USSCO JOHNSTOWN FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022
(With Independent Auditor's Report Thereon)

DoerenMayhew

USSCO JOHNSTOWN FEDERAL CREDIT UNION

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee and Board of Directors
USSCO Johnstown Federal Credit Union

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of USSCO Johnstown Federal Credit Union (the Credit Union), which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income/(loss), members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2023 and 2022, 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 (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audits of the Financial Statements

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

In performing audits in accordance with GAAS, we:

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

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

Doeren Mayhew

Miami, Florida
June 24, 2024

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2023 AND 2022

Assets	**2023**	**2022**
Cash and cash equivalents	$12,339,675	$8,065,733
Available-for-sale investments (Note 2)	64,501,487	67,915,895
Loans to members, net of allowance for credit losses of approximately $558,000 and $445,000 as of December 31, 2023 and 2022, respectively (Note 3)	77,136,885	81,270,551
Accrued interest receivable	356,564	338,071
Prepaid and other assets	1,417,146	1,412,296
Property and equipment, net (Note 4)	2,507,865	2,588,535
National Credit Union Share Insurance Fund (NCUSIF) deposit	1,527,084	1,463,014
Total assets	$159,786,706	$163,054,095
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (Note 5)	$149,685,245	$155,475,647
Accrued expenses and other liabilities	1,039,366	1,200,257
Total liabilities	150,724,611	156,675,904
Commitments and contingent liabilities		
Members' equity:		
Undivided earnings	16,301,212	15,823,299
Equity acquired through merger	2,518,597	2,518,597
Accumulated other comprehensive loss	(9,757,714)	(11,963,705)
Total members' equity	9,062,095	6,378,191
Total liabilities and members' equity	$159,786,706	$163,054,095

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest income:		
Loans to members	$3,052,140	$2,666,788
Investment securities	1,528,714	1,262,358
Total interest income	4,580,854	3,929,146
Interest expense:		
Members' shares and savings accounts	915,632	368,908
Net interest income	3,665,222	3,560,238
(Recapture)/provision for credit losses	(22,268)	106,669
Net interest income after provision for loan losses	3,687,490	3,453,569
Non-interest income:		
Interchange income	617,169	608,247
Fees and charges	577,135	564,214
Other income	210,937	119,656
Corporate credit union recovery payment	—	73,577
Total non-interest income	1,405,241	1,365,694
Non-interest expenses:		
Compensation and benefits	1,772,906	1,771,588
Professional and outside services	1,443,623	1,226,778
Office operations	428,432	400,165
Other expenses	433,410	364,898
Office occupancy	316,744	338,368
Total non-interest expenses	4,395,115	4,101,797
Net income	$697,616	$717,466

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	$697,616	$717,466
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized holding gains/(losses) on available-for-sale investments	2,205,991	(11,101,952)
Other comprehensive income/(loss)	2,205,991	(11,101,952)
Comprehensive income/(loss)	$2,903,607	($10,384,486)

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Regular Reserve	Undivided Earnings	Equity Acquired Through Merger	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2021	$1,477,420	$13,628,413	$2,518,597	($861,753)	$16,762,677
Net income	—	717,466	—	—	717,466
Other comprehensive loss	—	—	—	(11,101,952)	(11,101,952)
Transfer (Note 1)	(1,477,420)	1,477,420	—	—	—
Balance, December 31, 2022	—	15,823,299	2,518,597	(11,963,705)	6,378,191
Cumulative effect from change in accounting principle (Note 1)	—	(219,703)	—	—	(219,703)
Restated Balance, January 1, 2023	—	15,603,596	2,518,597	(11,963,705)	6,158,488
Net income	—	697,616	—	—	697,616
Other comprehensive loss	—	—	—	2,205,991	2,205,991
Transfer (Note 1)	—	—	—	—	—
Balance, December 31, 2023	$—	$16,301,212	$2,518,597	($9,757,714)	$9,062,095

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Net income	$697,616	$717,466
Adjustments to net cash provided from operating activities:		
(Recapture)/provision for credit losses	(22,268)	106,669
Depreciation and amortization	233,970	217,705
(Increase)/decrease in:		
Accrued interest receivable	(18,493)	(9,724)
Prepaid and other assets	(4,850)	60,703
(Decrease)/increase in:		
Accrued expenses and other liabilities	(160,891)	723,037
Total adjustments	27,468	1,098,390
Net cash provided from operating activities	725,084	1,815,856

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from investing activities:		
Proceeds from the sales, calls, maturities, and repayments		
of available-for-sale investments	5,620,399	16,805,710
Purchase of available-for-sale investments	—	(9,209,031)
Net change in loans to members	3,936,231	(12,567,937)
Purchase of property and equipment	(153,300)	(942,594)
Increase in NCUSIF deposit	(64,070)	(76,582)
Net cash provided by/(used in) investing activities	9,339,260	(5,990,434)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	(5,790,402)	7,659,503
Net cash (used in)/provided by financing activities	(5,790,402)	7,659,503
Net change in cash and cash equivalents Cash and cash	4,273,942	3,484,925
equivalents - beginning Cash and cash equivalents - ending	8,065,733	4,580,808
Supplemental Information	$12,339,675	$8,065,733
Interest paid		
	$932,401	$385,677

See accompanying notes to the financial statements

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 1 - Nature of Business and Significant Accounting Policies

Organization

USSCO Johnstown Federal Credit Union (the Credit Union) is a cooperative association 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. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for credit losses. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work for or reside in Cambria and Somerset Counties in central Pennsylvania. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers work and reside.

Comprehensive (Loss)/Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive (loss)/income. Other comprehensive (loss)/income is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in the statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from corporate credit unions (including cash items in the process of clearing) and interest-bearing deposits with corporate credit unions with an original maturity of 90 days or less including overnight deposits. Amounts due from corporate credit unions may, at times, exceed federally insured limits.

Available-for-Sale Investments

Available-for-sale investments are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Continued

Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Allowance for Credit Losses on AFS Securities

The Credit Union evaluates its available-for-sale investment securities portfolio on a quarterly basis for indicators of impairment. The Credit Union assesses whether an impairment has occurred when the fair value of a debt security is less than the amortized cost at the balance sheet date.

Management reviews the amount of unrealized loss, the credit rating history, market trends of similar security classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially be impaired. For those debt securities that the Credit Union intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is considered to be impaired and is recognized in provision for credit losses.

For those debt securities that the Credit Union does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment is recognized through an allowance in provision for credit losses while the noncredit portion is recognized in OCI. In determining the credit portion, the Credit Union uses a discounted cash flow analysis, which includes evaluating the timing and amount of the expected cash flows. Non-credit-related impairment results from other factors, including increased liquidity spreads and higher interest rates. The amounts are insignificant and intentionally omitted for disclosure.

Loans to members

Loans, net, are carried at unpaid principal balances, net deferred loan origination costs or fees, and the allowance for credit losses on loans. The Credit Union recognizes interest income on loans using the interest method over the life of the loan. Accordingly, the Credit Union defers certain loan origination and commitment fees, and certain loan origination costs, and amortizes the net fee or cost as an adjustment to the loan yield over the term of the related loan. When a loan is sold or repaid, the remaining net unamortized fee or cost is recognized in interest income.

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. A loan generally is classified as a "non-accrual" loan when it is 90 days or more past due or when it is deemed to be impaired because the Credit Union no longer expects to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, management ceases the accrual of interest owed, and previously accrued interest is charged against interest income. A loan is generally returned to accrual status when the loan is current and management has reasonable assurance that the loan will be fully collectible. Interest income on non-accrual loans is recorded when received in cash.

Certain commercial and consumer loans for which repayment is expected to be provided substantially through the operation or sale of the loan collateral are considered to be collateral-dependent. Collateral-dependent loans were deemed insignificant and intentionally omitted for disclosure purposes.

Any loan in any portfolio may be charged-off prior to the policies described below if a loss confirming event has occurred. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, foreclosure, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment. Consumer loans are generally charged-off at 180-days past due.

Continued

As part of the ongoing monitoring of the credit quality of the Credit Union's loan portfolio, management tracks certain credit quality indicators. These risk ratings can be grouped into eight major categories based on loan quality Risk ratings range from 1 or excellent, representing the highest loan quality, to 8, or loss, representing the lowest loan quality. All large commercial credit grades are reviewed at a minimum of once a year for pass grade loans. Loans with grades below pass are reviewed more frequently depending on the grade. Commercial loans with an original balance less than $50,000 are not individually risk-rated as permitted by regulaton.

Consumer and residential real estate loans are not risk graded. Rather, consumer and residential real estate loans in non-accrual are deemed non-performing.

Adoption of New Accounting Standards

Effective January 1, 2023, the Credit Union adopted ASU 2022-02 Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings (TDR) and Vintage Disclosures, which removed the existing measurement and disclosure requirements for TDR loans and added additional disclosure requirements related to modifications provided to borrowers experiencing financial difficulty. Prior to adoption a change in contractual terms of a loan where a borrower was experiencing financial difficulty and received a concession not available through other sources, the loan was required to be disclosed as a TDR, whereas now a borrower that is experiencing financial difficulty and receives a modification in the form of principal forgiveness, interest rate reduction, an other-than-insignificant payment delay or a term extension in the current period needs to be disclosed. The Credit Union may modify loans to borrowers experiencing financial difficulty as a way of managing risk and mitigating credit loss from the borrower.

The Credit Union may make various types of modifications and may in certain circumstances use a combination of modification types in order to mitigate future loss. The amount of defined modifications given to borrowers experiencing financial difficulty is disclosed along with the financial impact of those modifications for years after December 31, 2022.

The Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a significant change to the methodology for estimating the allowance. ASU No. 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet exposures.

The Credit Union adopted ASC Topic 326 using the modified retrospective method for all financial assets in scope of the standard. Upon adoption, the Credit Union recorded an increase to the allowance for credit losses of $219,703 and a corresponding decrease to retained earnings of the same amount.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is deducted from the amortized cost basis of a group of financial assets so that the balance sheet reflects the net amount the Credit Union expects to collect. Subsequent changes (favorable and unfavorable) in expected credit losses are recognized immediately in net income as a credit loss expense or a reversal of credit loss expense. Management estimates the allowance by projecting and multiplying together the probability-of-default and loss-given-default depending on economic parameters for each month of the remaining contractual term. Economic parameters are developed using available information relating to past events, current conditions, and economic forecasts. The Credit Union's economic forecast period is 24 months, and afterwards reverts to a historical average loss rate on a straight-line basis over a 12-month period.

Continued

Historical credit experience provides the basis for the estimation of expected credit losses, with qualitative adjustments made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency levels and terms, as well as for changes in environmental conditions, such as changes in legislation, regulation, policies, administrative practices or other relevant factors. Expected credit losses are estimated over the contractual term of the loans, adjusted for forecasted prepayments when appropriate. The contractual term excludes potential extensions or renewals. The methodology used in the estimation of the allowance for loan and lease losses, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality and forecasted economic conditions. Each quarter the Credit Union reassesses the appropriateness of the economic forecasting period, the reversion period and historical mean at the portfolio segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time. The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. The portfolio segment represents the level at which a systematic methodology is applied to estimate credit losses.

Loans that do not share risk characteristics are evaluated on an individual basis. These include loans that are in nonaccrual status with balances above management determined materiality thresholds depending on loan class. If a loan is determined to be collateral-dependent or meets the criteria to apply the collateral-dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate.

The Credit Union maintains an allowance for credit losses on off-balance sheet credit exposures. The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit losses expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated life. The allowance for credit losses on off-balance sheet credit exposures was deemed insignificant and intentionally omitted for disclosure purposes.

The Credit Union has elected to exclude accrued interest receivable from the measurement of its allowance for credit loss given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest through interest income.

<u>Property and Equipment</u>

Land is carried at cost. Buildings and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

<u>National Credit Union Share Insurance Fund (NCUSIF) Deposit</u>

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

Continued

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 NCUSIF deposit is required to be periodically reviewed for impairment.

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Vizo Financial Corporate Credit Union (VFCCU). The Credit Union maintained approximately $690,000 in PCC at VFCCU as of December 31, 2023 and 2022. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. PCC is uninsured and cannot be withdrawn; however, it is required to be a member of VFCCU. PCC can be used by VFCCU to absorb any operating losses that exceed the balance of retained earnings. The PCC is included with prepaid and other assets in the statements of financial condition.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares 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 on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union was required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and was not available for the payment of interest. Effective January 1, 2022, the regular reserve requirement was eliminated which is reflected as a transfer to undivided earnings in the statements of members' equity.

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this method, undivided earnings of the acquired credit union is combined on the acquirer's statements of financial condition as a separate component of equity. This component of equity is considered part of net worth as defined by the regulations established by the NCUA.

Fees and Charges

Service Charges on Deposit Accounts

The Credit Union earns fees from its deposits for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

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Interchange Income

The Credit Union earns interchange fees from cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily as the performance obligations are satisfied.

Income Taxes

The Credit Union is exempt, by the Internal Revenue Code Section 501(c)(1)(a)(i), from federal and state income taxes.

Subsequent Events

Management has evaluated subsequent events through June 24, 2024, the date the financial statements were available to be issued. No significant such events or transactions were identified.

Reclassification

Certain amounts reported in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Reclassification adjustments did not affect total members' equity or net income.

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Note 2 - Available-for-Sale Investments

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2023:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$35,754,640	$—	($4,878,512)	$30,876,128
Federal agency securities	15,576,923	—	(1,850,636)	13,726,287
Collateralized mortgage obligations (CMOs)	11,317,199	—	(2,241,565)	9,075,634
Negotiable certificates of deposit	11,435,000	—	(779,914)	10,655,086
SBA securities	175,439	—	(7,087)	168,352
Total	$74,259,201	$—	($9,757,714)	$64,501,487

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$41,464,812	$—	($6,088,538)	$35,376,274
Federal agency securities	15,517,351	—	(2,436,778)	13,080,573
CMOs	11,179,497	—	(2,227,983)	8,951,514
Negotiable certificates of deposit	11,435,000	—	(1,194,838)	10,240,162
SBA securities	282,940	—	(15,568)	267,372
Total	$79,879,600	$—	($11,963,705)	$67,915,895

Continued

The amortized cost and estimated fair value of debt securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized Cost	**Fair Value**
Within 1 year	$1,244,000	$1,224,727
1 to 5 years	18,445,000	$16,905,169
5 to 10 years	7,322,923	6,251,477
Mortgage-backed securities	35,754,640	30,876,128
CMOs	11,317,199	9,075,634
SBA securities	175,439	168,352
Total	$74,259,201	$64,501,487

Information pertaining to investments with gross unrealized losses as of December 31, 2023, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		**12 Months or Longer**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale:						
Mortgage-backed securities	$—	$—	$30,876,128	($4,878,512)	$30,876,128	($4,878,512)
securities	—	—	13,726,287	(1,850,636)	13,726,287	(1,850,636)
CMOs	—	—	9,075,634	(2,241,565)	9,075,634	(2,241,565)
Negotiable certificates of deposit	—	—	10,655,086	(779,914)	10,655,086	(779,914)
SBA securities	—	—	168,352	(7,087)	168,352	(7,087)
Total	$—	$—	$64,501,487	($9,757,714)	$64,501,487	($9,757,714)

Information pertaining to investments with gross unrealized losses as of December 31, 2022, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$11,052,828	($1,260,318)	$24,323,446	($4,828,220)	$35,376,274	($6,088,538)
Federal agency securities	904,501	(76,499)	12,176,072	(2,360,279)	13,080,573	(2,436,778)
CMOs	1,237,797	(111,266)	7,713,717	(2,116,717)	8,951,514	(2,227,983)
Negotiable certificates of deposit	4,802,718	(415,282)	5,437,444	(779,556)	10,240,162	(1,194,838)
SBA securities	—	—	267,372	(15,568)	267,372	(15,568)
Total	$17,997,844	($1,863,365)	$49,918,051	($10,100,340)	$67,915,895	($11,963,705)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Unrealized losses on negotiable CDs have not been recognized into income because they are all 100% insured as no deposit to one individual institution exceeds $250,000.

Proceeds from the sales of investments classified as available-for-sale approximated $6,241,000 during the year ended December 31, 2022. Gross losses of approximately $56,000 were realized from these sales during the year ended December 31, 2022. There were no sales of investment securities for year ended December 31, 2023.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2023 and 2022 is as follows:

	2023	2022
Real Estate:		
First mortgage	$739,077	$1,058,325
Home equity	10,334,659	10,213,195
	11,073,736	11,271,520
Consumer:		
Automobile	59,710,267	63,072,588
Share secured	498,077	363,208
Unsecured	1,965,074	2,109,686
Education	210,402	244,310
	62,383,820	65,789,792
Commercial:		
Real estate	3,210,384	3,545,576
Other	1,026,781	1,118,630
	4,237,165	4,664,206
	77,694,721	81,725,518
Less: Allowance	(557,836)	(454,967)
Loans to members, net	$77,136,885	$81,270,551

As of December 31, 2023 and 2022, the net deferred loan origination fees and costs, included in the principal balances of loans above, approximated $1,937,000 and $2,103,000, respectively.

Continued

Allowance

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2023:

	Real Estate	Consumer	Commercial	Total
Allowance:				
Beginning allowance	$54,645	$377,001	$23,321	$454,967
Impact of adopting ASC 326	48,114	153,158	18,431	219,703
Beginning balance, restated	102,759	530,159	41,752	674,670
Charge-offs	(18,080)	(128,912)	—	(146,992)
Recoveries	5,141	47,285	—	52,426
Recapture of credit losses	(12,994)	(3,625)	(5,649)	(22,268)
Ending allowance	$76,826	$444,907	$36,103	$557,836

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2022:

	Real Estate	Consumer	Commercial	Total
Allowance:				
Beginning allowance	$109,982	$253,406	$29,686	$393,074
Charge-offs	—	(153,957)	—	(153,957)
Recoveries	—	109,181	—	109,181
(Recapture)/provision for loan losses	(55,337)	168,371	(6,365)	106,669
Ending allowance	$54,645	$377,001	$23,321	$454,967

Continued

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$76,171	$—	$—	$76,171	$662,906	$739,077
Home equity	20,701	—	—	20,701	10,313,958	10,334,659
	96,872	—	—	96,872	10,976,864	11,073,736
Consumer:						
Automobile	608,034	49,629	76,107	733,770	58,976,497	59,710,267
Share secured	3,487	—	—	3,487	494,590	498,077
Unsecured	15,118	5,437	—	20,555	1,944,519	1,965,074
Education	—	—	—	—	210,402	210,402
	626,639	55,066	76,107	757,812	61,626,008	62,383,820
Commercial:						
Real estate	—	—	—	—	3,210,384	3,210,384
Other	—	—	—	—	1,026,781	1,026,781
	—	—	—	—	4,237,165	4,237,165
Total	$723,511	$55,066	$76,107	$854,684	$76,840,037	$77,694,721

Loans on which the accrual of interest has been discontinued or reduced approximated $76,000 as of December 31, 2023. There were no loans 90 days or more past due and still accruing interest as of December 31, 2023.

Continued

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$182,721	$—	$—	$182,721	$875,604	$1,058,325
Home equity	46,312	—	19,168	65,480	10,147,715	10,213,195
	229,033	—	19,168	248,201	11,023,319	11,271,520
Consumer:						
Automobile	558,200	65,116	84,468	707,784	62,364,804	63,072,588
Share secured	—	—	—	—	363,208	363,208
Unsecured	26,219	—	—	26,219	2,083,467	2,109,686
Education	—	—	—	—	244,310	244,310
	584,419	65,116	84,468	734,003	65,055,789	65,789,792
Commercial:						
Real estate	—	—	35,983	35,983	3,509,593	3,545,576
Other	13,205	—	—	13,205	1,105,425	1,118,630
	13,205	—	35,983	49,188	4,615,018	4,664,206
Total	$826,657	$65,116	$139,619	$1,031,392	$80,694,126	$81,725,518

Loans on which the accrual of interest has been discontinued or reduced approximated $140,000 as of December 31, 2022. There were no loans 90 days or more past due and still accruing interest as of December 31, 2022.

Continued

Real Estate and Consumer Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, non-accrual loans are considered to be in a non-performing status for purposes of credit quality evaluation.

The following tables present the recorded investment based on performance indication as of December 31, 2023 and 2022:

	As of December 31, 2023		As of December 31, 2022	
	Performing Loans	Non-performing Loans	Performing Loans	Non-performing Loans
Real Estate:				
First mortgage	$739,077	$—	$1,058,325	$—
Home equity	10,334,659	—	10,194,027	19,168
	11,073,736	—	11,252,352	19,168
Consumer:				
Automobile	59,634,160	76,107	62,988,120	84,468
Share secured	498,077	—	363,208	—
Unsecured	1,965,074	—	2,109,686	—
Education	210,402	—	244,310	—
	62,307,713	76,107	65,705,324	84,468
Total	$73,381,449	$76,107	$76,957,676	$103,636

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2023:

	Real Estate	Other	Total
Credit Grade:			
3 - Good	$1,390,535	$388,019	$1,778,554
4 - Pass	795,696	561,660	1,357,356
Not rated*	1,024,153	77,102	1,101,255
Total	$3,210,384	$1,026,781	$4,237,165

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2022:

	Real Estate	Other	Total
Credit Grade:			
3 - Good	$1,601,032	$598,006	$2,199,038
4 - Pass	1,058,728	365,227	1,423,955
5 - Watch	—	53,041	53,041
Not rated*	885,816	102,356	988,172
Total	$3,545,576	$1,118,630	$4,664,206

* Loans that are not risk-rated represent Business Purpose Loans with exposure of less than $50,000 and Member Business Loans which do not require a risk rating according to *Part 723 of NCUA Regulations.*

Continued

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2023 and 2022 by major classification as follows:

	2023	2022
Land	$1,234,565	$1,234,565
Buildings and improvements	3,152,128	3,124,750
Furniture and equipment	1,322,574	1,196,653
Leasehold improvements	9,308	9,307
	5,718,575	5,565,275
Less accumulated depreciation and amortization	(3,210,710)	(2,976,740)
	$2,507,865	$2,588,535

Depreciation and amortization charged to office operations and office occupancy expense was approximately $234,000 and $218,000 for the years ended December 31, 2023 and 2022, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2023 and 2022:

	2023	2022
Share accounts	$76,905,530	$86,728,393
Share draft accounts	34,079,166	35,908,270
Share certificates	26,496,914	17,599,137
Money market	8,426,763	11,684,348
Individual retirement accounts (IRAs)	3,776,872	3,555,499
	$149,685,245	$155,475,647

Continued

As of December 31, 2023, scheduled maturities of share certificates are as follows:

	2023
Within one year	$21,605,687
1 to 2 years	2,205,657
2 to 3 years	1,888,312
3 to 4 years	409,253
4 to 5 years	388,005
	$26,496,914

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more as of December 31, 2023 was approximately $1,266,000.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union maintains a 401(k) plan covering substantially all employees. Each pay period, participants may make salary deferred contributions to the Plan. The Credit Union has the ability to make discretionary matching contributions based on approval by the board of directors. As of December 31, 2023, the Credit Union matched 50% of the employee's contributions not to exceed 6% of the employee's compensation. As of December 31, 2022, the Credit Union matched 25% of the employee's contributions not to exceed 10% of the employee's compensation. Participants become fully vested in the Credit Union's contributions after five years of credited service. The related matching contributions approximated $25,000 and $29,000 for the years ended December 31, 2023 and 2022, respectively.

Note 7 - Borrowed Funds

Vizo Financial Corporate Credit Union (VFCCU)

As of December 31, 2023, the Credit Union's secured line-of-credit with Vizo has been increased to the amount of $20,000,000, up from $7,500,000 as of December 31, 2022. In order to access the unused portion of the line of credit, the Credit Union has granted Vizo Financial Corporate Credit Union a first priority security interest in its loan portfolio by pledging Credit Union assets, as required by the terms of the agreement. There was no balance outstanding under this line-of-credit agreement as of December 31, 2023 or 2022.

Continued

Note 8 - Commitments and Contingent Liabilities

Off-Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk more than the amount recognized in the statements of financial condition. Commitments to extend credit are agreements to lend to a member if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2023, the total unfunded commitments under such lines of credit was approximately $7,194,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

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.

Continued

Effective January 1, 2022, federally insured, natural-person credit unions defined as “complex” will have to comply with the NCUA’s risk-based capital (“RBC”) final rule which amends NCUA’s Prompt Corrective Action (“PCA”) regulations, part 702, or the newly created Complex Credit Union Leverage Ratio (“CCULR”) rule. A credit union is defined as “complex” if the credit union’s quarter-end total assets exceed $500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA’s current regulations to establish a RBC ratio measure that is the percentage of a credit union’s capital divided by the credit union’s defined risk weighted asset base. This RBC rule more closely aligns NCUA’s risk weights with those assigned by other Banking agencies.

As of December 31, 2023, the most recent call reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union’s category.

The Credit Union’s actual and required net worth amounts and ratios are as follows:

	As of December 31, 2023		As of December 31, 2022	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$18,967,010	11.86%	$18,341,896	11.25%
Amount needed to be classified as "adequately capitalized"	$9,596,034	6.00%	$9,783,246	6.00%
Amount needed to be classified as "well capitalized"	$11,195,373	7.00%	$11,413,787	7.00%

To calculate the net worth ratio as of December 31, 2023 and 2022, the Credit Union used the quarter end option, as permitted by regulation, in performing its calculation of total assets. Total risk-weighted assets used to calculate the Credit Union’s RBC ratio as of December 31, 2023 and 2022 was approximately $159,943,000 and $163,063,000, respectively. As of December 31, 2023, total assets and net worth were increased by two-thirds of the CECL transition provision amount of approximately $147,000 as required by regulation.

Note 10 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	As of December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale investments:				
Mortgage-backed securities	$—	$30,876,128	$—	$30,876,128
Federal agency securities	—	13,726,287	—	13,726,287
CMOs	—	9,075,634	—	9,075,634
Negotiable certificates of deposit	—	10,655,086	—	10,655,086
SBA securities	—	168,352	—	168,352
Total	$—	$64,501,487	$—	$64,501,487

Continued

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Mortgage-backed securities	$—	$35,376,274	$—	$35,376,274
Federal agency securities	—	13,080,573	—	13,080,573
CMOs	—	8,951,514	—	8,951,514
Negotiable certificates of deposit	—	10,240,162	—	10,240,162
SBA securities	—	267,372	—	267,372
Total	$—	$67,915,895	$—	$67,915,895

Note 11 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to directors and executive officers. Such loans aggregated approximately $727,000 and $1,111,000 as of December 31, 2023 and 2022, respectively.

Deposits

The aggregate deposits of the Credit Union directors and executive offers were approximately $1,144,000 and $1,292,000 as of December 31, 2023 and 2022, respectively.