2019 Annual Report

Completing the Picture

Enjoying Life's Full Potential

the SUMMIT FEDERAL CREDIT UNION

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A Message
from the CEO

The world and our lives have changed over the past several months, with no one really knowing for certain when it will all return to normal. And yet, what keeps us grounded at The Summit, what remains unchanged, is our focal point: our members, for whom we are always thankful.

The Summit is positioned to weather storms, to change course. We can't predict the future, but with smart strategic planning and processes for business continuity, we mitigate risks. Our agility enables us to adjust to new circumstances and react accordingly. In large part, it's our flexibility that keeps us solid, and which ensures we continue to offer the most relevant solutions to meet our members' demands, even during very challenging times.

We will always strive to help our people plan for and reach their unique financial goals and achieve what's important to them. And when members are faced with personal difficulties, we are here to assist so that they can emerge stronger. They can rely on us to help them find the way.

Our friendly and knowledgeable staff are charged with ensuring that daily interactions with us are exemplary, from simple transactions to large financial decisions like investments, mortgages or personal loans. We educate members as well, reaching out to increase their understanding of new technologies and to keep them mindful of the scams and fraud that have become an unfortunate but omnipresent part of our industry.

Whether in difficult times or simpler ones, we are a stable force for members, with their interests at the center of all our decisions. Members can trust that our dedication to them is unwavering, and that improving their lives is our ongoing focus.

Laurie A. Baker

Laurie Baker, President & CEO

Community

Supporting our Members' Neighborhoods

As a not-for-profit, The Summit has a certain kinship with other community organizations. We firmly believe that the vitality of our neighborhoods play a significant role in our members' well-being. It's why we give so much personal time and monetary support to local groups making a positive impact. We say that community service is part of our culture, but truly, it's more. It's interwoven into every facet of our operations as a key component of fulfilling our overall goal: to improve our members' lives.

In 2019, The Summit supported organizations such as:

- Autism Up
- Brockway Museum
- Buffalo Niagara American Heart Association
- Causewave Community Partners
- Center for Youth
- Clarence Chamber of Commerce
- FeedMore Western New York
- Highland Hospital Foundation
- Hilton Cadet Cupboard
- Hope Hall
- Juvenile Diabetes Research Foundation
- Literacy Buffalo Niagara
- March of Dimes
- Mary Cariola Center
- North Winton Village Association
- Perinton Recreation & Parks
- Pluta Cancer Center Foundation
- Second Chance Canine Adoption Shelter
- Seneca Housing
- United Way
- Vera House
- Willow Domestic Violence Center

Employee Volunteering

155

Charities and organizations we participated in through volunteer service

Our employees often band together to support causes. Employees celebrated a "wear red" day, with each participant making a donation to a local chapter of the American Heart Association.

By being active participants in the initiatives we support, we connect with members outside of our branches. In 2019, these activities included:

- Helping Buffalo-area members provide over 15,000 meals through FeedMore Western New York.
- Joining Central New York law enforcement to help children select gifts during "Shop with a Cop."
- Hosting a "plate" drive to benefit Hilton Cadet Cupboard, which provides meals for students of the Hilton Central School District.
- Raising over $3,600 at the Buffalo Wine and Chocolate Festival for the Buffalo Niagara American Heart Association.
- Passing out water and sunglasses to Perinton Youth Triathlon athletes.
- Raising $4,000 at Taste of Syracuse for Arc of Onondaga and Elmcrest Children's Center.

Financial Education

2400

Adults to whom we provided financial education

We are proud to help our member companies support causes that are meaningful to them, including:

CAPCO - Cortland County Community Action Program
Center for the Arts of Homer
Community Place of Greater Rochester
CWA Local 1170
SUNY Cortland Foundation
Hilton Central School District
Irondequoit Public Library
Le Moyne College
National Center for Missing and Exploited Children
Onondaga County
Rochester Regional Health System
Salvation Army of Rochester
Seneca County Sheriffs
Syracuse Police
13Thirty Cancer Connect
Town of Camillus
Town of Henrietta
Trillium Health
Villa of Hope

Community Events

1780

Hours our employees spent participating in community events

Products and Services

Elements of a Strong Structure: providing the framework to support our members' needs.

Debit Cards with Checking

Summit Visa® Debit Cards enhance the convenience and accessibility of our popular checking accounts with cash back and rewards as an added benefit. Cardholders earn cash back every time they shop with a Debit Card with Purchase Rewards. Those with MyRewards™ Platinum or Gold Debit Cards earn points redeemable for rewards ranging from gift cards to merchandise to cash.

The Summit's Credit Cards

The Summit's credit cards offer low rates, rewards and perks. Cardholders looking for an especially affordable low-rate card may opt for our Summit Visa Gold card. Those interested in rewards like gift cards and merchandise may choose the Summit Visa Platinum Card. And The Summit's Visa Signature Card, our most premier card, lets cardholders earn points redeemable for cash, travel, gift cards or merchandise.

Mortgage and Home Equity

People across our regions looking for a mortgage or home equity product rely on The Summit's mortgage team for friendly, expert advice with competitive rates and no hidden costs. First-time homebuyers who take advantage of our Homebuyer Dream Program are accompanied through the process of saving for and purchasing a home.

Auto and Personal Loans

Approximately 250 auto dealerships in Western and Central New York make Summit Express™ Auto Loans available to car buyers. The Summit also offers personal loans with competitive rates and affordable monthly payments.

Investments

The Summit partners with CUNA Brokerage Services, Inc. to give individuals a full range of options for investments and retirement solutions. With help from The Summit Retirement & Investment Services, members can make the most appropriate investment decisions for their goals.

Savings

A variety of savings needs are managed with The Summit's Primary and Club Savings Accounts, Money Market Accounts and Share Certificates, each with competitive dividends.

Youth Accounts

Our youth accounts teach our youngest members about financial literacy and responsibility they'll use all their lives. Safari Club and Forward Bound accounts introduce young children to saving and budgeting, while Start Smart accounts are customized to help each teen and young adult embark on a path of financial independence.

Nationwide Convenience and Accessibility

We are diligent in ensuring The Summit's members can access their accounts and information how and where they want. Our state-of-the-art technology and systems, including mobile and online banking, e-statements and loan applications, give members access to money and information anytime and anywhere. With over 55,000 surcharge-free ATMs and over 5,000 CO-OP Shared Branches℠, members can enjoy convenient in-person transactions wherever in the U.S. they may be.

Account Security

Safeguarding our members' funds and financial activities is paramount. To protect accounts from unauthorized access, we use high end security and procedural systems, and also monitor accounts for suspicious activity. Our automated notification system adds even more protection with alerts that quickly update account holders of any transactions.

Additional Member Benefits

Members of The Summit can take advantage of discounted auto and home insurance from TruStage™ with 24/7 claims service, fast appraisals and guaranteed repairs. Home policies include hassle-free replacement of personal items and temporary housing assistance. Members can also make use of free Greenpath™ financial wellness services for advice on financial matters ranging from debt and money management to retirement.

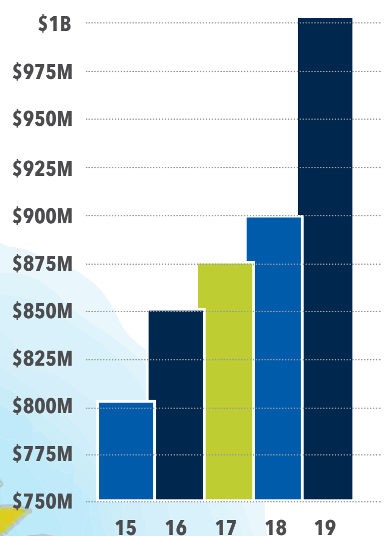
A Strong Position

At The Summit, we know that standing firm requires change. It sounds like a riddle, but it's how we've operated so successfully for almost 80 years. A smart strategic plan poises us for growth and a solid financial position. At the same time, it lets us alter our course when circumstances shift. With this combination of structural strength and adaptability, members can trust us to reliably serve their financial needs today and throughout their lives.

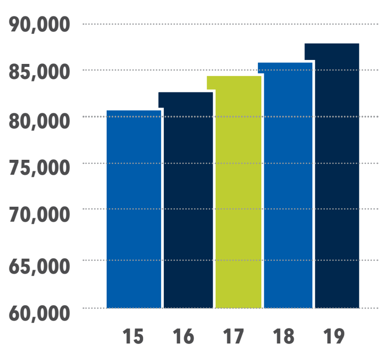
Financials

THE SUMMIT'S STATS AT A GLANCE

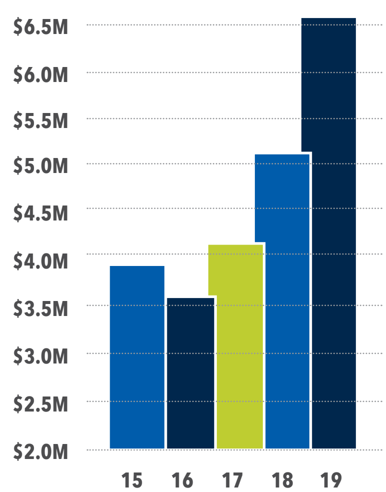
Total Assets in Millions



Total Members



Net Income in Millions



THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

Consolidated Financial Statements as of December 31, 2019 and 2018 Together with Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 20, 2020

To the Supervisory Committee and Board of Directors of
The Summit Federal Credit Union:

We have audited the accompanying consolidated financial statements of The Summit Federal Credit Union and Subsidiary (the Credit Union), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, 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 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 Unites 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 The Summit Federal Credit Union and 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.

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THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash on hand	$ 3,871,027	$ 4,487,006
Overnight deposits at financial institutions	59,180,226	9,344,933
Investment in certificates of deposit	8,148,000	3,473,000
Loans to members, net	888,529,013	849,587,970
Premises and equipment, net	16,480,900	17,168,237
NCUSIF deposit	8,408,154	7,703,043
Other assets	15,954,864	9,986,935
Total assets	$ 1,000,572,184	$ 901,751,124
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accrued expenses and other liabilities	$ 12,074,487	$ 15,712,877
Accrued pension	2,541,137	5,872,884
Total liabilities excluding members' and non-members' accounts	14,615,624	21,585,761
MEMBERS' AND NON-MEMBERS' ACCOUNTS:		
Members' shares and savings accounts	569,653,892	540,899,539
Members' share certificates	306,870,072	233,600,346
Non-members' shares and certificates	20,772,667	21,413,267
Total members' and non-members' accounts	897,296,631	795,913,152
Total liabilities	911,912,255	817,498,913
MEMBERS' EQUITY:		
Regular reserve	8,750,360	8,750,360
Undivided earnings	76,171,550	69,533,667
Equity acquired in merger	10,977,543	10,977,543
Accumulated other comprehensive loss	(7,239,524)	(5,009,359)
Total members' equity	88,659,929	84,252,211
Total liabilities and members' equity	$ 1,000,572,184	$ 901,751,124

The accompanying notes are an integral part of these statements.

THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME:		
Loans to members	$ 35,076,465	$ 31,622,948
Investments	1,416,359	327,466
	36,492,824	31,950,414
INTEREST EXPENSE:		
Dividends on members' and non-members' shares	9,614,352	5,714,925
Interest on borrowings	2,479	63,306
	9,616,831	5,778,231
Net interest income before provision for loan losses	26,875,993	26,172,183
PROVISION FOR LOAN LOSSES	1,948,747	1,963,824
Net interest income after provision for loan losses	24,927,246	24,208,359
NON-INTEREST INCOME:		
Interchange	4,969,298	4,722,251
Fees - deposit accounts	3,584,556	3,386,312
Fees - loans	1,771,266	1,630,465
Other	1,886,991	1,614,381
NCUSIF stabilization refund	112,498	517,792
Total non-interest income	12,324,609	11,871,201
NON-INTEREST EXPENSE:		
Compensation and benefits	16,315,092	17,027,493
Operations	6,945,701	6,642,562
Professional and outside services	2,924,679	3,043,943
Occupancy	1,622,270	1,593,509
Marketing	1,524,450	1,469,347
Amortization of goodwill	195,792	195,792
Other	1,085,988	941,624
Total non-interest expense	30,613,972	30,914,270
NET INCOME	$ 6,637,883	$ 5,165,290

The accompanying notes are an integral part of these statements.

THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET INCOME	$ 6,637,883	$ 5,165,290
OTHER COMPREHENSIVE INCOME (LOSS):		
Transition adjustment for adoption of Accounting Standards Update 2016-01	(20,694)	(132,369)
Change in accrued net pension costs, gains and losses	(2,209,471)	(291,168)
Total other comprehensive loss	(2,230,165)	(423,537)
Total comprehensive income	$ 4,407,718	$ 4,741,753

The accompanying notes are an integral part of these statements.

THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Regular Reserve	Undivided Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, JANUARY 1, 2018	$ 8,750,360	$ 64,368,377	$ 10,977,543	$ (4,585,822)	$ 79,510,458
Net income	-	5,165,290	-	-	5,165,290
Change in unrealized gain on deferred compensation plan investments	-	-	-	(132,369)	(132,369)
Change in accrued net pension costs, gains and losses	-	-	-	(291,168)	(291,168)
BALANCE, DECEMBER 31, 2018	8,750,360	69,533,667	10,977,543	(5,009,359)	84,252,211
Net income	-	6,637,883	-	-	6,637,883
Transition adjustment for adoption of Accounting Standards Update 2016-01	-	-	-	(20,694)	(20,694)
Change in accrued net pension costs, gains and losses	-	-	-	(2,209,471)	(2,209,471)
BALANCE, DECEMBER 31, 2019	$ 8,750,360	$ 76,171,550	$ 10,977,543	$ (7,239,524)	$ 88,659,929

The accompanying notes are an integral part of these statements.

THE SUMMIT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 6,637,883	$ 5,165,290
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization of premises and equipment	1,187,409	1,275,173
Amortization of mortgage servicing rights	225,831	212,966
Capitalization of mortgage servicing rights	(213,969)	(170,944)
Amortization of goodwill	195,792	195,792
Provision for loan losses	1,948,747	1,963,824
Net accretion of discounts and amortization of premiums on investment securities	-	25,334
Changes in:		
Other assets	(6,198,777)	(201,940)
Accrued expenses and other liabilities	(3,638,390)	494,516
Accrued pension	(5,541,218)	902,854
Net cash flow from operating activities	(5,396,692)	9,862,865
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities held to maturity	-	5,000,000
Net (increase) decrease in investments in certificates of deposit	(4,675,000)	203,000
Net increase in loans to members	(40,889,790)	(41,370,697)
Purchases of premises and equipment	(500,072)	(400,101)
Increase in NCUSIF deposit	(705,111)	(155,810)
Net decrease in capital balance at FHLB	2,500	3,000
Net cash flow from investing activities	(46,767,473)	(36,720,608)
CASH FLOW FROM FINANCING ACTIVITIES:		
Net decrease in borrowings	-	(4,270,000)
Net increase in members' shares and savings accounts	28,754,353	8,532,424
Net increase in members' share certificates	73,269,726	29,857,358
Net decrease in non-members' shares and certificates	(640,600)	(2,364,221)
Net cash flow from financing activities	101,383,479	31,755,561
NET CHANGE IN CASH AND EQUIVALENTS	49,219,314	4,897,818
CASH AND EQUIVALENTS - beginning of year	13,831,939	8,934,121
CASH AND EQUIVALENTS - end of year	$ 63,051,253	$ 13,831,939

The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

The Summit Federal Credit Union (The Summit) was established to offer affordable, high quality financial products and services to its members. The Summit is headquartered in Rochester, New York and has branch locations in and around the Greater Rochester, Buffalo and Syracuse, New York areas.

The Summit's wholly-owned subsidiary, Credit Union Auto Finance (CUAF), is a credit union service organization that provides services related to the origination of indirect auto loans to credit unions in New York State.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) and National Credit Union Administration (NCUA) regulations.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of The Summit and CUAF. All significant intercompany balances and transactions have been eliminated in consolidation.

Change in Accounting Principle – Revenue Recognition

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The recognition of interest and other income related to financial instruments (loans and investments) is not within the scope of Topic 606.

The Summit adopted the requirements of Topic 606 as of January 1, 2019, utilizing the modified retrospective method of transition. Adoption of the new guidance impacted The Summit's accounting policies for revenue recognition related to interchange fees – deposit accounts, and elements of other non-interest income. Adopting Topic 606 had no effect on The Summit's 2019 revenues. Topic 606 does require new disclosures related to The Summit's methodology for recognition of revenue. These additional disclosures are included in this Note under the sub-heading Revenue Recognition.

Change in Accounting Principle – Net Periodic Benefit Cost

In March 2017, the FASB issued new guidance related to presentation of net periodic pension costs. This guidance, issued as Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715)*, clarifies certain aspects of presentation and disclosure requirements for specific components of net periodic pension cost. Adoption of this standard did not affect reported assets, liabilities, or equity, but it did require modification of disclosures included in Note 9 under the sub-heading Defined Benefit Pension Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle – Statement of Cash Flows
In November, 2016, the FASB issued new guidance related to the disclosure of cash and cash equivalents. This guidance, issued as ASU 2016-18, *Statement of Cash Flows*, requires that when cash and cash equivalents are presented on multiple lines on the statement of financial condition, disclosure be made of those lines comprising total cash and cash equivalents on the statement of cash flows. Adoption of this standard did not affect reported assets, liabilities, or equity, but it did require modification of disclosures included in this Note under the sub-heading Cash and Cash Equivalents.

Change in Accounting Principle – Financial Instruments
In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*, and subsequently issued related ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*. These standards amend certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in an entity's income statement.

The Summit adopted this standard on January 1, 2019, using the modified retrospective method and reclassified approximately $21,000 from accumulated other comprehensive income into undivided earnings. The adoption of these standards resulted in fair value changes of certain deferred compensation plan investments being recognized in other non-interest income rather than in other comprehensive income. During the year ended December 31, 2019, The Summit recognized approximately $210,000 of net unrealized gains on those securities in other non-interest income under the new standards that would have been recognized in other comprehensive income under the prior standards.

Cash and Equivalents
Cash on hand includes all branch and ATM cash as well as certain items in transit between The Summit and other financial institutions. Overnight deposits are held at the Federal Reserve Bank of New York, Alloya Corporate Credit Union, and The Federal Home Loan Bank (FHLB) and are recorded at cost which approximates fair value. Overnight deposits at these institutions vary in duration from overnight to three months and, at times, may exceed federally insured limits. The Summit has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to its overnight deposits at financial institutions.

Cash and equivalents, as reported on the accompanying consolidated statement of cash flows, consisted of the following at December 31:

	2019	2018
Cash on hand	$ 3,871,027	$ 4,487,006
Overnight deposits	59,180,226	9,344,933
Total cash and cash equivalents	$ 63,051,253	$ 13,831,939

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Summit's significant accounting policies related to investments are as follows:

- **Investments in Certificates of Deposit**
  Investments in certificates of deposit are recorded at cost and have remaining maturities of up to three years. The Summit's practice is to purchase certificates that are within the insured limits ($250,000) of either the NCUA or Federal Deposit Insurance Corporation.

- **Investment Risk**
  The Summit invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the accompanying financial statements.

Fair Value Measurements

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs, as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. Assets and liabilities subject to fair value adjustments on a non-recurring basis include real estate owned, mortgage servicing rights, intangible assets, loans to members and assets and liabilities acquired through merger.

Loans to Members and Allowance for Loan Losses

Loans originated by The Summit are stated at the amount of unpaid principal, reduced by an allowance for loan losses. The allowance for loan losses is increased through a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance when management believes collection is doubtful. Management's periodic evaluation of the adequacy of the allowance is based on The Summit's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, and current economic conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans to Members and Allowance for Loan Losses (Continued)

Loans acquired through merger are initially recorded at estimated fair value. The difference between the fair value and the unpaid principal amount is adjusted through either interest income or the provision for loan losses based on The Summit's experience with each loan. Loans acquired through merger are evaluated in terms of the adequacy of the allowance in a similar manner to loans originated by The Summit. To the extent that management believes credit losses may be incurred beyond the remaining fair value adjustment for a particular loan, additional charges against the allowance are recorded. To the extent that management believes the remaining fair value adjustment exceeds expected credit losses, the remaining fair value adjustment is reduced as an increase in interest income.

The accrual of interest is discontinued on a loan when the loan becomes 90 days past due and management believes, based on collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. Uncollectible interest previously accrued is charged off by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until the loan is no longer 90 days or more past due, at which time the loan is returned to accrual status.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual term of the loan.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The Summit considers three segments of its loan portfolio in its allowance determination: residential mortgages, consumer credit cards and other consumer loans.

The allowance consists of specific and general components. Specific allowances are established for certain impaired loans. A loan is considered impaired when current information and events indicate that, in management's judgment, it is probable that The Summit will be unable to collect scheduled payments required under the terms of the loan contract. Factors considered in determining impairment include payment delinquency status, communication with the borrower, the reasons for the delay in payment, the borrower's past performance, the existence of a guarantor and the likelihood of the guarantor satisfying the obligation, the value of any collateral pledged on the loan, and other factors specific to each loan.

The residential mortgage, consumer credit card, and other consumer (including automobile and home equity) loan segments consist of large groups of homogeneous loans that are evaluated for impairment collectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans to Members and Allowance for Loan Losses (Continued)

General allowances are established by applying an estimated loss percentage to loans that are not considered impaired. Loss percentages are established based on historical loss experience on each class of loan, and may be adjusted for qualitative factors, such as changes in loan underwriting policy, the introduction of new loan products, changes in economic conditions, and other factors.

Management evaluates currently available information to establish the allowance; however, actual future loss experience may differ from that allowed for if conditions differ from those assumptions used by The Summit in establishing the allowance.

The Summit's policies dictate guidelines for determining when a loan is to be charged off. All charge-offs are approved by The Summit's senior management and the Board of Directors. Real estate secured loans are generally charged-off when a determination is made that the borrower will be unable to pay and any collateral will not be adequate to repay the loan when liquidated. Consumer loans, whether collateralized or not, are generally charged off when the loan becomes 180 days delinquent or when The Summit believes the loans to be a total loss.

Premises and Equipment

Buildings and improvements, furniture, fixtures and equipment, and leasehold improvements are recorded at cost, for purchased items, and at fair value at the date of acquisition for items acquired as part of a merger, less accumulated depreciation and amortization. Buildings and furniture, fixtures and equipment are depreciated over useful lives ranging from three to forty years using the straight-line method. Leasehold improvements are amortized using the straight-line method over the period of the lease or the estimated life of the property, whichever is shorter.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

NCUA regulations require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to The Summit if its insurance coverage was terminated, it converted to insurance coverage from another source, or the operations of the fund were transferred from the NCUA Board. Premiums are assessed annually by the NCUSIF to the extent that The Summit's total insured deposits increase, or at the discretion of NCUSIF management. The NCUSIF deposit is required to be reviewed for impairment, including consideration of the refundability of the deposit. At December 31, 2019 and 2018, management did not consider any impairment adjustment necessary.

In addition to the amount held on deposit with the NCUSIF, The Summit may be required to pay an insurance premium or receive a refund based on its total insured members' shares, as determined by the NCUA Board. These premiums provide insurance on members' deposit accounts up to $250,000 per member. See Note 15.

Goodwill

Goodwill represents the excess of the acquisition price over fair value of net assets acquired through mergers. The Summit has elected to amortize goodwill on a straight-line basis over ten years and test goodwill for impairment only upon the occurrence of a triggering event. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the reporting unit level. Impairment, if any, will be recognized for the difference between the fair value of the unit and its carrying amount and will be limited to the carrying amount of goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Servicing Rights
Mortgage servicing rights assets, included with other assets, are established each time The Summit undertakes an obligation to service mortgage loans for the Federal National Mortgage Association (FNMA). For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, ancillary income, prepayment speeds and default rates and losses. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. For purposes of measuring impairment, the assets are stratified based on the original term and interest rate of the underlying loans. The amount of impairment recognized is the amount by which the capitalized mortgage servicing assets for a stratum exceed their fair value. As of December 31, 2019 and 2018, no such impairment was recorded.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as other non-interest income when earned.

Members' and Non-Members' Shares and Certificates
Members' and non-members' shares are subordinated to all other liabilities of The Summit upon liquidation. Dividends on share accounts are based on available earnings at the end of a dividend period and are not guaranteed by The Summit. Dividend rates on share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions. Dividend rates on members' and non-members' share certificates, money market and checking accounts are set by management based on current market conditions. Dividends on members' and non-members' share accounts and share certificates are charged as an expense.

Pension Plan
The Summit has a non-contributory defined benefit pension plan covering substantially all of its employees. The Summit's policy is to fund at least the minimum amount required under the Employee Retirement Income Security Act of 1974 (ERISA).

Members' Equity
The Summit is required by NCUA regulations to maintain a net worth ratio based on the risk deemed inherent in its statement of financial condition. Credit unions which do not meet the risk based net worth requirements will be subject to prompt corrective supervisory action by the NCUA. The NCUA's net worth requirement to be considered adequately capitalized at December 31, 2019 and 2018 was 7.0 percent. As of December 31, 2019 and 2018, The Summit maintained a net worth ratio of 9.56 percent and 9.88 percent, respectively, and was considered well capitalized. The Summit is also subject to a Risk Based Net Worth Requirement (RBNWR), which determines whether The Summit will be considered "complex" under the NCUA's regulatory framework. The Summit's RBNWR ratio was below 6 percent for the years ended December 31, 2019 and 2018, respectively. Based on this, The Summit is not considered "complex" under the NCUA's regulatory framework.

The Summit is required by regulation to maintain a reserve. This regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Advertising Costs
Advertising costs are charged to expense as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Summit is exempt from federal and state income taxes as a federally chartered credit union organized under Revenue Code Section 501(c)(1). As of December 31, 2019 and 2018, The Summit does not have a liability for unrecognized tax benefits.

Comprehensive Income

GAAP requires that recognized income, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as changes in accrued pension, are reported as a change in the accumulated other comprehensive income (loss) section of the consolidated statements of members' equity.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Summit's revenue recognition policies for primary sources of revenue are as follows:

Interest Income: Interest on loans and investments is recognized over the term of the loan or investment and is calculated using the simple interest method on principal amounts outstanding. Interest income is adjusted for amortization of any premiums or discounts associated with the purchase of loans or investments. Non-refundable loan fees and related direct costs are deferred and amortized over the term of the loans against interest income.

Interchange: The Summit earns interchange fees from debit and credit cardholder transactions conducted through the VISA and other payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized and collected daily, concurrently with the transaction processing services provided to the cardholder.

Fees – deposit accounts: The Summit earns fees from its members' and non-members' deposit accounts for transaction-based and overdraft transfer services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time The Summit fulfills the member's request. Overdraft transfer fees are recognized at the point in time that the overdraft occurs. Fees on deposit accounts are withdrawn from the member's account at the time of the transaction.

Fees – loans: Loan fees are comprised primarily of late charges assessed to members who failed to make scheduled loan payments in accordance with the due dates defined in the loan agreement. Such fees are recognized as revenue when collected.

Other non-interest income: The Summit recognizes income from a variety of other services and activities, including revenue generated from activities such as loan servicing, indirect loan origination, and others. Generally, such income is recognized by The Summit as services are performed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned
Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at estimated liquidation value, including consideration of estimated costs to sell, at the date of foreclosure and are included within other assets.

Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are charged to expense. Valuations are periodically performed by management and an allowance for losses is established by means of a charge to operations if the carrying value of the property exceeds fair value less estimated costs to sell.

Reclassifications
Certain reclassifications have been made to the 2018 financial statements to conform to the current year presentation.

3. LOANS TO MEMBERS

The composition of loans to members was as follows at December 31:

	2019	2018
Residential mortgage	$ 127,320,278	$ 126,427,530
Home equity	133,723,876	135,234,724
Consumer automobile	541,901,575	502,645,734
Consumer credit card	35,249,933	32,764,558
Other consumer	32,104,821	35,314,244
Gross loans outstanding	870,300,483	832,386,790
Add: Net deferred loan origination costs	20,846,700	19,882,169
Less: Allowance for loan losses	(2,618,170)	(2,680,989)
	$ 888,529,013	$ 849,587,970

3. LOANS TO MEMBERS (Continued)

Credit Risk Profile

The Credit Union evaluates carried loans utilizing a credit risk profile that incorporates a number of elements of the borrower's performance, including information on each loan's status as current or delinquent. The Credit Union considers all loans for which payments are past due by 15 days or more to be delinquent. The following table presents the Credit Union's loan portfolio by class and credit risk profile as defined by the Credit Union's risk rating system as of December 31:

	2019		
	Current	Delinquent	Total
Residential mortgage	$ 125,266,630	$ 2,053,648	$ 127,320,278
Home equity	131,893,803	1,830,073	133,723,876
Consumer automobile	523,926,092	17,975,483	541,901,575
Consumer credit card	34,671,638	578,295	35,249,933
Other consumer	31,045,686	1,059,135	32,104,821
Gross loans outstanding	$ 846,803,849	$ 23,496,634	$ 870,300,483

	2018		
	Current	Delinquent	Total
Residential mortgage	$ 124,342,765	$ 2,084,765	$ 126,427,530
Home equity	133,366,701	1,868,023	135,234,724
Consumer automobile	486,685,311	15,960,423	502,645,734
Consumer credit card	32,111,606	652,952	32,764,558
Other consumer	34,198,735	1,115,509	35,314,244
Gross loans outstanding	$ 810,705,118	$ 21,681,672	$ 832,386,790

Impaired Loans

The Summit classifies as impaired loans in the following groups: all loans which have been previously modified, loans to members who are in bankruptcy, loans delinquent for one to five months with an outstanding principal balance of at least $25,000 and all loans delinquent for more than six months.

3. LOANS TO MEMBERS (Continued)

Impaired Loans (Continued)
The following tables present information on the Credit Union's impaired loans, by loan portfolio class, as of December 31:

	2019	
	Unpaid Principal Balance	Related Allowance
Residential mortgage	$ 3,382,102	$ 58,929
Home equity	1,448,630	55,224
Consumer automobile	5,238,252	875,313
Consumer credit card	160,246	79,405
Other consumer	607,140	185,465
Total	$ 10,836,370	$ 1,254,336

	2018	
	Unpaid Principal Balance	Related Allowance
Residential mortgage	$ 3,113,572	$ 72,500
Home equity	1,510,845	7,099
Consumer automobile	4,081,815	754,996
Consumer credit card	87,982	55,764
Other consumer	580,700	164,286
Total	$ 9,374,914	$ 1,054,645

The Credit Union's practice is to record a specific allowance on all impaired loans. The average recorded investment in impaired loans approximates the year-end balance above. Interest income is recognized on impaired loans if collection is considered likely and the loan is less than 90 days delinquent.

3. LOANS TO MEMBERS (Continued)

Loans in Non-Accrual Status

The Credit Union discontinues the accrual of interest on loans when loans are delinquent by 90 days or more and management believes, based on collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. Loans remain in non-accrual status until the member makes payments sufficient to reduce their delinquent status to less than 90 days. The following table presents loan balances in non-accrual status by loan class as of December 31:

	2019	2018
Residential mortgage	$ 526,531	$ 708,460
Home equity	484,697	221,113
Consumer automobile	1,007,290	717,787
Consumer credit card	234,669	215,149
Other consumer	197,853	233,088
Total	$ 2,451,040	$ 2,095,597

Payments received on loans in non-accrual status are applied to interest, fees, and then loan principal until such time as the loan is made current.

Loan Modifications and Troubled Debt Restructurings

The Summit's practice is to restructure or modify loans only in cases where such changes create a more-likely-than-not possibility of ultimate collection. At December 31, 2019, The Summit had 215 loans classified as troubled debt restructurings with a total outstanding balance of approximately $1,802,600. Of these, 8 loans were for residential mortgages with an aggregate outstanding balance of approximately $610,000. At December 31, 2018, The Summit had 201 loans classified as troubled debt restructurings with a total outstanding balance of approximately $1,775,000. Of these, 8 loans were for residential mortgages with an aggregate outstanding balance of approximately $625,000. The Summit does not consider the effect of troubled debt restructurings to be significant to the financial statements on an overall basis.

3. LOANS TO MEMBERS (Continued)

Aging of Past-Due Loans to Members

An important element of The Summit's evaluation of the loan portfolio's performance and credit quality is the age of loans to members as measured by the length of time that a required payment is past-due. The Summit initiates communication with the borrower when a payment is past-due by as little as 15 days.

The following table presents the past-due status of each class of loan, summarized by the length of time that loans are past-due, as of December 31:

2019

	Length of Time Past-Due							
	15-27 Days Past Due	28-56 Days Past Due	57-88 Days Past Due	89-179 Days Past Due	Greater than 179 Days Past Due	Total Delinquent	Current	Total Loans to Members
Residential mortgage	$ -	$1,253,444	$ 273,673	$ 320,737	$ 205,794	$ 2,053,648	$ 125,266,630	$ 127,320,278
Home equity	562,074	709,233	74,069	235,739	248,958	1,830,073	131,893,803	133,723,876
Consumer automobile	11,553,854	4,808,523	605,816	702,603	304,687	17,975,483	523,926,092	541,901,575
Consumer credit card	-	274,589	69,037	165,668	69,001	578,295	34,671,638	35,249,933
Other consumer	599,742	188,835	72,705	104,114	93,739	1,059,135	31,045,686	32,104,821
	$12,715,670	$7,234,624	$1,095,300	$1,528,861	$ 922,179	$23,496,634	$ 846,803,849	$ 870,300,483

2018

	Length of Time Past-Due							
	15-27 Days Past Due	28-56 Days Past Due	57-88 Days Past Due	89-179 Days Past Due	Greater than 179 Days Past Due	Total Delinquent	Current	Total Loans to Members
Residential mortgage	$ -	$1,006,220	$ 370,085	$ 272,820	$ 435,640	$ 2,084,765	$ 124,342,765	$ 126,427,530
Home equity	642,076	881,660	123,174	78,823	142,290	1,868,023	133,366,701	135,234,724
Consumer automobile	10,462,992	4,231,029	548,615	487,592	230,195	15,960,423	486,685,311	502,645,734
Consumer credit card	-	324,377	113,426	183,817	31,332	652,952	32,111,606	32,764,558
Other consumer	636,528	170,465	75,428	167,199	65,889	1,115,509	34,198,735	35,314,244
	$11,741,596	$6,613,751	$1,230,728	$1,190,251	$ 905,346	$21,681,672	$ 810,705,118	$ 832,386,790

3. LOANS TO MEMBERS (Continued)

Allowance for Loan Loss and Recorded Investment in Loans to Members
Activity in the allowance for loan loss, by portfolio segment, was as follows for the years ended December 31:

2019	Residential Mortgage	Consumer Credit Card	Other Consumer (Including Automobile and Home Equity)	Unallocated	Total
Changes in allowance for loan loss:					
Beginning balance	$ 164,264	$ 559,551	$ 1,832,174	$ 125,000	$ 2,680,989
Charge-offs	-	(503,963)	(1,840,337)	-	(2,344,300)
Recoveries	-	70,974	261,760	-	332,734
Provision	(87,260)	357,494	1,693,513	(15,000)	1,948,747
Ending balance	$ 77,004	$ 484,056	$ 1,947,110	$ 110,000	$ 2,618,170
Components of ending balance in allowance for loan loss:					
Related to loans individually evaluated for impairment	$ 55,000	$ 37,280	$ 892,163	$ -	$ 984,443
Related to loans collectively evaluated for impairment	22,004	446,776	1,054,947	-	1,523,727
Related to environmental factors and other considerations	-	-	-	110,000	110,000
Ending balance	$ 77,004	$ 484,056	$ 1,947,110	$ 110,000	$ 2,618,170
Loans receivable:					
December 31, 2019 balance individually evaluated for impairment	$ 3,270,904	$ 37,280	$ 6,266,381	$ -	$ 9,574,565
December 31, 2019 balance collectively evaluated for impairment	124,049,374	35,212,653	701,463,891	-	860,725,918
Ending balance	$ 127,320,278	$ 35,249,933	$ 707,730,272	$ -	$ 870,300,483

3. LOANS TO MEMBERS (Continued)

Allowance for Loan Loss and Recorded Investment in Loans to Members (Continued)

2018	Residential Mortgage	Consumer Credit Card	Other Consumer (Including Automobile and Home Equity)	Unallocated	Total
Changes in allowance for loan loss:					
Beginning balance	$ 87,022	$ 519,856	$ 1,883,652	$ 150,000	$ 2,640,530
Charge-offs	(87,432)	(463,431)	(1,668,307)	-	(2,219,170)
Recoveries	-	77,353	218,452	-	295,805
Provision	164,674	425,773	1,398,377	(25,000)	1,963,824
Ending balance	$ 164,264	$ 559,551	$ 1,832,174	$ 125,000	$ 2,680,989
Components of ending balance in allowance for loan loss:					
Related to loans individually evaluated for impairment	$ 72,500	$ 16,378	$ 638,925	$ -	$ 727,803
Related to loans collectively evaluated for impairment	91,764	543,173	1,193,249	-	1,828,186
Related to environmental factors and other considerations	-	-	-	125,000	125,000
Ending balance	$ 164,264	$ 559,551	$ 1,832,174	$ 125,000	$ 2,680,989
Loans receivable:					
December 31, 2018 balance individually evaluated for impairment	$ 2,774,331	$ 16,378	$ 5,402,719	$ -	$ 8,193,428
December 31, 2018 balance collectively evaluated for impairment	123,653,199	32,748,180	667,791,983	-	824,193,362
Ending balance	$ 126,427,530	$ 32,764,558	$ 673,194,702	$ -	$ 832,386,790

Loans to Directors and Officers

Included in loans to members at December 31, 2019 and 2018, are loans of $1,723,259 and $1,653,917, respectively, to directors and officers of The Summit.

4. PREMISES AND EQUIPMENT

Premises and equipment, net of accumulated depreciation and amortization, consisted of the following at December 31:

	2019	2018
Land	$ 6,171,987	$ 6,171,987
Buildings and improvements	16,871,037	16,853,215
Furniture, fixtures and equipment	9,688,396	9,458,083
Leasehold improvements	1,346,696	1,338,146
Deposits on fixed assets	215,310	46,229
	34,293,426	33,867,660
Less: Accumulated depreciation and amortization	(17,812,526)	(16,699,423)
	$ 16,480,900	$ 17,168,237

5. MORTGAGE SERVICING RIGHTS

In order to ensure the availability of a broad range of mortgage products for its members at the lowest possible cost, The Summit periodically sells certain originated mortgages to the Federal National Mortgage Association (FNMA), while retaining the rights to service these mortgages for its members. During 2019 and 2018, net gains resulting from the sale of originated mortgages were $270,452 and $227,503, respectively. Mortgage loans serviced for FNMA are not included in the accompanying statement of financial condition. The unpaid principal balance of these loans was $173,555,691 and $176,993,605 at December 31, 2019 and 2018, respectively.

For 2019 and 2018, the estimated fair value of mortgage servicing rights (MSR) exceeded recorded amounts. The fair value was determined by calculating the net present value of the estimated income stream associated with MSR over the term of the loan. The estimated net income stream is discounted using a 8.50 percent and 8.75 percent rate of return at December 31, 2019 and 2018, respectively, and a prepayment speed based upon the consensus from the dealer survey conducted by the Bond Market Association.

For 2019 and 2018, The Summit capitalized $213,969 and $170,944 of MSR, respectively. Amortization of MSR was $225,831 and $212,966 for 2019 and 2018, respectively. The Summit amortizes MSR based upon the payments received for the serviced loans, adjusted for prepayments and charge-offs.

6. OTHER ASSETS

The components of other assets were as follows at December 31:

	2019	2018
Accrued interest receivable	$ 2,660,056	$ 2,425,348
Prepaid operating expenses	1,287,767	1,021,383
Alloya Corporate Credit Union capital account	921,637	921,637
Receivable related to settlement of mortgage sales	1,223,700	867,150
Mortgage servicing rights, net	645,433	657,296
Goodwill	978,959	1,174,751
Assets held to secure deferred compensation arrangements	6,442,885	874,788
Miscellaneous	1,794,427	2,044,582
	$ 15,954,864	$ 9,986,935

7. GOODWILL

The Summit's goodwill resulted from its merger with Syracuse Federal Credit Union in 2010. Goodwill recorded at the time of the merger was $1,957,919. The Summit elected to amortize goodwill on the straight line basis over ten years starting in 2015. The gross carrying amounts of goodwill and accumulated amortization were as follows for the years ended December 31:

	2019	2018
Goodwill	$ 1,957,919	$ 1,957,919
Less: Accumulated amortization	(978,960)	(783,168)
	$ 978,959	$ 1,174,751

Amortization expense was $195,792 in 2019 and 2018.

8. SHARE ACCOUNTS AND CERTIFICATES

At December 31, 2019, scheduled maturities of members' and non-members' share and IRA certificates were as follows:

2020	$ 225,641,346
2021	59,719,873
2022	24,916,258
2023	7,392,528
2024	4,208,315
Thereafter	1,388,150
	$ 323,266,470

8. SHARE ACCOUNTS AND CERTIFICATES (Continued)

Dividend expense on members' and non-members' accounts is summarized as follows for the years ended December 31:

	2019	2018
Regular shares	$ 195,359	$ 115,168
Share drafts	52,519	25,917
Money market shares	2,034,289	1,684,298
Certificates	6,676,514	3,425,761
IRA shares	100,457	88,134
IRA share certificates	555,214	375,647
	$ 9,614,352	$ 5,714,925

The aggregate amount of share certificate account balances in excess of $250,000 was $41,630,238 and $27,937,277 at December 31, 2019 and 2018, respectively.

Cash paid for dividends on members' and non-members' shares and certificates totaled $9,614,352 and $5,714,925 for the years ended December 31, 2019 and 2018, respectively.

9. POST-RETIREMENT BENEFIT PLANS

Defined Benefit Pension Plan

The Summit has a non-contributory defined benefit pension plan (the Plan) covering substantially all employees.

The following sets forth information regarding the Plan at the valuation date of December 31:

	2019	2018
Projected Benefit Obligation		
Balance, beginning of year	$ 20,035,525	$ 20,125,150
Service cost	741,443	791,028
Interest cost	847,048	750,943
Actuarial loss	4,520,845	(1,153,685)
Benefits paid to participants	(687,028)	(477,911)
Balance, end of year	$ 25,457,833	$ 20,035,525
Plan Assets		
Fair value, beginning of year	$ 14,162,641	$ 15,446,288
Actual investment return	2,841,083	(805,736)
Employer contributions	6,600,000	-
Benefits paid to participants	(687,028)	(477,911)
Fair value, end of year	$ 22,916,696	$ 14,162,641
Funded status	$ (2,541,137)	$ (5,872,884)

9. POST-RETIREMENT BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

Funded Status
Accrued pension liability of $2,541,137 and $5,872,884 was recognized in the statement of financial condition as a liability at December 31, 2019 and 2018, respectively.

Amounts recognized in the statements of members' equity as components of accumulated other comprehensive income were as follows for the year ended December 31:

	2019	2018
Total net loss	$ (7,239,524)	$ (5,006,118)
Prior service cost	-	(23,935)
	$ (7,239,524)	$ (5,030,053)

Weighted average assumptions used to determine benefit obligations included a discount rate of 3.40% and 4.25% for 2019 and 2018, respectively, and a rate of compensation increase of 4.00% and 3.50% for 2019 and 2018, respectively.

Weighted average assumptions used to determine net periodic benefit cost are as follows as of December 31:

	2019	2018
Discount rate	4.25%	3.75%
Expected long-term rate of investment return	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%

The expected long-term rate of investment return assumption was developed by analyzing historical returns of multiple asset classes to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on the overall rates and the target asset allocation of the Plan.

9. POST-RETIREMENT BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

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

	2019	2018
Net Periodic Benefit Cost		
Service cost	$ 741,443	$ 791,028
Interest cost	847,048	750,943
Expected return on plan assets	(873,747)	(956,510)
Amortization of net loss	320,103	280,593
Amortization of prior service cost	23,935	36,799
	1,058,782	902,853
Amounts Recognized in Other Comprehensive Income		
Net loss	$ 2,553,509	$ 608,560
Amortization of net loss	(320,103)	(280,593)
Amortization of prior service cost	(23,935)	(36,799)
	2,209,471	291,168
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,268,253	$ 1,194,021

Total net periodic benefit cost is included in the compensation and benefits line on the accompanying consolidated statements of income. The accumulated benefit obligation of the Plan was $20,391,135 and $16,363,419 at December 31, 2019 and 2018, respectively.

Plan assets consist of insurance company separate accounts. The Plan's investment target allocation calls for a weighted-average asset allocation for the Plan by asset category as follows:

	2019	2018
Equity securities	50%	50%
Debt securities	40%	40%
Real estate	10%	10%
	100%	100%

The actual asset allocations for the Plan as of December 31, 2019 were 56% equity securities, 38% debt securities, and 6% real estate.

9. POST-RETIREMENT BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

The investment strategy of the Plan is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment markets outlook utilizes both historical based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the specific needs of the Plan. The core asset allocation utilizes multiple investment managers in order to maximize the Plan's return while minimizing risk. The Credit Union's pension plan assets are held in pooled separate accounts and the fair value, by asset category, are as follows at December 31:

Asset Category	Significant Other Observable Inputs (Level 2)	Total
	2019	
Fixed Income	$ 8,809,837	$ 8,809,837
Large U.S. Equity	6,756,106	6,756,106
International Equity	4,348,006	4,348,006
Small/Mid U.S. Equity	1,208,841	1,208,841
Real Estate	1,336,605	1,336,605
Balanced/Asset Allocation	457,301	457,301
Total	$ 22,916,696	$ 22,916,696
	2018	
Fixed Income	$ 5,733,832	$ 5,733,832
Large U.S. Equity	4,249,281	4,249,281
International Equity	2,286,688	2,286,688
Small/Mid U.S. Equity	711,199	711,199
Real Estate	893,627	893,627
Balanced/Asset Allocation	288,014	288,014
Total	$ 14,162,641	$ 14,162,641

The Plan's pooled separate accounts are valued utilizing level 2 inputs that consist primarily of information on the underlying assets held in the pooled separate accounts provided by the Plan's third-party investment manager.

The Credit Union does not expect to make a contribution to the plan in 2020.

Pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2020	$ 230,000
2021	$ 300,000
2022	$ 390,000
2023	$ 430,000
2024	$ 520,000
2025 through 2029	$ 4,120,000

9. POST-RETIREMENT BENEFIT PLANS (Continued)

Defined Contribution Plan

The Summit sponsors a defined contribution plan that covers substantially all employees who meet certain age and service requirements. The Summit matches 50 percent of participant contributions up to four percent of a participant's base compensation. The Summit's matching contributions, which are invested in participant-directed accounts, were $216,972 and $204,526 for the years ended December 31, 2019 and 2018, respectively.

Deferred Compensation Agreements

The Summit has established deferred compensation agreements with certain employees. Under the terms of these agreements, specified amounts will be paid to those employees in the future if they remain employed at The Summit through specific dates. These amounts are forfeited if employment terminates under certain circumstances prior to the date specified in each employee's agreement.

In 2019, The Summit restructured some of its deferred compensation arrangements, converting them to split-dollar life insurance arrangements. As a result, the total amount that could be paid in the future if all employees maintain employment for the duration of the agreements is approximately $900,000 at December 31, 2019, down from approximately $3,100,000 at December 31, 2018. The full balance of $900,000 becomes payable to employees in 2020.

The Summit has accrued for this potential liability ratably over the terms of the agreements. As of December 31, 2019 and 2018, approximately $507,500 and $2,327,000, respectively, was included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition related to these agreements. The effect of the reduction of this accrual was recorded as a reduction of compensation expense in the accompanying consolidated statement of income for 2019.

Split-Dollar Life Insurance Arrangement

In 2019, The Summit entered into a split dollar insurance loan arrangement with a senior management official that replaced an existing deferred compensation agreement due to changes in the tax law that would have negatively impacted the Credit Union. The official owns the policy. The Summit loaned an amount equal to the cumulative premiums paid and to be paid and the official owes The Summit this amount under the terms of a demand promissory note bearing interest at 2.5%. The loan is secured by the cash surrender value of the insurance policy, and a portion of the insurance death benefit. To the extent this collateral is less than the outstanding loan balance plus accrued interest, The Summit holds a supplemental insurance policy to cover the shortfall. Therefore, The Summit records the balance of the original loan plus accrued interest. The balance was $5,262,284 at December 31, 2019 and is included in other assets on the accompanying consolidated statement of financial condition.

Deferred Compensation Arrangements Assumed in Merger

As part of the 2010 merger with Syracuse Federal Credit Union (Syracuse), The Summit assumed several deferred compensation arrangements with former Syracuse employees. These individuals were never Summit employees, but were employed by Syracuse before the merger date. The Summit's liability under the terms of these arrangements totaled approximately $2,138,000 and $2,343,000 at December 31, 2019 and 2018, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated statements of financial condition. The liability will be paid out to those former Syracuse employees through 2029. A portion of this liability is funded by an annuity. The annuity asset is recorded as part of other assets in the amount of $430,367 and $465,224 at December 31, 2019 and 2018, respectively.

10. COMMITMENTS

Leases

The Summit leases equipment and office space for branch locations under various long-term lease agreements. These agreements have terms which include escalating rental and renewal options. Rental expense included in operating expense was $274,397 and $264,385 for 2019 and 2018, respectively. Future minimum lease payments under the terms of these operating leases are as follows:

2020	$ 310,936
2021	279,917
2022	206,152
2023	188,850
2024	300,965
Thereafter	188,295
	$ 1,475,115

11. FINANCING ARRANGEMENTS

The Summit has an open secured line-of-credit agreement with Alloya bearing a variable interest rate (2.79% at December 31, 2019) that allows for up to $46,090,000 of borrowings. Amounts borrowed are collateralized by certain assets of The Summit totaling $51,510,672. No amounts were outstanding under the terms of this agreement at December 31, 2019 and 2018. Cash paid for interest was approximately $2,500 and $63,000 for the years ended December 31, 2019 and 2018, respectively.

The Summit is a member of the Federal Home Loan Bank of New York (FHLB), which was formed to assist member financial institutions in meeting liquidity needs for mortgage lending purposes. Membership is obtained through investment in shares of FHLB stock as determined by a statutory formula. Amounts borrowed are collateralized by portfolio mortgages held by The Summit with estimated value of approximately $96,000,000. As of December 31, 2019 and 2018, the Credit Union had no outstanding borrowings from the FHLB.

The Summit has an agreement with the Federal Reserve Bank of New York (FRB), to borrow at FRB's discount window. The terms of this line of credit call for the pledging of The Summit's indirect auto loan portfolio as collateral security for any and all amounts borrowed by The Summit. As of December 31, 2019 and 2018, The Summit had not borrowed from FRB.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

To meet the financing needs of its members, The Summit offers lines-of-credit and credit cards. The unused amounts on these lines of credit and credit cards, along with approved but undisbursed loans, subject The Summit to varying degrees of credit and interest rate risk in excess of that recognized on the balance sheet. Credit risk is the possibility that The Summit may incur losses because the borrower fails to perform according to the terms of the credit agreement. Interest rate risk is the possibility that The Summit may incur losses due to changes in interest rates that may result in a decrease in the market value of a financial instrument.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

The Summit's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of the commitments. The Summit uses the same credit policies in making commitments as it does for on-balance sheet instruments.

A summary of the contract or notional amounts of The Summit's commitments at December 31, 2019 is as follows:

Members' unused credit card lines	$ 123,570,903
Members' unused lines of credit, excluding credit card lines	$ 105,308,210
Members' loans approved, not yet disbursed	$ 6,887,213

Commitments to extend loans and unused member lines of credit are agreements to lend to members providing there are no violations of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Summit evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by The Summit, upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held, if any, varies but typically includes residential homes and automobiles.

Credit card commitments are unsecured agreements to extend credit. Such commitments are reviewed periodically, at which time commitments may be maintained or canceled depending on management's evaluation of the member's credit worthiness and other considerations. Since many commitments are never drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance and changes in the components of accumulated other comprehensive loss were as follows:

	Unrealized Gain on Deferred Compensation Plan Investments	Defined Benefit Plan	Accumulated Other Comprehensive Loss
Balance, January 1, 2018	$ 153,063	$ (4,738,885)	$ (4,585,822)
Other comprehensive loss	(132,369)	(291,168)	(423,537)
Balance, December 31, 2018	20,694	(5,030,053)	(5,009,359)
Other comprehensive loss	-	(2,209,471)	(2,209,471)
Transition adjustment for adoption of ASU 2016-01	(20,694)	-	(20,694)
Balance, December 31, 2019	$ -	$ (7,239,524)	$ (7,239,524)

Reclassifications of balances from accumulated other comprehensive income to the statement of income were immaterial in both 2019 and 2018.

14. EQUITY INTEREST IN VISA, U.S.A, INC.

At December 31, 2019 and 2018, The Summit held 18,253 shares of VISA Class B Common Stock. The Summit is restricted from converting these shares to Class A marketable securities until certain VISA legal matters are resolved. The Summit is not a party to these legal matters. Upon resolution of these legal matters, The Summit's shares will be convertible to marketable Class A common shares. The Summit has valued these shares at zero, which is equal to the cost basis of their equity interest in VISA. The Summit cannot predict when the restrictions on these shares will be released or what the value of these shares might be at that time.

15. NCUA CHARGES

Corporate Credit Union Stabilization Fund

In 2009, the Board of the NCUA approved a series of actions designed to support and improve the liquidity of the corporate credit union system. These actions included the establishment of the Corporate Credit Union Stabilization Fund (the Stabilization Fund), which was capitalized by a loan from the U.S. Treasury. This loan was repaid in 2017.

During 2018, the Stabilization Fund was rolled into the NCUSIF, accompanied by a distribution of excess funding from the NCUSIF to credit unions. The Summit received a distribution of approximately $518,000 from the NCUSIF during 2018, which is recorded in non-interest income in the accompanying 2018 consolidated statement of income.

During 2019, the NCUA adjusted the minimum funding level of the NCUSIF, resulting in the NCUSIF being in an additional excess funding position. This excess funding position was distributed to insured credit unions. The Credit Union received a distribution of $112,498 in 2019, which is recorded in non-interest income in the accompanying 2019 consolidated statement of income.

NCUSIF

The Summit is subject to assessments related to the NCUSIF. These assessments are determined on an annual basis at the discretion of the NCUA.

The Summit was not required to pay assessments in 2019 or 2018.

16. SIGNIFICANT CREDIT RISK CONCENTRATIONS

The Summit has identified certain credit risk concentrations in relation to its financial instruments. A credit risk concentration is defined as a significant credit exposure to an individual or a group engaged in similar activities or affected similarly by economic conditions.

At December 31, 2019 and 2018, substantially all of The Summit's loan portfolio involves borrowers and, where applicable, collateral, in the State of New York.

17. SUBSEQUENT EVENTS

The global pandemic caused by the virus commonly known as COVID-19 is currently disrupting world-wide economic activity. The overall short and long term consequences of COVID – 19 on a national, regional and local level are unknown, but there is the potential of a noteworthy negative economic impact. The impact of this situation specific to The Summit and its future results and financial position is not presently determinable.

17. SUBSEQUENT EVENTS (Continued)

Subsequent events have been evaluated through March 20, 2020, which is the date the consolidated financial statements were available to be issued.

Our Board of Directors

Our Board of Directors is a diverse team of volunteers who live and work throughout New York State from Buffalo to Syracuse and everywhere in between. They are lawyers, professors and community members. They provide knowledge and leadership to keep us focused on our members and our mission.

Thomas B. Quirk, *Chair*
Augustin Melendez, *Vice Chair*
Chris Modesti, *Vice Chair*
Kofi Appiah Okyere, *Treasurer*
Daryl Wolf, *Secretary*

DIRECTORS
Elizabeth Dudman
Gerald Gebauer
William Reifsteck
Clarence "Chip" Turner
Sarah Sorensen
Kate Sweeney

ASSOCIATE DIRECTOR
Mollene Benison

Top Row: Kate Sweeney, Joseph Thyroff, Richard Murphy *(Former Board Member)*, William Reifsteck, Mike Vadala, Elizabeth Dudman, Clarence Turner, Sarah Sorensen, Daryl Wolf

Bottom Row: Thomas Quirk, Chris Modesti, Kofi Appiah Okyere, Augustin Melendez, Gerald Gebauer

2019 COMMITTEES

EXECUTIVE
Tom Quirk
Augie Melendez
Chris Modesti
Kofi Appiah Okyere
Daryl Wolf

SUPERVISORY
Bill Schafer
John Pusloskie
Mollene Benison
Meghan Dailey
Tim Smith

NOMINATING
Sarah Clark
Kelly McCormick-Sullivan
Joe Thyroff

INVESTMENT
Kofi Appiah Okyere
Kate Sweeney
Chip Turner
Leanne McGuinness
Karen Lamy

PENSION
Daryl Wolf
Augie Melendez
Mike Vadala
Laurie Wiest*
Laurie Baker*
Leanne McGuinness*
Karen Lamy*

BOARD GOVERNANCE
Bill Reifsteck
Tom Quirk
Jerry Gebauer
Betty Dudman
Laurie Baker
Mike Vadala

MEMBERSHIP
Chip Turner

Bolded is Committee Chair
** Not a voting committee member*

Branch Locations

BUFFALO

Clarence Branch
5641 Transit Road
East Amherst, NY 14051

Delaware/Hertel Branch
2290 Delaware Avenue
Buffalo, NY 14216

CORTLAND

Cortland Branch
877 Route 13
Cortland, NY 13045

SUNY Cortland Branch
Neubig Hall | 15 Neubig Road
Cortland, NY 13045

ROCHESTER

Brighton Branch
1660 Monroe Avenue
Brighton, NY 14618

Excellus Blue Cross/Blue Shield
165 Court Street
Rochester, NY 14647
(Access limited to employees only)

Greece Branch
Canal Ponds Business Park
100 Marina Drive
Greece, NY 14626

Henrietta Branch
2087 East Henrietta Road
Henrietta, NY 14623

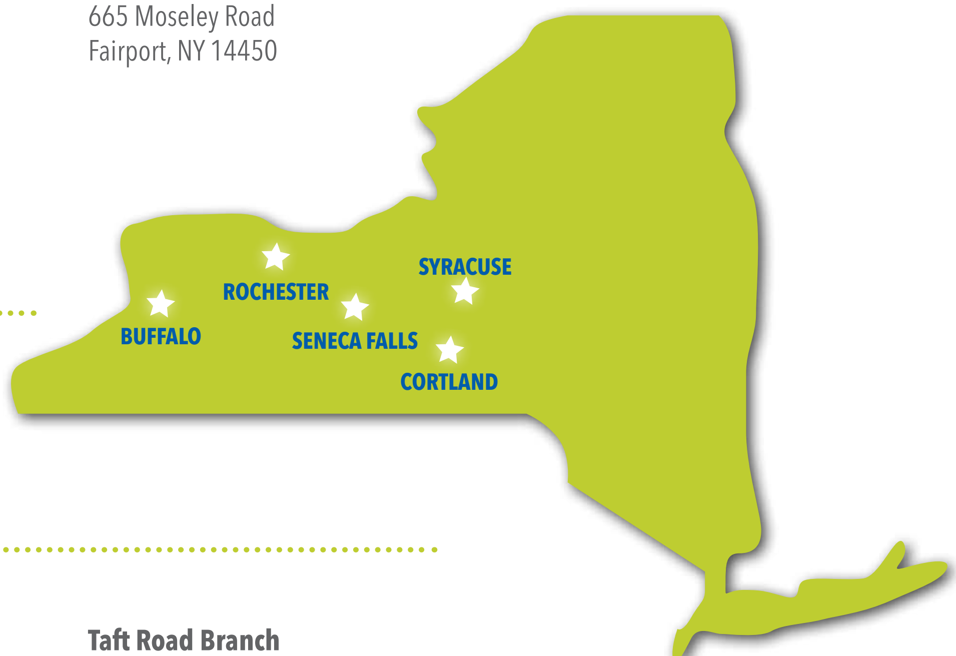
Hilton Branch
41 Hovey Square
Hilton, NY 14468

Irondequoit Branch
2121 Hudson Avenue
Rochester, NY 14617

Main/Winton Branch
2315 East Main Street
Rochester, NY 14609

Penfield Branch
2146 Penfield Road
Penfield, NY 14526

Perinton Branch
665 Moseley Road
Fairport, NY 14450



SENECA FALLS

Seneca Falls Branch
123 Fall Street
Seneca Falls, NY 13148

SYRACUSE

Camillus Branch
130 Township Boulevard
Camillus, NY 13031

Erie Boulevard Branch
1400 Erie Boulevard E.
Syracuse, NY 13210

Taft Road Branch
5201 West Taft Road
Syracuse, NY 13212

the SUMMIT FEDERAL CREDIT UNION

2019 Annual Report

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