Best and Brightest to Work For
Michigan's 101 Best and Brightest in Wellness

Credit Union Journal
Best Credit Unions to Work For: #22 Overall Ranking and #8 Ranking in our Asset Category

Detroit Free Press
Top Workplace Award: #5 in Large Business Category

Governor's Fitness Council
Finalist for Top Workplace Award

Great Place to Work Certified

Forbes
Best-In-State Credit Union

Fortune Magazine
Best Workplaces for Women: #16 in the Small and Medium-Sized Category
Best Workplaces in Financial Services and Insurance: #27 in the Small and Medium-Sized Category

Michigan Credit Union League
Louise Herring Award: First Place
Desjardins Financial Education Award: Second Place in Youth and Adult Financial Literacy
Dora Maxwell Award: Honorable Mention

Visa
DPS Excellence in Innovation Award
Global Quality Service Award

committees

ASSET LIABILITY MANAGEMENT COMMITTEE

The Asset Liability Management Committee (ALCO) monitors the Credit Union's interest rate risk, liquidity position, investment portfolio, and key ratios. ALCO also analyzes new products, pricing strategies, and the impact of changing interest rates on MSUFCU's financial and competitive position.

John Brick, Co-chair, Board Liaison
Angela Brown, Board Liaison
Greg Deppong, Board Liaison
Sarah Blanck
Michael Mazzeo
Robert Patterson
Steve Shablin
Dave Weatherspoon
Lynne Zelenski

April Clobes
Sara Dolan, Co-chair
Jim Hunsanger
Jeffrey Jackson

SUPERVISORY COMMITTEE

The Supervisory Committee protects our membership by enforcing bylaws, overseeing internal and external audits, and hiring external financial statement auditors. In doing so, they review information far beyond established federal regulations.

Elizabeth Lawrence, Chair
Francisco Villarruel, Secretary
Janet Lillie, Board Liaison
Pero Dagbovie
Karin Hanson
Kelly Millenbah

April Clobes
Robert Johnson

ambassadors

MSU FEDERAL CREDIT UNION AMBASSADORS

Kim Allan
Kim Arthur
Elaine Bailey
Diane Barker
Audree Baxter
Bill Beekman
Bridget Behe
Ernest Betts
Cherie Booms
John Brick
Jeff Brodie
Angela Brown
Blair Bullard
Trace Camacho
Terry Cannon
Christine Carter
Sue Carter
Jerry Cash
Stella Cash
Zachary Constan
Kat Cooper
Douglas Cron
Carmellia Davis-King
Kathleen Deneau
Ken Deneau
Sue Depoorter
Gregory Deppong
Lynne Devereaux
Lisa Dunlap
Jodee Fortino
Natisha Foster
Karen Grannemann
Marilee Griffith
Jodi Hancock
Rosemarie Harman
Mary Lou Heberlein
Paul Heberlein
Lisa Hinds
Charles Hornburg
Angela Howard-Montie
Cheryl Howell
Michael Hudson
Laurie Huntley
Darlene Johnson
Erin Johnson
Ed Karazim
Fred Kayne
Sally Keisling
Darrell King
Michael Kolar
Denni Kraft
Rhonda Lienhart
Janet Lillie
Angela Matlock
Dean Matsudo
Denise Maybank
Chandos McCoy
Matt McKune
June Messner
Robert Meyer
Kathleen Mills
Carol Noud
Melony Peabody
Karyn Pearl
Debbie Powell
Marilyn Powell
Marcia Ratliff
Sonya Ribnicky
John Roberts
Judith Salminen
Angelica Santos
Mary Schwalm
Lori Senecal
Nina Silbergleit
Cristine Stock
Lori Strom
Laurel Switzenberg
Paula Terzian
Bob Thomas
Victoria Tryban
Marsha Walsh
Susan Waltersdorf
S. Faye Watson
Jeff Williams
Keith Williams
Nancy Yeadon

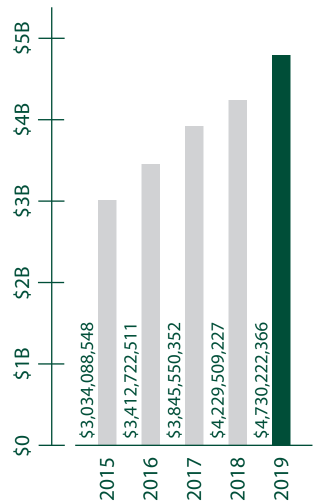
OU CREDIT UNION AMBASSADORS

David Archbold
Dawn Aubry
Scott Barns
Nancy Barton-Kenney
Lorna Bearup
David Birkholz
Charles Brown
Virginia Cloutier
Eric Condic
Ann Dunlop
Pieter Frick
Sandy Gabert
Kitty Gentile
Frank Giblin
Geraldine Graham
Cora Hanson
Robert Hanson
Susan Hartman
Greg Jordan
Ellen Keaton
Sandy Kern
Bonnie Koch
Kelly Lenda
Julie McCarrel
Barbara McDowell
Deborah Middlebrook
Jean Ann Miller
Maggie Phelps
George Preisinger
Don Ritenburgh
Katherine Rowley
Laura Schartman
Val Schnable
Maura Selahowski
Leigh Settlemoir Dzwik
Steven Shablin
Tammye Stoves
Linda Switzer
Mohan Tanniru
Ronald Tracy
Chris Turkopp
Geoffrey Upward
David Vartanian
Tricia Westergaard
Hazen Wilcox

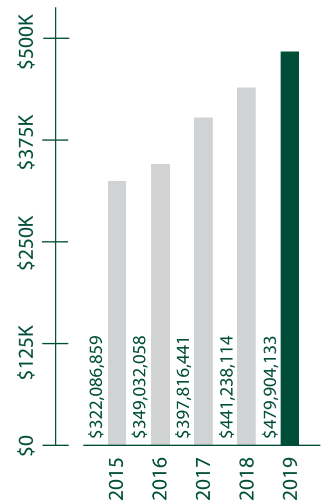
2019 FINANCIAL REPORT

FINANCIAL & MEMBER GROWTH

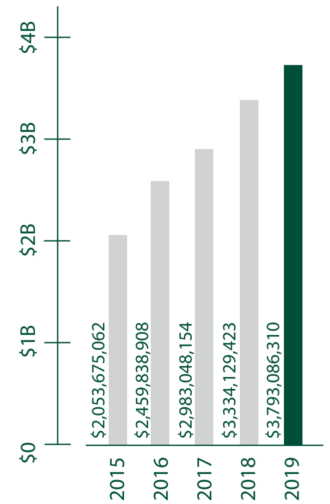
Total Assets
Year ended December 31



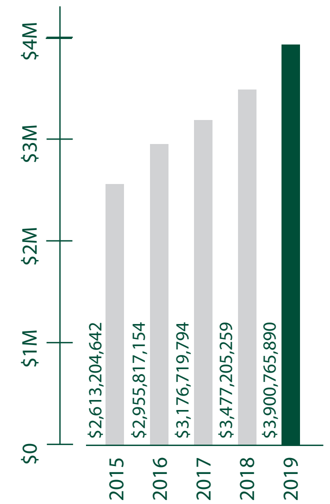
Total Reserves
Year ended December 31



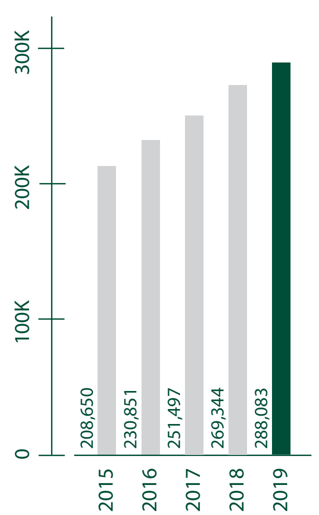
Net Loans
Year ended December 31



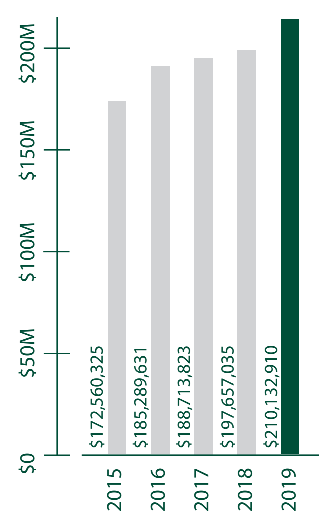
Total Shares
Year ended December 31



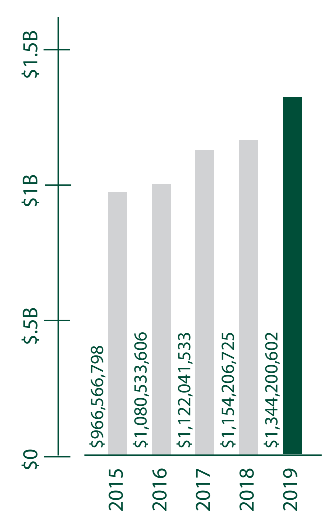
Membership
Year ended December 31



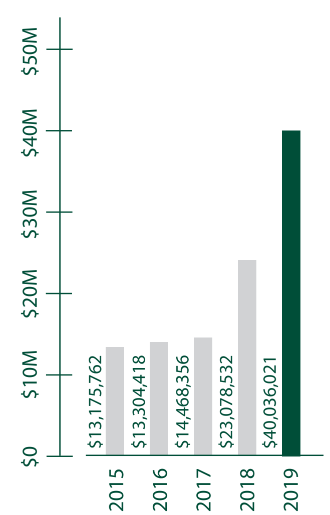
IRAs*
Year ended December 31



IMMAs
Year ended December 31



Dividends Paid, All Savings
Year ended December 31



*IRAs consist of IMMAs and Share Certificates

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Michigan State University Federal Credit Union

We have audited the accompanying consolidated financial statements of Michigan State University Federal Credit Union and its subsidiary (the "Credit Union"), which comprise the consolidated statement of financial condition as of December 31, 2019 and 2018 and the related consolidated statements of income and comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

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

/s/ Plante & Moran, PLLC

Plante & Moran, PLLC
February 6, 2020

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

	AT YEAR END	
	DECEMBER 31, 2019	DECEMBER 31, 2018
ASSETS		
Cash and cash equivalents	$ 147,247,728	$ 109,121,994
Time deposits with other financial institutions	165,000,000	140,000,000
Investment securities - Available for sale (Note 3)	346,183,848	388,803,599
Other investments	16,169,300	14,169,300
Loans to members - Net (Note 4)	3,793,086,310	3,334,129,423
Premises and equipment - Net (Note 5)	150,456,091	136,935,478
Goodwill	7,836,819	7,836,819
Business-owned life insurance	45,305,405	42,895,357
NCUSIF deposit	33,532,738	30,888,079
Other assets	25,404,127	24,729,178
Total assets	**$ 4,730,222,366**	**$ 4,229,509,227**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share and savings accounts (Note 6)	$ 3,900,765,890	$ 3,477,205,259
Borrowings (Note 7)	280,000,000	260,000,000
Postretirement benefit obligations (Note 9)	37,161,306	27,608,825
Accrued expenses and other liabilities	32,391,037	23,457,029
Total liabilities	4,250,318,233	3,788,271,113
Members' Equity	479,904,133	441,238,114
Total liabilities and members' equity	**$ 4,730,222,366**	**$ 4,229,509,227**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	YEARS ENDED	
	DECEMBER 31, 2019	DECEMBER 31, 2018
Interest Income		
Loans - Including fees	$ 174,941,390	$ 150,481,626
Investment securities	11,447,009	10,282,260
Interest-bearing balances with other financial institutions	1,745,228	858,440
Total interest income	188,133,627	161,622,326
Interest Expense		
Members' share and savings accounts	40,036,021	23,078,532
Borrowings	6,385,224	5,675,297
Total interest expense	46,421,245	28,753,829
Net Interest Income	141,712,382	132,868,497
Provision for Loan Losses (Note 4)	14,888,051	12,707,752
Net Interest Income after Provision for Loan Losses	126,824,331	120,160,745
Noninterest Income		
Fees and charges	18,544,380	17,733,183
VISA interchange	26,259,537	24,434,224
NCUSIF rebate	388,095	1,741,727
Other	3,357,192	3,286,200
Total noninterest income	48,549,204	47,195,334
Noninterest Expense		
Salaries and employees benefits (Note 9)	70,804,989	62,804,505
Occupancy (Note 5)	10,799,445	10,679,269
Operating expenses	48,232,062	44,818,759
Other	8,056,678	3,502,570
Total noninterest expense	137,893,174	121,805,103
Consolidated Net Income	37,480,361	45,550,976
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on securities	8,357,635	(1,574,844)
Postretirement benefit plan:		
Net loss arising during the year	(7,574,667)	(909,219)
Reclassification adjustment - Net actuarial loss	402,690	354,760
Total postretirement benefit plan	(7,171,977)	(554,459)
Total other comprehensive income (loss)	1,185,658	(2,129,303)
Comprehensive Income	**$ 38,666,019**	**$ 43,421,673**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

	YEARS ENDED DECEMBER 31, 2019 AND 2018				
	Regular Reserve	Equity Acquired in Mergers	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2018	$ 17,980,012	$ 3,825,906	$ 389,469,664	$ (13,459,141)	$ 397,816,441
Comprehensive income:					
Net income	-	-	45,550,976	-	45,550,976
Unrealized loss on securities	-	-	-	(1,574,844)	(1,574,844)
Postretirement benefit plan	-	-	-	(554,459)	(554,459)
Balance - December 31, 2018	17,980,012	3,825,906	435,020,640	(15,588,444)	441,238,114
Comprehensive income:					
Net income	-	-	37,480,361	-	37,480,361
Unrealized gain on securities	-	-	-	8,357,635	8,357,635
Postretirement benefit plan	-	-	-	(7,171,977)	(7,171,977)
Balance - December 31, 2019	**$ 17,980,012**	**$ 3,825,906**	**$ 472,501,001**	**$ (14,402,786)**	**$ 479,904,133**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	YEARS ENDED	
	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash Flows from Operating Activities		
Consolidated net income	$ 37,480,361	$ 45,550,976
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation and amortization	10,420,443	10,417,271
Provision for loan losses	14,888,051	12,707,752
Net amortization of securities	811,213	1,070,425
Loss on disposal of premises and equipment	-	731,355
Earnings on business-owned life insurance	(1,284,388)	(1,234,800)
Actuarial loss on postretirement benefit liability	2,380,504	1,817,118
Net change in:		
Other assets	855,603	(6,138,080)
Accrued expenses and other liabilities	8,934,008	(12,319,840)
Net cash provided by operating activities	74,485,795	52,602,177
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	117,377,222	130,732,272
Purchases	(67,211,049)	(99,595,163)
Activity in other investments - Purchases	(2,000,000)	(2,925,000)
Net change in loans	(475,375,490)	(364,562,818)
Additions to premises and equipment	(23,941,056)	(8,619,029)
Proceeds from time deposits with other institutions	135,000,000	69,641,722
Purchases of time deposits with other institutions	(160,000,000)	(118,000,000)
Increase in NCUSIF deposit	(2,644,659)	(2,421,254)
Proceeds from the surrender of business-owned life insurance	-	1,716,511
Purchases of business-owned life insurance	(1,125,660)	(1,104,540)
Net cash used in investing activities	(479,920,692)	(395,137,299)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	YEARS ENDED	
	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash Flows from Financing Activities		
Net increase in members' shares	$ 423,560,631	$ 300,485,465
Proceeds from issuance of Federal Home Loan Bank advances	67,000,000	238,500,000
Repayment of Federal Home Loan Bank advances	(47,000,000)	(188,500,000)
Net cash provided by financing activities	443,560,631	350,485,465
Net Change in Cash and Cash Equivalents	38,125,734	7,950,343
Cash and Cash Equivalents - Beginning of year	109,121,994	101,171,651
Cash and Cash Equivalents - End of year	147,247,728	109,121,994
Supplemental Cash Flow Information		
Cash paid for interest	46,409,179	28,651,040
Transfers from loans to other real estate owned	1,530,552	773,797

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Nature of Business

The consolidated financial statements include the accounts of Michigan State University Federal Credit Union (the "Credit Union") and Desk Drawer Fund (DDF), a single-member charitable foundation in which the Credit Union is the sole member. Intercompany accounts and transactions were eliminated in consolidation.

Michigan State University Federal Credit Union is a federally chartered credit union regulated by the National Credit Union Administration (NCUA) and insured by the National Credit Union Share Insurance Fund (NCUSIF). The Credit Union operates branches in the metropolitan Lansing, Oakland, and Grand Rapids areas.

The Credit Union grants consumer loans (including credit card loans), various types of mortgage loans, and business loans to its members. The Credit Union's primary field of membership includes students, alumni, and employees of Michigan State University and Oakland University. Oakland University is served under the registered trade name Oakland University Credit Union. The majority of member loans are secured by collateral, including, but not limited to, members' shares, vehicles, real estate, and other consumer assets. Deposit services include interest-bearing and non-interest-bearing checking accounts, savings accounts, money market accounts, certificates, and IRAs. Other services include mobile applications and computer and telephone transactions, as well as automated teller machines.

The Desk Drawer Fund is a charitable foundation formed in 2019 under Section 501(c)(3) of the Internal Revenue Code to support the Credit Union's communities. The DDF provides members and employees with a source to perform charitable giving that makes a visible difference in the community that focuses on five philanthropic pillars: arts and culture, stable housing, empowering youth, financial education, and fostering entrepreneurialism.

NOTE 2 - Significant Accounting Policies

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

Cash and Cash Equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with other financial institutions, federal funds sold, and interest-bearing deposits with other financial institutions with original maturities of 90 days or less. Net cash flows are reported for member loan and share accounts.

Time Deposits with Other Financial Institutions
Time deposits with other financial institutions consist of nonmembership capital deposits with corporate credit unions with contractual maturities of five years or less.

Investment Securities
Securities are classified as available for sale when they might be sold before maturity. Securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income and as a separate component of members' equity. Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (a) the length of time and the extent to which

NOTE 2 - Significant Accounting Policies (Continued)

the fair value has been less than cost, (b) the financial condition and near-term prospects of the issuer, and (c) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other Investments
The Credit Union, as a member of the Federal Home Loan Bank (FHLB) of Indianapolis, is required to maintain an investment in the capital stock of the FHLB. The Credit Union held $13,050,000 of FHLB capital stock at December 31, 2019 and 2018. The stock is redeemable at par by the FHLB and, therefore, is carried at cost and periodically evaluated for impairment. The Credit Union records cash and stock dividends in interest income — investment securities on the consolidated statement of income and comprehensive income.

Other investments also include the Credit Union's investment in Alloya Corporate Credit Union's (Alloya) and Corporate Central Credit Union's (Corporate Central) permanent capital base, which is required to be maintained for full participation as a member of the Corporate Credit Unions. The Alloya deposit was $1,069,300 as of December 31, 2019 and 2018. The deposit is not insured by the NCUSIF. Interest on the deposit is paid quarterly based on available earnings at interest rates approved by Alloya's board of directors. In the event a member credit union withdraws from Alloya, the deposit would be repaid in one installment three years after notice of withdrawal is given. The Corporate Central deposit was made in 2019 and was $2,000,000 as of December 31, 2019. The deposit is not insured by the NCUSIF. Interest on the deposit is paid quarterly based on available earnings at interest rates approved by Corporate Central's board of directors. The deposit is not callable except during optional call periods specified by Corporate Central's board of directors and is subject to prior written approval by the NCUA.

Other investments also include various investments totaling $50,000 at December 31, 2019 and 2018 that are carried at cost on the accompanying consolidated statement of financial condition.

Loans
The Credit Union grants mortgage, commercial, and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the metropolitan Lansing, Oakland, and Grand Rapids areas. The ability of the Credit Union's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan's yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. If a loan is returned to accrual, the interest payments previously received continue to be reported as a reduction of the unpaid principal balance until the loan is paid off, at which time the interest payments are recognized in interest income.

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

NOTE 2 - Significant Accounting Policies (Continued)

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

The allowance consists of both specific and general reserve components. The specific component relates to loans that are classified as impaired. A specific allowance is established for impaired loans when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired loans and is based on historical loss experience adjusted for qualitative factors.

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

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures unless the loan is a troubled debt restructuring.

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Credit Union, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Credit Union would not otherwise consider. To make this determination, the Credit Union must determine whether (a) the borrower is experiencing financial difficulties and (b) the Credit Union granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are (a) is the borrower currently in default on any of its debts, (b) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (c) absent the current modification, would the borrower likely default.

Foreclosed Assets
Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at the fair value of the real estate, less estimated costs to sell, through a charge to the allowance for loan losses, if necessary. Subsequent to foreclosure, valuations are periodically performed by management, and write-downs required by changes in estimated fair value are charged against earnings through a valuation allowance and reported in other noninterest expenses. The carrying value of foreclosed assets, included in other assets on the statement of financial condition, was $991,057 and $456,032 as of December 31, 2019 and 2018, respectively.

NOTE 2 - Significant Accounting Policies (Continued)

Premises and Equipment
Land and land improvements are carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the lease term or the life of the leasehold improvements.

Goodwill
The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment.

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

Business-owned Life Insurance
The Credit Union has purchased life insurance policies on certain key officers. Business-owned life insurance is recorded at its cash surrender value or the amount that can be realized upon immediate liquidation.

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

NCUSIF Insurance Premium
A credit union is required to pay an annual insurance premium equal to one-twelfth of 1 percent of its total insured shares, unless the payment is waived or reduced by the NCUA board. The NCUA board waived the 2019 and 2018 insurance premiums.

Members' Share and Savings Accounts
Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share accounts is based on the available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by management and approved by the board of directors based on an evaluation of current and future market conditions.

Members' Equity
The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

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

The Desk Drawer Fund is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by DDF and recognize a tax liability if DDF has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS) or other applicable taxing authorities. Management has analyzed the tax positions taken by DDF and has concluded that as of December 31, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. DDF is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Other Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities and amounts recognized related to postretirement benefit plans (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the equity section of the consolidated statement of financial condition.

NOTE 2 - Significant Accounting Policies (Continued)

Such items, along with net income, are considered components of comprehensive income.

Loan Commitments and Related Financial Instruments
Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and business letters of credit, issued to meet member financing needs. The face amount for these items represents the exposure to loss before considering member collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements at December 31, 2019 and 2018.

New Accounting Pronouncement
On January 1, 2019, the Credit Union adopted Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606), which established principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Credit Union's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans and investment securities, as well as revenue related to mortgage servicing activities. As a result, the adoption was not significant to the consolidated financial statements.

Fees and Charges – These represent fees from deposit customers for transaction-based, account maintenance, and overdraft services. These fees are recognized at the time of the transaction when the performance obligation has been fulfilled. Account maintenance fees and account analysis fees are earned over the course of a month, representing the period of the performance obligation, and are recognized monthly.

Visa Interchange Income – This represents interchange fees from cardholder transactions conducted through the card payment network. Cardholders use the card to conduct point-of-sale transactions that produce interchange fees. The fees are transaction based and the fee is recognized with the processing of the transaction.

Upcoming Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Credit Union's year ending December 31, 2021. The new lease standard is not expected to have a significant effect on the Credit Union's consolidated financial statements. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Credit Union's loans and available-for-sale debt securities. Each financial asset presented on the consolidated statement of financial condition would have a unique allowance

NOTE 2 - Significant Accounting Policies (Continued)

for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current U.S. generally accepted accounting principles (GAAP) and instead reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Credit Union's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Credit Union is still quantifying the impact of the new standard but expects it to have a significant impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment*. The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value instead of the current two-step test. A qualitative assessment may still be completed first to determine if a quantitative impairment test is required. This standard is effective on a prospective basis for fiscal years beginning after December 15, 2022. The Credit Union does not expect the adoption of the new standard to have a significant impact on its consolidated financial statements.

Subsequent Events
The consolidated financial statements and related disclosures include evaluation of events up through and including February 6, 2020, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 + 2018

NOTE 3 - Investment Securities

The amortized cost and fair value of securities available for sale and gross unrealized gains and losses recognized in accumulated and other comprehensive loss at December 31 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
Available for Sale:				
U.S. government and federal agency obligations	$ 221,210,712	$ 1,644,704	$ (61,160)	$ 222,794,256
Mortgage-backed securities — Residential	124,559,149	25,774	(1,448,945)	123,135,978
Negotiable certificates of deposit	250,000	3,614	-	253,614
Total	$ 346,019,861	$ 1,674,092	$ (1,510,105)	$ 346,183,848
2018				
Available for Sale:				
U.S. government and federal agency obligations	$ 243,171,263	$ 78,979	$ (2,220,096)	$ 241,030,146
Mortgage-backed securities — Residential	153,575,984	691	(6,045,921)	147,530,754
Negotiable certificates of deposit	250,000	-	(7,301)	242,699
Total	$ 396,997,247	$ 79,670	$ (8,273,318)	$ 388,803,599

At December 31, 2019 and 2018, securities with a carrying value of approximately $211,486,000 and $285,940,000, respectively, were pledged as collateral to secure borrowed funds and a security with a carrying value of approximately $5,000,000 was pledged to the discount window.

The contractual scheduled maturities of securities available for sale at December 31, 2019 are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 104,920,352	$ 105,246,519
Due in one through five years	116,540,360	117,801,351
Mortgage-backed securities — Residential	124,559,149	123,135,978
Total	$ 346,019,861	$ 346,183,848

There were no sales of investment securities for the years ended December 31, 2019 and 2018.

NOTE 3 - Investment Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR GREATER	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
2019				
Available for Sale:				
U.S. government and federal agency obligations	$ (2,959)	$ 4,619,169	$ (58,201)	$ 44,777,844
Mortgage-backed securities — Residential	(334,449)	25,510,292	(1,114,496)	84,022,054
Total	$ (337,408)	$ 30,129,461	$ (1,172,697)	$ 128,799,898
2018				
Available for Sale:				
U.S. government and federal agency obligations	$ (171,276)	$ 84,722,542	$ (2,048,820)	$ 141,311,029
Mortgage-backed securities — Residential	-	-	(6,045,921)	146,966,011
Negotiable certificates of deposit	-	-	(7,301)	242,699
Total	$ (171,276)	$ 84,722,542	$ (8,102,042)	$ 288,519,739

Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Credit Union has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair values are expected to recover as the bonds approach their maturity dates. There were 50 and 92 investment securities in an unrealized loss position at December 31, 2019 and 2018, respectively.

NOTE 4 - Loans to Members

A summary of the balances of loans at December 31 follows:

	2019	2018
Consumer	$ 1,964,353,951	$ 1,743,134,750
Residential real estate	1,583,127,967	1,413,112,774
Commercial	264,181,447	192,925,701
Total loans	3,811,663,365	3,349,173,225
Less allowance for loan losses	23,182,142	19,859,591
Plus net deferred loan costs	4,605,087	4,815,789
Net loans	$ 3,793,086,310	$ 3,334,129,423

In the ordinary course of business, the Credit Union has granted loans to executive officers, supervisory committee members, and directors and their affiliates amounting to approximately $2,465,000 and $2,829,000 as of December 31, 2019 and 2018, respectively.

The Credit Union's activity in the allowance for loan losses for the years ended December 31, 2019 and 2018, by loan segment, is summarized below:

	YEAR ENDED DECEMBER 31, 2019			
	Consumer	Mortgage	Business	Total
Beginning balance	$ 15,554,404	$ 724,513	$ 3,580,674	$ 19,859,591
Charge-offs	(13,594,561)	(202,048)	(519,292)	(14,315,901)
Recoveries	2,629,482	119,975	944	2,750,401
Provision	11,568,773	249,039	3,070,239	14,888,051
Ending balance	$ 16,158,098	$ 891,479	$ 6,132,565	$ 23,182,142
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$ 595,923	$ 1,754,825	$ 2,350,748
Collectively evaluated for impairment	16,158,098	295,556	4,377,740	20,831,394
Ending allowance balance	$ 16,158,098	$ 891,479	$ 6,132,565	$ 23,182,142
Loans:				
Individually evaluated for impairment	$ -	$ 9,116,131	$ 3,863,369	$ 12,979,500
Collectively evaluated for impairment	1,964,353,951	1,574,011,836	260,318,078	3,798,683,865
Total loans	$ 1,964,353,951	$ 1,583,127,967	$ 264,181,447	$ 3,811,663,365

NOTE 4 - Loans to Members (Continued)

YEAR ENDED DECEMBER 31, 2018

	Consumer	Mortgage	Business	Total
Beginning balance	$ 16,478,347	$ 852,550	$ 2,667,366	$ 19,998,263
Charge-offs	(14,674,932)	(304,769)	(33,724)	(15,013,425)
Recoveries	2,106,681	56,320	4,000	2,167,001
Provision	11,644,308	120,412	943,032	12,707,752
Ending balance	$ 15,554,404	$ 724,513	$ 3,580,674	$ 19,859,591
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ -	$ 497,254	$ 640,944	$ 1,138,198
Collectively evaluated for impairment	15,554,404	227,259	2,939,730	18,721,393
Ending allowance balance	$ 15,554,404	$ 724,513	$ 3,580,674	$ 19,859,591
Loans:				
Individually evaluated for impairment	$ -	$ 8,240,533	$ 4,532,955	$ 12,773,488
Collectively evaluated for impairment	1,743,134,750	1,404,872,241	188,392,746	3,336,399,737
Total loans	$ 1,743,134,750	$ 1,413,112,774	$ 192,925,701	$ 3,349,173,225

As of December 31, 2019 and 2018, the Credit Union had 24 and 27 loans with a balance of approximately $2,508,000 and $2,968,000, respectively, considered to be troubled debt restructurings (TDRs). These loans are classified as impaired loans and individually evaluated for impairment. Most of these loans were first mortgage loans. The allowance allocated to these loans at December 31, 2019 and 2018 is $204,936 and $261,570, respectively. In almost all cases, these loans were delinquent and being provided for in the allowance for loan losses computation, and, as a result, the restructuring of these loans did not add a material amount to the allowance for loan losses upon their modification. Modifications agreed to by the Credit Union consisted of term extensions and lowered interest rates. No principal and interest was forgiven. During 2019 and 2018, loans classified as troubled debt restructurings that ultimately defaulted were not material to the consolidated financial statements.

The Credit Union also classifies delinquent residential real estate loans as impaired loans and individually evaluates these for impairment. As of December 31, 2019 and 2018, these delinquent loans had a balance of approximately $6,608,000 and $5,273,000, respectively.

Individual business loans are evaluated for impairment. At December 31, 2019, the Credit Union had impaired business loans of approximately $3,863,000, of which $2,512,000 has related allowances totaling $1,754,825 recorded. At December 31, 2018, the Credit Union had impaired business loans of approximately $4,533,000, of which $3,653,000 has related allowances totaling $640,944 recorded.

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2019 and 2018.

NOTE 4 - Loans to Members (Continued)

Credit Quality Indicators

The credit quality indicators used for monitoring performance by the Credit Union are primarily performance based and include past-due status and nonaccrual status.

Age Analysis of Past-due Loans

The Credit Union's age analysis of past-due loans at December 31, 2019 and 2018, by loan segment and class, is summarized below:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans
2019						
Consumer:						
Secured	$ 10,436,226	$ 3,025,963	$ 3,500,800	$ 16,962,989	$ 1,457,330,710	$ 1,474,293,699
Unsecured	3,577,093	1,300,166	2,188,476	7,065,735	402,296,217	409,361,952
Other	465,823	156,148	278,270	900,241	79,798,059	80,698,300
Mortgage:						
First mortgage	3,808,140	1,430,587	2,006,009	7,244,736	1,402,338,567	1,409,583,303
Home equity	608,399	361,284	386,172	1,355,855	172,188,809	173,544,664
Business	197,869	72,244	611,515	881,628	263,299,819	264,181,447
Total	$ 19,093,550	$ 6,346,392	$ 8,971,242	$ 34,411,184	$ 3,777,252,181	$ 3,811,663,365
2018						
Consumer:						
Secured	$ 9,059,160	$ 2,572,933	$ 2,716,516	$ 14,348,609	$ 1,269,290,037	$ 1,283,638,646
Unsecured	3,281,865	1,134,423	1,493,589	5,909,877	380,187,641	386,097,518
Other	492,619	172,410	70,457	735,486	72,663,100	73,398,586
Mortgage:						
First mortgage	3,625,390	1,478,582	2,333,093	7,437,065	1,238,836,902	1,246,273,967
Home equity	428,565	195,234	354,112	977,911	165,860,896	166,838,807
Business	14,597	-	945,654	960,251	191,965,450	192,925,701
Total	$ 16,902,196	$ 5,553,582	$ 7,913,421	$ 30,369,199	$ 3,318,804,026	$ 3,349,173,225

There were no loans past due greater than 90 days and accruing interest as of December 31, 2019 and 2018.

Nonaccrual Loans

The Credit Union's loans on nonaccrual status at December 31, 2019 and 2018, by loan segment and class, are summarized below:

	2019	2018
Consumer:		
Secured	$ 3,500,800	$ 2,716,516
Unsecured	2,188,476	1,493,589
Other	278,270	70,457
Mortgage:		
First mortgage	2,006,009	2,333,093
Home equity	386,172	354,112
Business	611,515	945,654
Total	$ 8,971,242	$ 7,913,421

NOTE 5 - Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2019	2018
Land	$ 18,741,646	$ 15,392,143
Buildings and building improvements	134,562,843	126,799,763
Furniture, fixtures, equipment, and software	27,508,121	24,812,704
Leasehold improvements	3,085,170	3,032,069
Construction in progress	4,186,196	710,297
Total cost	188,083,976	170,746,976
Accumulated depreciation	(37,627,885)	(33,811,498)
Net premises and equipment	$ 150,456,091	$ 136,935,478

As of December 31, 2019, the Credit Union had outstanding contract commitments for planned construction of new branch offices totaling approximately $9,000,000.

Depreciation and amortization expense for 2019 and 2018 totaled approximately $10,420,000 and $10,417,000, respectively.

The Credit Union leases certain branch offices. One of the lease commitments is with Michigan State University and expires in 2021.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2019, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending	Amount
2020	$ 384,496
2021	360,930
2022	287,396
2023	292,150
2024	259,988
Thereafter	559,038
Total	$ 2,143,998

The land on which a branch location is located is leased from Michigan State University for $1. The lease expires in the year 2110. The cost of such rentals is not included above. Total rent expense was approximately $381,000 and $356,000 during 2019 and 2018, respectively.

NOTE 6 - Members' Shares and Savings Accounts

A summary of members' share and savings accounts at December 31 is as follows:

	2019	2018
Regular shares	$ 505,510,120	$ 522,144,937
Share draft	561,416,304	531,291,199
Money market checking	90,182,462	69,629,810
Insured money management accounts	1,344,200,602	1,154,206,725
Business deposits	289,999,384	232,208,983
Share certificates	1,109,457,018	967,723,605
Total members' share and savings accounts	$ 3,900,765,890	$ 3,477,205,259

The aggregate amounts of members' share and savings accounts in denominations of $250,000 or more at December 31, 2019 and 2018 were approximately $150,678,000 and $112,164,000, respectively.

At December 31, 2019, scheduled maturities of share certificates are as follows:

Years Ending	Amount
2020	$ 508,945,758
2021	206,123,829
2022	142,588,869
2023	109,864,870
2024	117,047,336
Thereafter	24,886,356
Total	$ 1,109,457,018

In the normal course of business, the Credit Union's directors, supervisory committee members, and executive officers maintain share accounts. The total amount of these shares at December 31, 2019 and 2018 was approximately $2,874,000 and $2,591,000, respectively.

NOTE 7 - Borrowings

The Credit Union has advances from the Federal Home Loan Bank (FHLB) of Indianapolis totaling approximately $280,000,000 and $260,000,000 at December 31, 2019 and 2018, respectively. The advances require monthly interest payments based on the rate offered at the time each advance was taken. The interest rates range from 1.34 percent to 3.34 percent on balances outstanding, with a weighted-average interest rate of 2.41 percent at December 31, 2019. The interest rates ranged from 1.32 to 3.34 percent on balances outstanding, with a weighted-average interest rate of 2.49 percent at December 31, 2018. The advances are collateralized by qualifying securities and mortgage loans as of December 31, 2019. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

The Credit Union has approximately $1,082,889,000 and $980,829,000 in additional borrowing capacity with the Federal Home Loan Bank of Indianapolis at December 31, 2019 and 2018, respectively.

Future obligations of the advances are as follows at December 31, 2019:

Years Ending	Amount
2020	$ 25,000,000
2021	10,000,000
2022	15,000,000
2023	40,000,000
2024	35,000,000
Thereafter	155,000,000
Total	$ 280,000,000

NOTE 8 - Line of Credit

Under a line of credit agreement with Alloya Corporate Credit Union (Alloya), the Credit Union has available borrowings of $53,465,000 and $100,000,000 at December 31, 2019 and 2018, respectively. There were no amounts outstanding on the line of credit at December 31, 2019 and 2018. Alloya has a blanket pledge on all credit union assets as collateral for borrowings on this line of credit. Alloya rescinds any rights to qualifying assets pledged as collateral on the Federal Home Loan Bank of Indianapolis advances. On January 1, 2019, the available borrowings under this line of credit agreement were reduced to a maximum of 50 times the Credit Union's capital share account held at Alloya.

As of December 31, 2019, the Credit Union has available borrowings of $60,000,000 at Corporate Central Credit Union. This line of credit is secured by the Credit Union's deposits held at Corporate Central Credit Union. There were no amounts outstanding on the line of credit at December 31, 2019.

The Credit Union also has access to discount window borrowings from the Federal Reserve Bank of Chicago. There is no specific borrowing limit or maturity/expiration date for the relationship. The amount that can be borrowed is subject to full collateralization by the acceptable pledging of assets acceptable to the Federal Reserve Bank of Chicago. The interest rate for any discount window borrowings will be the published discount borrowing rate in effect on the date of the borrowing. The discount window borrowings are governed in accordance with the terms and conditions established in an agreement between the Credit Union and the Federal Reserve Bank of Chicago. There were no outstanding borrowings under this agreement at December 31, 2019 or 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 + 2018

NOTE 9 - Postretirement Benefit Plans

The Credit Union provides continued health and dental insurance to eligible retirees, their spouses, and eligible dependents in addition to a $5,000 death benefit to a designated beneficiary. An employee is eligible for these benefits after retiring at age 62 with at least 15 years of service or at least 25 years of service without regard to age. The Credit Union records postretirement benefits that require the accrual of expected cost of retiree benefits during the years that the employees render the necessary service to be entitled to receive such postretirement benefits of the plan.

The plan eligibility requirements were amended for employees hired after December 1, 2009. Dependents of retirees will no longer be covered by the plan. Furthermore, the percentage of premiums that will be paid by the Credit Union will vary depending on the retirement age of the employee. Employees hired after December 31, 2015, will not be eligible for postretirement benefits.

Obligations and Funded Status

	Postretirement Benefits	
	2019	2018
Accumulated benefit obligation	$ 37,161,306	$ 27,608,825

Amounts recognized in accumulated other comprehensive income consist of the following:

	Postretirement Benefits	
	2019	2018
Net loss	$ 14,566,773	$ 7,394,796

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Postretirement Benefits	
	2019	2018
Net Periodic Benefit Cost, Employer Contributions, Participant Contributions, and Benefits Paid		
Net periodic benefit cost	$ 2,878,901	$ 2,313,790
Employer contributions	496,542	496,672
Benefits paid	(496,542)	(496,672)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net loss	7,171,977	554,459
Total recognized in other comprehensive income	7,171,977	554,459
Total recognized in net periodic benefit cost and other comprehensive income	$ 10,050,878	$ 2,868,249

NOTE 9 - Postretirement Benefit Plans (Continued)

The service costs were included as a component of salaries and employee benefits on the consolidated statement of income and comprehensive income. The other components of net periodic benefit cost are insignificant.

The estimated net loss for the postretirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $947,903.

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the years ended December 31 are as follows:

	2019	2018
Discount rate	3.50%	4.25%

Assumed Healthcare Cost Trend Rates at December 31

	Postretirement Benefits	
	2019	2018
Healthcare cost trend rate assumed for next year, pre-65	8.50 %	8.00 %
Healthcare cost trend rate assumed for next year, post-65	7.00 %	5.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50 %	5.00 %
Year that the rate reaches the ultimate trend rate, pre-65/post-65	2036/2030	2025/2020

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A 1 percentage point change in assumed healthcare cost trend rates would have the following effects:

	Current Values	Increased Trend Values	Decreased Trend Values
Total service and interest cost	$ 2,476,211	$ 3,219,661	$ 1,936,472
Accumulated benefit obligation	37,161,306	46,249,591	30,337,177

<u>Cash Flow</u>

Contributions and Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid. Expected contributions from the Credit Union are substantially the same as projected benefit payments.

Years Ending	Amount
2020	$ 707,391
2021	709,038
2022	723,250
2023	771,506
2024	880,715
Thereafter	5,587,220

NOTE 10 - Retirement Plans

All full-time and part-time employees are eligible to contribute to the Credit Union's 401(k) plan. Employees who have been on staff for at least 12 months, have worked at least 1,000 hours, and are 21 years of age or older are eligible for the Credit Union's matching contribution. Employees may contribute up to 100 percent of their compensation (subject to IRS limits), and the Credit Union will make a matching contribution equal to 200 percent of the employee's 401(k) elective deferral contributions up to 5 percent of the employees' salary. The 401(k) plan expense was approximately $4,074,000 and $3,449,000 for 2019 and 2018, respectively. In addition, the Credit Union pays the administrative costs of the plan.

The Credit Union also has a 457(b) plan for certain key employees to allow these employees to defer income in excess of the 401(k) plan contribution limits. The Credit Union does not make any contributions to this plan.

NOTE 11 - Off-Balance-Sheet Activities

Credit-related Financial Instruments

The Credit Union is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statement of financial condition.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

As of December 31, 2019 and 2018, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2019	2018
Commitments to grant mortgage and consumer loans	$ 42,380,000	$ 30,760,000
Commitments to grant business loans	5,897,000	11,643,000
Unfunded commitments under lines of credit	1,071,690,000	963,403,000
Unfunded commitments under overdraft protection programs	100,413,000	95,095,000

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. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Credit Union, is based on management's credit evaluation of the member.

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

NOTE 12 - Minimum Regulatory Capital Requirements

The Credit Union is subject to various regulatory capital requirements. 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 generally accepted accounting practices. 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 (as defined) to total assets (as defined). Credit unions are also required to calculate a risk-based net worth requirement (RBNWR) that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2019 and 2018 was 5.75 percent and 5.83 percent, respectively. The minimum ratio to be considered complex under the regulatory framework is 6 percent. Management believes, as of December 31, 2019 and 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent call reporting period, and December 31, 2018, the Credit Union was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.00 percent of assets. There are no conditions or events since the notification that management believes have changed the Credit Union's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019						
Net worth	$ 494,306,919	10.45 %	$ 283,813,342	6.00 %	$ 331,115,566	7.00 %
As of December 31, 2018						
Net worth	456,826,558	10.80	253,770,554	6.00	296,065,646	7.00

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Furthermore, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 13 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Credit Union's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Credit Union to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Credit Union has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Credit Union's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

NOTE 13 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis			
2019	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at December 31**
U.S. government and federal agency obligations	$ -	$ 222,794,256	$ -	$ 222,794,256
Mortgage-backed securities — Residential	-	123,135,978	-	123,135,978
Negotiable certificates of deposit	-	253,614	-	253,614
Total available-for-sale securities	$ -	$ 346,183,848	$ -	$ 346,183,848
2018				
U.S. government and federal agency obligations	$ -	$ 241,030,146	$ -	$ 241,030,146
Mortgage-backed securities — Residential	-	147,530,754	-	147,530,754
Negotiable certificates of deposit	-	242,699	-	242,699
Total available-for-sale securities	$ -	$ 388,803,599	$ -	$ 388,803,599

The Credit Union also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans and foreclosed assets.

	Assets Measured at Fair Value on a Nonrecurring Basis			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at December 31**
2019				
Impaired loans	$ -	$ -	$ 10,628,752	$ 10,628,752
Foreclosed assets	-	-	991,057	991,057
2018				
Impaired loans	-	-	11,954,607	11,954,607
Foreclosed assets	$ -	$ -	$ 456,032	$ 456,032

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