



Financial Statements

December 31, 2019 and 2018



Benchmark Federal Credit Union

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December 31, 2019 and 2018

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Independent Auditor's Report

To the Supervisory Committee
Benchmark Federal Credit Union
West Chester, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Benchmark Federal Credit Union, which comprise the statement of financial condition as of December 31, 2019 and 2018, and the related statements of operations, comprehensive income (loss), members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, Benchmark Federal Credit Union restated its financial statements for the year ended December 31, 2018 to correct misstatements. Our opinion is not modified with respect to this matter.

Handwritten signature in black ink that reads "RKL LLP". The letters are cursive and somewhat stylized.

April 7, 2020
Exton, Pennsylvania

Benchmark Federal Credit Union

Statement of Financial Condition

	December 31,	
	2019	2018
		(As Restated)
Assets		
Cash and Cash Equivalents	\$ 708,590	\$ 553,241
Interest Bearing Accounts	40,862,589	42,609,109
Securities Available for Sale	12,524,372	4,675,439
Loans to Members		
Consumer loans	159,886,635	162,595,732
Commercial loans	794,095	-
	160,680,730	162,595,732
Allowance for loan losses	(1,189,006)	(1,211,174)
Loans to Members, Net	159,491,724	161,384,558
Accrued Interest Receivable	652,522	572,208
Property, Equipment, and Leasehold Improvements, Net	1,773,853	2,099,795
NCUSIF Deposit	1,717,860	1,693,371
Prepaid Expenses and Other Assets	1,853,957	1,137,419
Total Assets	\$ 219,585,467	\$ 214,725,140
Liabilities and Members' Equity		
Liabilities		
Members' shares and savings accounts	\$ 190,544,567	\$ 185,904,739
Accounts payable and accrued expenses	213,290	176,277
Total Liabilities	190,757,857	186,081,016
Members' Equity		
Regular reserve fund	4,954,900	4,954,900
Undivided earnings	23,901,686	23,874,352
Accumulated other comprehensive loss	(28,976)	(185,128)
Total Members' Equity	28,827,610	28,644,124
Total Liabilities and Members' Equity	\$ 219,585,467	\$ 214,725,140

See accompanying notes.

Benchmark Federal Credit Union

Statement of Operations

	Years Ended December 31,	
	2019	2018
		(As Restated)
Interest Income		
Interest on loans	\$ 7,296,550	\$ 7,256,140
Interest on investment securities and interest bearing accounts	1,195,597	860,974
Total Interest Income	8,492,147	8,117,114
Interest Expense		
Dividends on members' shares and savings accounts	1,445,914	1,041,130
Interest on borrowed funds	301	2,190
Total Interest Expense	1,446,215	1,043,320
Net Interest Income	7,045,932	7,073,794
Provision for Possible Loan Losses	542,246	872,329
Net Interest Income after Provision for Possible Loan Losses	6,503,686	6,201,465
Noninterest Income		
Service fees	293,279	304,007
(Loss) gain on sale of investments	(1,750)	55,442
Other	942,916	1,116,820
Total Noninterest Income	1,234,445	1,476,269
Noninterest Expenses		
Employee compensation and benefits	3,835,725	3,872,191
Travel and conference	87,971	80,428
Office occupancy	469,018	469,348
Office operations	1,572,347	1,449,090
Educational and promotional	391,700	406,485
Loan servicing	1,054,021	1,538,048
Professional and outside services	184,538	157,395
Operating fees	58,035	57,957
Miscellaneous	57,442	62,340
Total Noninterest Expenses	7,710,797	8,093,282
Net Income (Loss)	\$ 27,334	\$ (415,548)

See accompanying notes.

Benchmark Federal Credit Union

Statement of Comprehensive Income (Loss)

	Years Ended December 31,	
	2019	2018
		(As Restated)
Net Income (Loss)	\$ 27,334	\$ (415,548)
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on securities arising during period	154,402	(696,425)
Reclassification adjustment for (gains) losses included in net income (loss)	1,750	(55,442)
Other Comprehensive Income (Loss)	156,152	(751,867)
Comprehensive Income (Loss)	\$ 183,486	\$ (1,167,415)

Benchmark Federal Credit Union

Statement of Members' Equity

	Restricted, Regular Reserve Fund	Unrestricted, Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2018 (As Previously Reported)	\$ 4,954,900	\$ 24,832,653	\$ 566,739	\$ 30,354,292
Correction of errors (Note 2)	-	(542,753)	-	(542,753)
Balance at January 1, 2018 (As Restated)	4,954,900	24,289,900	566,739	29,811,539
Net loss (as restated - Note 2)	-	(415,548)	-	(415,548)
Unrealized losses on investment securities	-	-	(751,867)	(751,867)
Balance at December 31, 2018 (As Restated)	4,954,900	23,874,352	(185,128)	28,644,124
Net income	-	27,334	-	27,334
Unrealized gains on investment securities	-	-	156,152	156,152
Balance at December 31, 2019	\$ 4,954,900	\$ 23,901,686	\$ (28,976)	\$ 28,827,610

Benchmark Federal Credit Union

Statement of Cash Flows

	Years Ended December 31,	
	2019	2018
		(As Restated)
Cash Flows from Operating Activities		
Net income (loss)	\$ 27,334	\$ (415,548)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	376,306	424,573
Amortization (accretion) of securities premiums (discounts), net	10,197	2,619
(Gains) losses from sales of securities available for sale	1,750	(55,442)
Provision for possible loan losses	542,246	872,329
(Increase) decrease in assets		
Accrued interest receivable	(80,314)	(26,928)
Prepaid expenses and other assets	(716,538)	160,569
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	37,013	19,495
	<u>197,994</u>	<u>981,667</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sales, maturing and called securities available for sale	3,425,226	14,645,566
Purchase of securities available for sale	(11,129,954)	(360,567)
Net (increase) decrease in interest bearing accounts	1,746,520	(12,931,450)
Net decrease in loans to members	1,350,588	429,913
Net (increase) decrease in NCUSIF deposit	(24,489)	96,394
Expenditures for equipment	(50,364)	(5,913)
	<u>(4,682,473)</u>	<u>1,873,943</u>
Net Cash Provided by (Used In) Investing Activities		
Cash Flows from Financing Activities		
Net increase (decrease) in members' shares and savings account	4,639,828	(2,974,992)
Net payments from note payable	-	(38,677)
	<u>4,639,828</u>	<u>(3,013,669)</u>
Net Cash Provided By (Used in) Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
	155,349	(158,059)
Cash and Cash Equivalents at Beginning of Year	<u>553,241</u>	<u>711,300</u>
Cash and Cash Equivalents at End of Year	<u>\$ 708,590</u>	<u>\$ 553,241</u>

See accompanying notes.

Benchmark Federal Credit Union

Statement of Cash Flows (continued)

	Years Ended December 31, 2019	2018 (As Restated)
Supplemental Disclosures of Cash Flow Information		
Dividends credited to members' shares and savings accounts	<u>\$ 1,445,914</u>	<u>\$ 1,041,130</u>
Interest on borrowed funds	<u>\$ 301</u>	<u>\$ 2,190</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 1 - Organization

Benchmark Federal Credit Union (the Credit Union) is a federally chartered cooperative association headquartered in West Chester, Pennsylvania, organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among and creating a source of credit for its members.

Note 2 - Correction of Errors in Financial Statement

The financial statements for the year ended December 31, 2018 have been restated to correct the manner in which the Credit Union accounted for the allowance for loan losses (ALL) and two noninterest expenses.

Prior to January 1, 2018, the Credit Union did not include qualitative factors or evaluated impaired loans for specific reserves when determining the adequacy of the ALL. The ALL restatement was \$550,733, of which \$494,745 related to prior to January 1, 2018 and \$55,988 was recorded for the year ended December 31, 2018, due to Credit Union including qualitative factors and evaluated impaired loans for specific reserves when determining the adequacy of the ALL.

The noninterest expenses were restated for the removal of private student loan insurance premiums, included with loans to members on the statement of financial condition, that were being amortized because the insurance company liquidated during 2018. The private student loan insurance premiums written off during 2018 were \$71,199. The noninterest expenses were also restated to correct a capitalized expenditure included in accounts payable and accrued expenses on the statement of financial condition, which should have been recorded in noninterest expense totaling \$70,756, of which \$48,008 related to prior to January 1, 2018 and \$22,748 was recorded in 2018.

The audited financial statements as of and for the year ended December 31, 2018 have been restated as set forth below to reflect these adjustments.

In addition to the restatement of the Credit Union's Statement of Financial Condition, Statement of Operations, and Statement of Members' Equity, certain information within the Statement of Cash Flows, Note 4 - Loans to Members, Net, Note 5 - Loan Quality, and Note 14 - Capital Requirements, have been restated to reflect the correction of the error as discussed above, as well as other related changes and/or to add disclosure language as appropriate.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 2 - Correction of Errors in Financial Statement (continued)

Effects of the Correction of Errors

The following table summarizes the effect of the restatement on certain key financial statement line items from the previously reported amounts in the financial statements:

	December 31, 2018		
	Previously Reported	Increase (Decrease)	As Restated
Statement of Financial Condition			
Loans to Members, Net	\$ 162,006,490	\$ (621,932)	\$ 161,384,558
Accounts Payable and Accrued Expenses	105,521	70,756	176,277
Total Members' Equity (December 31, 2018)*	29,345,229	(701,105)	28,644,124
Statement of Operations			
Provision for Possible Loan Losses	\$ (816,341)	\$ (55,988)	\$ (872,329)
Noninterest Expenses, educational and promotional	(383,737)	(22,748)	(406,485)
Noninterest Expenses, loan servicing	(1,466,849)	(71,199)	(1,538,048)
Net Loss	(265,613)	(149,935)	(415,548)
Statement of Members' Equity			
Unrestricted, Undivided Earnings (January 1, 2018)	\$ 24,832,653	\$ (542,753)	\$ 24,289,900
Members' Equity (January 1, 2018)	30,354,292	(542,753)	29,811,539
Net Loss	(265,613)	(149,935)	(415,548)
Unrestricted, Undivided Earnings (December 31, 2018)	24,567,040	(692,688)	23,874,352
Total Members' Equity (December 31, 2018)*	29,345,229	(701,105)	28,644,124

* Decrease to Total Members' Equity at December 31, 2018 includes \$8,417 related to the reclassification of negotiable certificates of deposits from securities to interest bearing deposits during 2018 and the related unrealized net gain (loss) (Note 18).

Note 3 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Financial Statement Presentation and Accounting Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the statement of financial condition, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, including items in the process of clearing. All Vizo Financial Corporate Credit Union (Vizo) accounts are categorized as interest bearing accounts. Cash flows from loans to members originated by the Credit Union, interest bearing accounts, and members' shares and savings accounts are reported net.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are stated at the outstanding unpaid principal balances, net of any deferred fees. Interest income is accrued on the unpaid principal balance. The Credit Union is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. Consumer and residential real estate loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loans.

Loan Origination Fees and Costs

First mortgage loan origination fees received are deferred and amortized primarily over the lesser of the term of the loan using the straight-line method. This method does not result in a materially different amortization than that computed by the level-yield method. In the event that related loans are sold or paid off, such deferred loan origination fees are recognized as income in the period of sale or payoff.

Student loan origination fees and costs are deferred and accreted over a 120-month period using the straight-line method. The straight-line method does not result in a materially different accretion than that computed by the level-yield method.

The Credit Union has not adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310, relating to certain direct consumer loan origination and commitment fees, and certain direct consumer loan origination costs, since the applicable portions of the Codification do not have a material effect on the Credit Union's financial statements.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

The ALL is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the ALL and subsequent recoveries, if any, are credited to the ALL.

The ALL is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

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 the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Determination of impairment is treated the same across all classes of loans.

The Credit Union's allowance for possible loan losses consists of three elements: (1) specific valuation allowances established for probable losses on specific loans, (2) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristic and trends, adjusted as necessary to reflect the impact of current conditions, and (3) unallocated general valuation allowances determined based on general economic conditions and other qualitative risk factors, both internal and external, to the Credit Union.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring, as noted above, for impaired loans.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Troubled Debt Restructurings (continued)

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Securities Available for Sale

Securities classified as available for sale are those debt and equity securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Credit Union's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported as increases and decreases, net, in members' equity. Realized gains or losses on the sale of these securities, determined on the basis of the cost of specific securities sold, are included in earnings.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from the foreclosed assets.

Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of building and improvements is computed on the straight-line method over estimated useful lives from 20 to 39 years. Depreciation of equipment is computed on the straight-line method over estimated useful lives from 1 to 10 years.

Improvements to leased property are amortized over the lesser of the life of the lease or lives of the improvements.

Maintenance and repairs of property, equipment, and leasehold improvements are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of property, equipment, and leasehold improvements, the cost and accumulated depreciation or amortization are eliminated from the accounts and gain or loss is included in operations. Management reviews property, equipment, and leasehold improvements whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

Effective January 1, 2019, the Credit Union adopted ASC Update 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective method applied to all open contracts as of January 1, 2019 with no impact on its financial statements. This update established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standard update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The sources of revenue for the Credit Union are interest income from loans and investments, net of interest expense on deposits and borrowings, and noninterest income. Noninterest income is earned from various banking and financial services that the Credit Union offers. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. Following is further detail of the various types of revenue the Credit Union earns and when it is recognized:

Interest Income - Interest income is recognized on an accrual basis according to loan agreements, securities contracts, or other such written contracts.

Deposit Fees - Consists of cash management, overdraft, nonsufficient fund fees, and other service charges on deposit accounts. Revenue is primarily transactional and recognized when earned, at the time the transactions occur.

Card Fees - Consists of interchange fees on debit and credit cards. These fees are primarily transactional, and revenue is recognized when transactions occur.

Other Service Charges and Fees - Consists of branch fees and various general fees. These fees are primarily transactional, and revenue is recognized when transactions occur.

Employee Benefits

The Credit Union sponsors a 401(k) savings plan for those employees who meet the eligibility requirements and elect to participate. As provided in the plan, participants may contribute up to a specified percentage of their gross wages to the plan.

Income Tax Matters

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Credit Union, including whether the Credit Union is exempt from income taxes. Management evaluated the tax positions taken and concluded that the Credit Union had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Credit Union is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years ending before December 31, 2016.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred.

Note 4 - Loans to Members, Net

A summary of loans outstanding, by primary collateral, at the end of the reporting periods is as follows:

	December 31, 2019	December 31, 2018 (As Restated)
Commercial real estate	\$ 794,095	\$ -
Residential real estate		
First mortgages	93,730,699	87,436,334
Home equities	17,048,294	16,761,064
	<u>110,778,993</u>	<u>104,197,398</u>
Consumer		
Secured	32,880,841	41,477,320
Unsecured	2,772,863	2,911,850
Credit cards	10,902,749	11,425,097
Education	2,551,189	2,584,067
	<u>49,107,642</u>	<u>58,398,334</u>
Gross loans	160,680,730	162,595,732
Allowance for loan losses	<u>(1,189,006)</u>	<u>(1,211,174)</u>
Net loans	<u>\$ 159,491,724</u>	<u>\$ 161,384,558</u>
Included in the loan balances are the following		
Net unamortized deferred loan costs	<u>\$ 146,314</u>	<u>\$ 170,771</u>
Loans pledged as collateral for borrowings and commitments from Vizo Financial Corporate Credit Union line of credit	<u>\$ 154,192,704</u>	<u>\$ 152,298,654</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 4 - Loans to Members, Net (continued)

The Credit Union assigns, transfers, sets over, pledges, and grants to Vizo Financial Corporate Credit Union a security interest in the Credit Union's loan portfolio, including but not limited to present and future loans and accounts receivable from its members, including proceeds of insurance and security interests therefore, and leases and similar contract rights payable to the Credit Union as part of its lending program. This grant of security interest is applicable to any and all loans made by Vizo to the Credit Union from time to time. Total borrowings were \$-0- at December 31, 2019 and 2018.

The Credit Union has purchased loan participations originated by other institutions which are secured by vehicles or real estate to members of these institutions. The loan participations were purchased without recourse and the originating institution performs all loan servicing functions on these loans. Loan participations, included in consumer, secured above, totaled \$5,693,931 and \$10,297,078 at December 31, 2019 and 2018, respectively. Loan participations, included in commercial real estate above, totaled \$794,095 and \$-0- at December 31, 2019 and 2018, respectively.

Note 5 - Loan Quality

Management performs a monthly evaluation of the adequacy of the ALL. Consideration is given to a variety of factors in establishing this estimate, including but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent), and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or higher, including nonaccrual. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors, including but not limited to, the economy, deferred maintenance, industry, type of property and equipment, etc., and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Credit Union.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For the purposes of calculating the ALL, the Credit Union segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: commercial real estate, residential real estate, and consumer. The residential real estate segment is further segregated by first mortgage loans and home equity products. The consumer segment is further segregated by secured, unsecured, credit cards, and education loans.

The analysis for determining the ALL is consistent with guidance set forth in generally accepted accounting principles and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components, specific and general allocations. The specific component addresses specific reserves established for impaired loans. A loan is considered to be impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

The general component addresses the reserves established for pools of homogenous loans, including primarily nonclassified residential real estate or consumer loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Credit Union's historical loan loss experience and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes a risk matrix that incorporates qualitative and environmental factors such as: loan volume, management, nonperforming loans, loan review process, credit concentrations, competition, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment, and experience. As a result of this input, additional loss percentages may be assigned to each pool of loans.

The following table presents, by loan segment, the ALL and changes to the ALL for the years ended December 31:

	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance at January 1, 2018 (As Restated)	\$ -	\$ 366,894	\$ 559,236	\$ 926,130
Charge-offs	-	(28,215)	(699,397)	(727,612)
Recoveries	-	144	140,183	140,327
Provisions	-	(15,437)	887,766	872,329
Allowance at December 31, 2018 (As Restated)	-	323,386	887,788	1,211,174
Charge-offs	-	-	(663,349)	(663,349)
Recoveries	-	-	98,935	98,935
Provisions	<u>10,125</u>	<u>18,509</u>	<u>513,612</u>	<u>542,246</u>
Allowance at December 31, 2019	<u>\$ 10,125</u>	<u>\$ 341,895</u>	<u>\$ 836,986</u>	<u>\$ 1,189,006</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

The following tables present, by loan segment, loans that were evaluated for the ALL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31:

2019	Commercial Real Estate	Residential Real Estate	Consumer	Total
Loans evaluated for allowance				
Individually	\$ -	\$ 431,876	\$ 634,215	\$ 1,066,091
Collectively	<u>794,095</u>	<u>110,347,117</u>	<u>48,473,427</u>	<u>159,614,639</u>
	<u>\$ 794,095</u>	<u>\$ 110,778,993</u>	<u>\$ 49,107,642</u>	<u>\$ 160,680,730</u>
Allowance established for loans evaluated				
Individually	\$ -	\$ -	\$ 317,329	\$ 317,329
Collectively	<u>10,125</u>	<u>341,895</u>	<u>519,657</u>	<u>871,677</u>
Allowance at December 31, 2019	<u>\$ 10,125</u>	<u>\$ 341,895</u>	<u>\$ 836,986</u>	<u>\$ 1,189,006</u>
		Residential Real Estate	Consumer	Total
2018 (As Restated)				
Loans evaluated for allowance				
Individually		\$ 581,430	\$ 381,486	\$ 962,916
Collectively		<u>103,615,968</u>	<u>58,016,848</u>	<u>161,632,816</u>
		<u>\$ 104,197,398</u>	<u>\$ 58,398,334</u>	<u>\$ 162,595,732</u>
Allowance established for loans evaluated				
Individually		\$ -	\$ 244,560	\$ 244,560
Collectively		<u>323,386</u>	<u>643,228</u>	<u>966,614</u>
Allowance at December 31, 2018		<u>\$ 323,386</u>	<u>\$ 887,788</u>	<u>\$ 1,211,174</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

The following tables present additional information about those loans considered to be impaired at December 31:

2019	December 31,			For the Year Ended December 31,
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no specific allowance				
Residential real estate				
Home equities	\$ 431,876	\$ 431,876	\$ -	\$ 443,973
Consumer				
Secured	53,683	53,683	-	57,606
Unsecured	1,584	1,584	-	2,202
	55,267	55,267	-	59,808
	\$ 487,143	\$ 487,143	\$ -	\$ 503,781
Impaired loans with specific allowance				
Consumer				
Secured	\$ 285,325	\$ 285,325	\$ 84,830	\$ 249,791
Unsecured	89,459	89,459	56,069	89,242
Credit cards	204,164	204,164	176,430	211,351
	\$ 578,948	\$ 578,948	\$ 317,329	\$ 550,384

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

2018 (As Restated)	December 31,			For the Year Ended December 31,
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Impaired loans with no specific allowance				
Residential real estate				
First mortgages	\$ 347,896	\$ 347,896	\$ -	\$ 347,896
Home equities	233,534	233,534	-	233,534
	581,430	581,430	-	581,430
Consumer				
Secured	36,694	36,694	-	36,694
	<u>\$ 618,124</u>	<u>\$ 618,124</u>	<u>\$ -</u>	<u>\$ 618,124</u>
Impaired loans with specific allowance				
Consumer				
Secured	\$ 124,588	\$ 124,588	\$ 51,396	\$ 124,588
Unsecured	59,209	59,209	51,850	59,209
Credit cards	160,995	160,995	141,314	160,995
	<u>\$ 344,792</u>	<u>\$ 344,792</u>	<u>\$ 244,560</u>	<u>\$ 344,792</u>

As part of its process to calculate the ALL, the Credit Union reviews several credit quality factors, including payment status (performing, nonperforming, and aging) and internal credit ratings.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

The following table presents a summary of nonperforming assets as of December 31:

	2019		2018	
	Balance	Percent of Loan Segment	Balance	Percent of Loan Segment
			(As Restated)	
Nonaccrual loans				
Residential real estate				
First mortgages	\$ -	- %	\$ -	- %
Home equities	190,485	0.17	-	-
	<u>190,485</u>	<u>0.17 %</u>	<u>-</u>	<u>- %</u>
Consumer				
Secured	52,951	0.11 %	232,411	0.40 %
Unsecured	11,686	0.02	24,848	0.04
Credit cards	172,741	0.35	-	-
Education	61,178	0.13	-	-
	<u>298,556</u>	<u>0.61 %</u>	<u>257,259</u>	<u>0.44 %</u>
Total nonaccrual loans	<u>489,041</u>	<u>0.30 %</u>	<u>257,259</u>	<u>0.16 %</u>
Loans past due 90 days or more and not included above				
Consumer				
Credit cards	-		33,674	
Education	-		38,887	
Total loans past due 90 days or more and still accruing	<u>-</u>		<u>72,561</u>	
Total nonaccrual and loans past due 90 days or more and still accruing	<u>489,041</u>		<u>329,820</u>	
Foreclosed assets	<u>-</u>		<u>-</u>	
Total nonperforming assets	<u>\$ 489,041</u>		<u>\$ 329,820</u>	
Restructured loans (TDRs)				
Performing	\$ 702,865		\$ 460,746	
Nonperforming	<u>363,226</u>		<u>154,274</u>	
Total TDRs	<u>\$ 1,066,091</u>		<u>\$ 615,020</u>	

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

	<u>2019</u>	<u>2018</u> <u>(As Restated)</u>
	<u>Percent of</u> <u>Loan</u> <u>Segment</u>	<u>Percent of</u> <u>Loan</u> <u>Segment</u>
Nonperforming assets to total gross loans	<u>0.30 %</u>	<u>0.20 %</u>
Nonperforming assets to total assets	<u>0.22 %</u>	<u>0.15 %</u>
Allowance for loan losses to nonperforming assets	<u>243.13 %</u>	<u>367.22 %</u>

Loans on which the accrual of interest has been discontinued and reversed approximated \$489,000 and \$257,000 at December 31, 2019 and 2018, respectively. If interest on those loans had been accrued, such accrued income would have approximated \$7,000 and \$6,000 for 2019 and 2018, respectively. The effect of nonaccrual loans was not significant to the results of operations.

The following tables present the aging of payments of the loan portfolio at December 31:

2019	Current	Loans Past Due (Days)			Total	Total Loans
		30-59	60-89	90+		
Commercial real estate	\$ 794,095	\$ -	\$ -	\$ -	\$ -	\$ 794,095
Residential real estate						
First mortgages	93,730,699	-	-	-	-	93,730,699
Home equities	16,771,888	85,921	-	190,485	276,406	17,048,294
	<u>110,502,587</u>	<u>85,921</u>	<u>-</u>	<u>190,485</u>	<u>276,406</u>	<u>110,778,993</u>
Consumer						
Secured	32,164,296	628,912	34,682	52,951	716,545	32,880,841
Unsecured	2,755,226	5,951	-	11,686	17,637	2,772,863
Credit cards	10,654,706	192,936	55,107	-	248,043	10,902,749
Education	2,469,040	20,971	-	61,178	82,149	2,551,189
	<u>48,043,268</u>	<u>848,770</u>	<u>89,789</u>	<u>125,815</u>	<u>1,064,374</u>	<u>49,107,642</u>
	<u>\$ 159,339,950</u>	<u>\$ 934,691</u>	<u>\$ 89,789</u>	<u>\$ 316,300</u>	<u>\$ 1,340,780</u>	<u>\$ 160,680,730</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

2018 (As Restated)	Current	Loans Past Due (Days)			Total	Total Loans
		30-59	60-89	90+		
Residential real estate						
First mortgages	\$ 86,136,166	\$ 952,272	\$ 347,896	\$ -	\$ 1,300,168	\$ 87,436,334
Home equities	16,692,831	68,233	-	-	68,233	16,761,064
	<u>102,828,997</u>	<u>1,020,505</u>	<u>347,896</u>	<u>-</u>	<u>1,368,401</u>	<u>104,197,398</u>
Consumer						
Secured	40,220,844	861,688	162,377	232,411	1,256,476	41,477,320
Unsecured	2,848,743	38,259	-	24,848	63,107	2,911,850
Credit cards	10,943,771	354,816	92,836	33,674	481,326	11,425,097
Education	2,545,180	-	-	38,887	38,887	2,584,067
	<u>56,558,538</u>	<u>1,254,763</u>	<u>255,213</u>	<u>329,820</u>	<u>1,839,796</u>	<u>58,398,334</u>
	<u>\$ 159,387,535</u>	<u>\$ 2,275,268</u>	<u>\$ 603,109</u>	<u>\$ 329,820</u>	<u>\$ 3,208,197</u>	<u>\$ 162,595,732</u>

Generally, a loan is considered nonperforming if it is 90 days or greater past due. The following tables present the performance status on selected loans:

December 31, 2019	Commercial Real Estate	Consumer				Residential Real Estate		Total
		Secured	Unsecured	Credit Cards	Education	Home Equities	First Mortgages	
Performing	\$ 794,095	\$ 32,827,890	\$ 2,761,177	\$ 10,730,008	\$ 2,490,011	\$ 16,857,809	\$ 93,730,699	\$ 160,191,689
Nonperforming	-	52,951	11,686	172,741	61,178	190,485	-	489,041
	<u>\$ 794,095</u>	<u>\$ 32,880,841</u>	<u>\$ 2,772,863</u>	<u>\$ 10,902,749</u>	<u>\$ 2,551,189</u>	<u>\$ 17,048,294</u>	<u>\$ 93,730,699</u>	<u>\$ 160,680,730</u>
December 31, 2018 (As Restated)								
Performing	\$ -	\$ 41,244,909	\$ 2,887,002	\$ 11,391,423	\$ 2,545,180	\$ 16,761,064	\$ 87,436,334	\$ 162,265,912
Nonperforming	-	232,411	24,848	33,674	38,887	-	-	329,820
	<u>\$ -</u>	<u>\$ 41,477,320</u>	<u>\$ 2,911,850</u>	<u>\$ 11,425,097</u>	<u>\$ 2,584,067</u>	<u>\$ 16,761,064</u>	<u>\$ 87,436,334</u>	<u>\$ 162,595,732</u>

Modifications

The Credit Union's loan portfolio also includes certain loans that have been modified in a TDR where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

Modifications (continued)

When the Credit Union modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

Troubled Debt Restructurings

A summary of loans, presented by class, that were modified as TDRs and those restructurings for which there was a payment default subsequent to restructurings, but within twelve months of the restructuring, are as follows for the year ended December 31:

	2019					
	Troubled Debt Restructurings			Troubled Debt Restructurings that Subsequently Defaulted		
	Number of Loans	Loan Balance	Specific Reserve	Number of Loans	Loan Balance	Specific Reserve
Residential real estate						
Home equities	8	\$ 431,876	\$ -	2	\$ 190,485	\$ -
Consumer						
Secured	33	339,008	84,830	2	6,004	258
Unsecured	7	91,043	56,069	-	-	-
Credit cards	25	204,164	176,430	-	-	-
	<u>73</u>	<u>\$ 1,066,091</u>	<u>\$ 317,329</u>	<u>4</u>	<u>\$ 196,489</u>	<u>\$ 258</u>
	2018 (As Restated)					
Residential real estate						
Home equities	5	\$ 233,534	\$ -	-	\$ -	\$ -
Consumer						
Secured	15	161,282	51,396	1	7,869	3,140
Unsecured	3	59,209	51,850	-	-	-
Credit cards	21	160,995	141,314	-	-	-
	<u>44</u>	<u>\$ 615,020</u>	<u>\$ 244,560</u>	<u>1</u>	<u>\$ 7,869</u>	<u>\$ 3,140</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Loan Quality (continued)

Troubled Debt Restructurings

A summary of loans, presented by type of concession, that were modified in TDRs is as follows during the year ended December 31:

2019	Interest Rate	Modified Payments	Total
Residential real estate			
Home equities	\$ -	\$ 198,342	\$ 198,342
Consumer			
Secured	-	177,725	177,725
Unsecured	-	31,834	31,834
Credit cards	43,169	-	43,169
	<u>\$ 43,169</u>	<u>\$ 407,901</u>	<u>\$ 451,070</u>
2018 (As Restated)			
Residential real estate			
Home equities	\$ -	\$ 36,106	\$ 36,106
Consumer			
Secured	-	90,863	90,863
Unsecured	-	3,829	3,829
Credit cards	54,451	-	54,451
	<u>\$ 54,451</u>	<u>\$ 130,798</u>	<u>\$ 185,249</u>

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

Off-Balance Sheet Credit Exposures

In addition to the ALL, the Credit Union also estimates probable losses related to unfunded lending commitments, such as home equity, unsecured lines of credit, and credit card commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Credit Union's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, may result in the estimation of the reserve for unfunded lending commitments.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 6 - Interest Bearing Accounts

Composition of Interest Bearing Accounts

	December 31,	
	2019	2018
Vizo Financial Corporate Credit Union		
Federal funds account	\$ 4,177,737	\$ 10,384,000
Share accounts	1,182,149	375,282
Perpetual contributed capital (PCC) account	930,599	930,599
Federal reserve compensating balance	16,000	870,000
Total Vizo Financial Corporate Credit Union	6,306,485	12,559,881
Certificates of deposit	34,307,204	29,807,428
PSCU compensating balance	248,900	241,800
	\$ 40,862,589	\$ 42,609,109

Contractual Maturities of Certificates of Deposit

	December 31,	
	2019	2018
Due in one year or less	\$ 13,664,493	\$ 5,691,000
One to two years	10,235,711	8,916,084
Two to three years	7,193,000	8,736,344
Three to five years	2,964,000	4,250,000
Due after five years	250,000	2,214,000
	\$ 34,307,204	\$ 29,807,428

The PCC account has a perpetual maturity and is callable only at the option of Vizo Financial Corporate Credit Union. This account is not subject to share insurance coverage by the National Credit Union Share Insurance Fund (NCUSIF or the Fund) or other deposit insurers. This account is subordinated to all other liabilities of Vizo Financial Corporate Credit Union, including uninsured obligations to shareholders and the NCUSIF.

The PSCU compensating balance account is required to be held at PSCU and its balance is determined by activity in the debit card activity of the Credit Union's members.

The compensating balance account on deposit at Vizo Financial Corporate Credit Union totaling \$16,000 and \$870,000 at December 31, 2019 and 2018, respectively, is required by the Federal Reserve Bank to comply with Regulation D.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 7 - Securities Available for Sale**Composition of Securities Available for Sale**

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Governmental agency securities	\$ 3,000,000	\$ -	\$ 9,330	\$ 2,990,670
Mortgage-backed securities	6,813,019	4,543	25,347	6,792,215
Collateralized mortgage obligations	2,740,329	4,210	3,052	2,741,487
	<u>\$ 12,553,348</u>	<u>\$ 8,753</u>	<u>\$ 37,729</u>	<u>\$ 12,524,372</u>
December 31, 2018				
U.S. Governmental agency securities	\$ 4,860,567	\$ -	\$ 185,128	\$ 4,675,439

Contractual Maturities

	December 31, 2019	
	Amortized Cost	Approximate Fair Value
Due after three years	\$ 3,000,000	\$ 2,990,670
Mortgage-backed securities	6,813,019	6,792,215
Collateralized mortgage obligations	2,740,329	2,741,487
	<u>\$ 12,553,348</u>	<u>\$ 12,524,372</u>
December 31, 2018		
Due in one year or less	\$ -	\$ -
Due after one year through three years	2,000,000	1,981,120
Due after three years	2,860,567	2,694,319
	<u>\$ 4,860,567</u>	<u>\$ 4,675,439</u>

Gross gains of \$-0- and \$631,893 and gross losses of \$1,750 and \$576,451 from sales and calls of securities available for sale were realized for the years ended December 31, 2019 and 2018, respectively.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 7 - Securities Available for Sale (continued)**Contractual Maturities (continued)**

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

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
2019				
U.S. Governmental agency securities	\$ 9,330	\$ 2,990,670	\$ -	\$ -
Mortgage-backed securities	25,347	3,624,563	-	-
Collateralized mortgage obligations	3,052	2,495,695	-	-
	<u>\$ 37,729</u>	<u>\$ 9,110,928</u>	<u>\$ -</u>	<u>\$ -</u>
2018				
U.S. Governmental agency securities	\$ 19	\$ 360,548	\$ 185,109	\$ 4,319,319

All of these securities are either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

Note 8 - Accrued Interest Receivable**Composition of Accrued Interest Receivable**

	December 31,	
	2019	2018
Loans to members	\$ 508,636	\$ 474,363
Investment securities	143,886	97,845
	<u>\$ 652,522</u>	<u>\$ 572,208</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 9 - Property, Equipment, and Leasehold Improvements, Net

Composition of Property, Equipment, and Leasehold Improvements

	December 31,	
	2019	2018
Building and improvements	\$ 1,798,457	\$ 1,793,537
Office furniture and equipment	3,667,975	3,631,681
Leasehold improvements	1,220,541	1,211,391
	6,686,973	6,636,609
Accumulated depreciation and amortization	(4,913,120)	(4,536,814)
	\$ 1,773,853	\$ 2,099,795

Note 10 - NCUSIF Deposit

Deposit in NCUA Share Insurance Fund

The National Credit Union Administration (NCUA) requires insured members to maintain a deposit balance with the NCUSIF equal to one percent of their insured shares, adjusted semiannually. Insured members may not withdraw funds, other than as an adjustment, as previously noted, from this deposit account, nor does this account earn interest unless the conditions of the Fund are such that some rate of return is approved to be disbursed. 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. The Fund utilizes earnings from these deposit balances to fund its operations.

If these earnings are not sufficient to maintain the Fund at a predetermined level, premium assessments may be levied against all insured members based upon their insured shares.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 11 - Members' Shares and Savings Accounts

Composition of Members' Shares and Savings Accounts

	Rates at December 31, 2019	December 31, 2019	December 31, 2018
Regular share accounts	0.05%-0.75%	\$ 51,580,070	\$ 52,976,810
High-yield savings accounts	1.24%	13,459,376	10,622,057
Christmas club accounts	0.10%	346,180	247,165
Vacation club accounts	0.10%	2,475,326	2,816,262
Share draft accounts	0.05%-1.49%	35,494,804	33,892,092
IRA share accounts	0.10%	2,317,472	2,562,609
High-yield money maker accounts	0.30%-0.35%	20,445,853	27,149,185
Money market accounts	0.15%	9,017,882	10,517,703
		<u>135,136,963</u>	<u>140,783,883</u>
Share and IRA certificates			
0.20% to 1.00%		343,545	1,293,497
1.01% to 2.00%		16,142,441	28,896,891
2.01% to 3.00%		36,684,661	14,191,083
3.01% to 4.00%		2,236,957	739,385
		<u>55,407,604</u>	<u>45,120,856</u>
		<u>\$ 190,544,567</u>	<u>\$ 185,904,739</u>

The aggregate amounts of members' shares and savings accounts with cumulative balances over \$250,000 were approximately \$53,926,000 and \$52,341,000 at December 31, 2019 and 2018, respectively.

Scheduled Maturities of Members' Shares and Savings Accounts

	December 31,	
	2019	2018
No contractual maturity	\$ 135,136,963	\$ 140,783,883
Maturity within one year	22,511,105	20,673,106
One to two years	20,040,435	11,709,416
Two to five years	12,856,064	12,738,334
	<u>\$ 190,544,567</u>	<u>\$ 185,904,739</u>

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 11 - Members' Shares and Savings Accounts (continued)

Interest Expense on Members' Shares and Savings Accounts

	Years Ended December 31,	
	2019	2018
Regular share accounts	\$ 81,769	\$ 86,307
High-yield savings accounts	181,248	46,952
Christmas club accounts	407	350
Vacation club accounts	3,020	3,429
Share draft accounts	18,078	17,145
IRA share accounts	3,365	3,707
High-yield money maker accounts	82,871	118,340
Money market accounts	15,199	16,206
Share and IRA certificates	1,059,957	748,694
	<u>\$ 1,445,914</u>	<u>\$ 1,041,130</u>

Other

Members' shares and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates are set by the Asset Liability Committee and ratified by the Board of Directors based on an evaluation of current and future market conditions, as well as current earnings. Interest expense is charged to operations.

Note 12 - Borrowed Funds

Note Payable

The Credit Union has a \$5,000,000 line of credit with Vizo Financial Corporate Credit Union, none of which was in use at December 31, 2019 and 2018. The availability of the line of credit requires the Credit Union to maintain funds on deposit totaling \$930,599 at December 31, 2019 and 2018 (see Note 6). The interest rate is determined periodically and fluctuates depending upon general market conditions. The line of credit is collateralized by a security agreement covering substantially all member loans of the Credit Union.

Note 13 - Commitments and Contingencies

General

Contingencies

In the normal course of business, the Credit Union is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 13 - Commitments and Contingencies (continued)

Loan Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Credit Union is party to 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 home equity lines of credit, unsecured lines of credit, credit card commitments, and overdraft protection program commitments. They involve, to varying degrees, elements of credit risk in excess of the amounts recognized on the statement of financial condition.

The Credit Union's exposure to credit loss, in the event of nonperformance by the other parties to the financial instruments for these commitments, is represented by the contractual amounts of those instruments. The Credit Union uses the same credit policies in making these commitments as it does for on-balance sheet instruments. The approximate commitments are as follows:

	December 31,	
	2019	2018
Home equity lines of credit	\$ 9,752,000	\$ 8,757,000
Unsecured lines of credit	2,918,000	2,969,000
Credit card commitments	28,166,000	29,251,000
Overdraft protection program commitments	4,332,000	4,467,000
	<u>\$ 45,168,000</u>	<u>\$ 45,444,000</u>

Financial Instruments with Concentrations of Credit Risk

Home Equity and Unsecured Lines of Credit

Home equity and unsecured lines of credit are agreements to lend to a member as long as there is no violation of any condition established in the agreement. Many of the commitments will expire without being fully utilized. Therefore, 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. Collateral held includes real estate for home equity lines of credit.

Credit Card Commitments

Credit card commitments are commitments on credit cards issued by the Credit Union. These commitments are unsecured.

Overdraft Protection Program Commitments

Overdraft protection program commitments are agreements to provide overdraft protection on member share draft accounts.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 13 - Commitments and Contingencies (continued)

Loan Commitments and Contingencies (continued)

Financial Instruments with Concentrations of Credit Risk (continued)

Concentration by Geographic Location

The Credit Union has a significant concentration of loans to members located primarily in Pennsylvania and New Jersey. Although the Credit Union has a diversified loan portfolio, a substantial portion of its members' abilities to honor their contracts is dependent upon the effect of the local economy on the Credit Union's field of membership. See Note 4 for concentration by loan type.

Other Contingencies, Credit Risk

Financial Instruments with Concentrations of Credit Risk

Cash and Cash Equivalents

The Credit Union maintains working cash on hand approximating \$709,000 and \$553,000 at December 31, 2019 and 2018, respectively.

Interest Bearing Accounts

The Credit Union has interest bearing accounts with various financial institutions. Generally, each interest bearing account is maintained under the deposit insurance limits. At December 31, 2019 and 2018, the first \$250,000 of deposits with Vizo Financial Corporate Credit Union are insured by an agency of the U.S. Government. Interest bearing accounts may, at times, exceed federally insured limits.

Investment Securities

The Credit Union's investment securities are being held in accordance with the terms of safekeeping agreements with various brokers.

Although the Credit Union has credit risk due to the uninsured portion of the above deposits and investments, the Credit Union does not anticipate any accounting loss.

Lease Commitments

Branch Offices

The Credit Union leases its West Chester branch office space under an agreement that expires December 31, 2020. The lease requires an aggregate minimum annual rental of \$28,964, resulting in aggregate future minimum rentals of \$29,835 through the lease term (as defined therein) plus a proportionate share of defined expenses. Additionally, the agreement requires the Credit Union to carry certain minimum insurance coverages.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 13 - Commitments and Contingencies (continued)

Lease Commitments (continued)

Branch Offices (continued)

The Credit Union leases its Phoenixville branch office space under an agreement that expires September 30, 2020. The lease requires an aggregate minimum annual rental of \$27,968, resulting in aggregate future minimum rentals of \$20,976 through the lease term (as defined therein) plus a proportionate share of defined expenses. Additionally, the agreement requires the Credit Union to carry certain minimum insurance coverages.

The total minimum rental commitment at December 31, 2019 is due as follows:

2020	<u>\$ 50,811</u>
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The leases provide for automatic five year renewals at the end of the current term.

The total rental occupancy expense included in the statement of operations for the years ended December 31, 2019 and 2018 was \$69,109 and \$71,665, respectively.

Note 14 - 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 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), which 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 6.82% and 6.52% (as restated, for financial statement purposes) and 6.74% (as previously reported, per call report), respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00%. 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 and 2018, the Credit Union's net worth is 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 capital ratio as set forth in the table. Management believes there are no conditions or events that will change the Credit Union's category.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 14 - Capital Requirements (continued)

The Credit Union's actual capital amounts and ratios are also presented as follows at December 31:

2019	Actual		To be Adequately Capitalized under Prompt Corrective Action Provisions		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount *	Ratio	Amount *	Ratio	Amount *	Ratio
Net worth	\$ 28,857	13.14%	\$ 13,175	6.00%	\$ 15,371	7.00%
Risk-Based Net Worth Requirement - per call report	14,976	6.82%	N/A	N/A	N/A	N/A
2018 (As Restated)						
Net worth	\$ 28,829	13.43%	\$ 12,884	6.00%	\$ 15,031	7.00%
Risk-Based Net Worth Requirement - per call report	14,472	6.74%	N/A	N/A	N/A	N/A

* (Dollars in thousands)

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

Note 15 - Pension Benefits

Retirement Savings Plan

The Credit Union sponsors a retirement savings plan (401(k) plan) covering all employees who reach 21 years of age and have completed at least three months of continuous service. Participants may elect to defer compensation up to the maximum allowed by federal regulations. The Credit Union contributes, on behalf of each of the employees who are participants of the plan, a matching contribution equal to 50% of the participant's contribution up to 6% of the participant's compensation in addition to a 5% safe harbor contribution. The Credit Union reflects its contributions as an operating expense. Contributions to the retirement savings plan for the years ended December 31, 2019 and 2018 amounted to \$206,901 and \$203,412, respectively.

Note 16 - Related Party Transactions

Transactions with Directors, Principal Officers, Employees, and Immediate Family Members

Directors, principal officers, and employees of the Credit Union, including their families, are considered to be related parties.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 16 - Related Party Transactions (continued)

Transactions with Directors, Principal Officers, Employees, and Immediate Family Members (continued)

The Credit Union has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, principal officers, employees, and their immediate families on materially similar terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The aggregate loans to Credit Union officials amounted to approximately \$3,233,000 and \$2,332,000 at December 31, 2019 and 2018, respectively. The aggregate amount of deposits is not significant to the financial statements.

Note 17 - Fair Values of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurement. This guidance also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FASB ASC 820, fair value measurements are disclosed by level within that hierarchy.

This guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

In determining the appropriate level, the Credit Union performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following is a description of the valuation methodology used for investments measured at fair value. There has been no change in the methodology used during December 31, 2019 and 2018.

Estimated fair values for investment securities are obtained from a third-party and are based on a comparison of the book rate to the market rate at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while the Credit Union believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 17 - Fair Values of Financial Instruments (continued)

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Governmental agency securities	\$ -	\$ 2,990,670	\$ -	\$ 2,990,670
Mortgage-backed securities	-	6,792,215	-	6,792,215
Collateralized mortgage obligations	-	2,741,487	-	2,741,487
	<u>\$ -</u>	<u>\$ 12,524,372</u>	<u>\$ -</u>	<u>\$ 12,524,372</u>
	Fair Value Measurements at December 31, 2018			
U.S. Governmental agency securities	<u>\$ -</u>	<u>\$ 4,675,439</u>	<u>\$ -</u>	<u>\$ 4,675,439</u>

Note 18 - Reclassification of 2018 Financial Statements

Certain items within the 2018 financial statements, primarily related to negotiable certificates of deposits and compensating balance accounts, being reclassified from Securities Available for Sale and Prepaid Expenses and Other Assets into Interest Bearing Accounts, have been reclassified to conform to the 2019 financial statement presentation. The reclassifications had no material impact on the Credit Union's financial position or results of operations.

Benchmark Federal Credit Union

Notes to Financial Statements

December 31, 2019 and 2018

Note 19 - Subsequent Events

The Credit Union has evaluated subsequent events through April 7, 2020. This date is the date the financial statements were available to be issued. The following event subsequent to December 31, 2019 was noted:

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical area in which the Credit Union operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Credit Union. As of this date, the Credit Union is expecting to experience potential issues related to the ability of borrowers to meet contractual payment obligations on outstanding loans which could result in a decrease to interest income, the need for additional provision for loan losses, as well as reduced noninterest income. In addition, our investment portfolio may experience significant changes in the fair value which will need to be evaluated for other-than-temporary impairment. At this point in time, we are unable to quantify the impact on our financial position, results of operations and net worth. Since such a high volume of business with members is concentrated in Pennsylvania and New Jersey, it's reasonably possible that we are vulnerable to the risk of a near-term severe impact.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including the allowance for loan losses and impairment of investments.

No other material events subsequent to December 31, 2019 were noted.