Glendale Area Schools Credit Union

INDEPENDENT AUDITOR’S REPORT ON AUDITED FINANCIAL STATEMENTS

September 30, 2022 and 2021

RICHARDS & ASSOCIATES
Certified Public Accountants

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Serving credit unions since 1967

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Supervisory Committee
of Glendale Area Schools Credit Union

Opinion

We have audited the accompanying financial statements of Glendale Area Schools Credit Union, which comprise the statements of financial condition as of September 30, 2022 and 2021, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glendale Area Schools Credit Union as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Glendale Area Schools Credit Union to meet our ethical responsibilities in accordance with the relevant ethical requirements related 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 accounting principles generally accepted in the United States of America, 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.

INDEPENDENT AUDITOR'S REPORT - *continued*

Responsibilities of Management for the Financial Statements - *continued*

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 Glendale Area Schools Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit 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 generally accepted auditing standards 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, including omissions, 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 an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amount and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Glendale Area Schools Credit Union's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluate the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT - *continued*

Auditor's Responsibilities for the Audit of the Financial Statements - *continued*

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Glendale Area Schools Credit Union's ability to continue as a going concern for a reasonable period of time.

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

Richards & Associates, CPAs

RICHARDS & ASSOCIATES
Certified Public Accountants
Yorba Linda, California
January 13, 2023

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION

September 30, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 33,666,935	$ 24,974,993
Investments in debt securities - available-for-sale	192,788,361	225,924,494
Investments in debt securities - held-to-maturity	103,813,351	101,557,744
Investments in equity securities	3,485,675	3,201,736
Loans to members, net of allowance for loan losses	108,183,028	92,637,218
Premises & equipment	1,203,750	1,281,578
Accrued interest receivable	891,054	850,571
Share insurance deposit	5,263,963	4,889,960
Prepaid expenses and other assets	711,098	1,618,659
TOTAL ASSETS	$ 450,007,215	$ 456,936,953
LIABILITIES AND EQUITY		
Liabilities:		
Members' share and savings accounts	$ 405,943,102	$ 395,327,048
Accounts payable and other liabilities	3,054,805	1,932,954
TOTAL LIABILITIES	408,997,907	397,260,002
Commitments and contingent liabilities		
Members' equity, substantially restricted		
Appropriated (regular reserve)	9,401,831	9,315,056
Unappropriated (undivided earnings)	53,671,199	49,198,997
	63,073,030	58,514,053
Accumulated other comprehensive income	(22,063,722)	1,162,898
TOTAL MEMBERS' EQUITY	41,009,308	59,676,951
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 450,007,215	$ 456,936,953

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF INCOME

Years ended September 30, 2022 and 2021

	2022	2021
INTEREST INCOME		
Loans	$ 3,593,893	$ 4,080,648
Investments	5,468,716	3,566,999
TOTAL INTEREST INCOME	9,062,609	7,647,647
INTEREST EXPENSE		
Members' share and savings accounts	2,920,693	3,457,350
Borrowed funds	54,896	-
TOTAL INTEREST EXPENSE	2,975,589	3,457,350
NET INTEREST INCOME	6,087,020	4,190,297
PROVISION FOR LOAN LOSSES	300,000	40,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,787,020	4,150,297
NON-INTEREST INCOME		
Service charges and other income	858,878	218,184
Recovery payment from liquidated corporate credit unions	1,845,610	1,203,000
Grant revenue	333,292	-
Rental income	58,700	58,514
Loss on non-operating activities	(24,956)	(7,079)
TOTAL NON-INTEREST INCOME	3,071,524	1,472,619
NON-INTEREST EXPENSE		
General and administrative expenses		
Compensation and benefits	2,162,837	1,990,593
Loan servicing	671,169	633,739
Office operations	637,131	782,680
Other expenses	828,430	824,899
TOTAL NON-INTEREST EXPENSES	4,299,567	4,231,911
NET INCOME	$ 4,558,977	$ 1,391,005

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
Years ended September 30, 2022 and 2021

	2022	2021
NET INCOME	$ 4,558,977	$ 1,391,005
Changes in net unrealized gain on available-for-sale securities	(23,226,620)	(1,889,231)
TOTAL COMPREHENSIVE (LOSS) INCOME	$ (18,667,643)	$ (498,226)

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY

Years ended September 30, 2022 and 2021

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, September 30, 2020	$ 9,315,056	$ 47,807,992	$ 3,052,129	$ 60,175,177
Comprehensive income:				
Net income		1,391,005		1,391,005
Other comprehensive loss			(1,889,231)	(1,889,231)
Total comprehensive income (loss)	-	1,391,005	(1,889,231)	(498,226)
Balances, September 30, 2021	9,315,056	49,198,997	1,162,898	59,676,951
Comprehensive income:				
Net income		4,558,977		4,558,977
Other comprehensive loss			(23,226,620)	(23,226,620)
Total comprehensive income (loss)	-	4,558,977	(23,226,620)	(18,667,643)
Transfer:	86,775	(86,775)	-	-
Balances, September 30, 2022	$ 9,401,831	$ 53,671,199	$ (22,063,722)	$ 41,009,308

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF CASH FLOWS

Years ended September 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,558,977	$ 1,391,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300,000	40,000
Depreciation and amortization	125,881	299,766
Amortization of loan premium	55,774	45,415
Amortization (accretion) of securities, net	733,872	3,736,123
Distributition of stock dividends	861	-
Net changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(40,483)	98,456
Decrease (increase) in prepaid expenses and other assets	907,561	(3,858,382)
Increase in accounts payable and other liabilities	1,121,851	789,965
Total adjustments	3,205,317	1,151,343
Net cash provided by operating activities	7,764,294	2,542,348
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale or maturing of debt securities available-for-sale	52,262,850	70,097,127
Acquisition of debt securities-available-for-sale	(42,846,890)	(109,478,649)
Proceeds from maturing debt securities-held-to-maturity	17,429,524	36,939,455
Acquisition of debt securities-held-to-maturity	(19,925,450)	(69,358,042)
Net increase in capital stock at Federal Home Loan Bank of San Francisco	(284,800)	(867,200)
Loans granted, net of principal collections	(15,901,584)	12,910,086
Purchase of premises and equipment, net of disposals	(48,053)	(305,137)
Net (increase) decrease in share insurance deposit	(374,003)	3,679,501
Net cash used in investing activities	(9,688,406)	(56,382,859)

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

STATEMENTS OF CASH FLOWS - *continued*
Years ended September 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	$ 10,616,054	$ 29,978,219
Net decrease in notes payable	-	(10,000,000)
Net cash provided by financing activities	10,616,054	19,978,219
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,691,942	(33,862,292)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,974,993	58,837,285
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 33,666,935	$ 24,974,993

SUPPLEMENTAL DISCLOSURES:

	2022	2021
Cash received during the year from interest on loans and investments	$ 9,812,633	$ 11,527,641
Cash paid during the year for interest	$ 2,920,693	$ 3,457,350

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

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Date of management's review of subsequent events: Management has evaluated subsequent events through January 13, 2023, the date which the financial statements were available to be issued.

Organization: Glendale Area Schools Credit Union (Credit Union) is organized under the California state credit union laws. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws.

Nature of business: The Credit Union provides a variety of financial services to its members, most of whom are employees or former employees, students or former students and their parents, and Parent Teacher Associations (PTA) and its officers in public, private, and parochial schools within the greater Glendale Unified School District and the greater La Canada Unified School District, employees or former employees, students or former students of Glendale Community College and Occidental College, members of Verdugo Woodlands PTA in Glendale, California, employees or former employees of Verdugo Hills Hospital, Montrose business employees, members or former members of Crescenta Valley Chamber of Commerce, employees or former employees of Glendale Postal, and their qualifying family members. The Credit Union's primary source of revenue is interest from loans and investments.

Use of estimates: The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America (GAAP), requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Specifically, Management has made estimates based on assumptions for the determination of the allowance for loan losses and the fair value of financial instruments and the assessment of other than temporary impairment on investments. Actual results could differ from those estimates.

Cash and cash equivalents: For the purpose of the statements of financial condition classification and the statements of cash flows, the Credit Union considers all highly liquid debt instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Investment securities: Equity securities not using the equity method are carried at estimated fair value based on information provided by a third party pricing service with changes in fair value and realized gains or losses reported in noninterest income. If fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Fair value measurements: The Credit Union follows the guidance of FASB ASC 825, *Financial Instruments,* and FASB ASC 820, *Fair Value Measurement.* This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes 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 Credit Union's investments in debt securities are classified and accounted for as follows:

> Held-to-maturity: Government and government agency bonds, notes, and certificates which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretions of discounts which are recognized in interest income using the interest method over the period to maturity.

> Available-for-sale: Government and government agency bonds, notes, and certificates are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on debt securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are typically recognized in interest income using the interest method over the terms of the securities. However, the premiums on callable debt securities are amortized over the period to the earliest call date. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio. Other investments are classified separately, stated at cost and subject to impairment.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Visa Inc. Stock: As part of the restructuring of Visa, Inc., the Credit Union was issued shares of Class B Common Stock in Visa, Inc. The shares represented by this issuance are fully paid and non-assessable. Currently, there is no readily available fair market value of the stock and therefore, the stock is not reflected in the Credit Union's financial statements. Once a readily available fair market value of the stock is available, the value of the stock will be reflected in the Credit Union's financial statements.

Loans to members: Loans are reported at their recorded investment, which is the outstanding principal balance and net of any unearned income, such as deferred fees or costs, charge-offs and unamortized premiums or discounts on originated or purchased loans. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest on principal amounts outstanding. When principal or interest is delinquent for ninety days or more, the Credit Union evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience. The Credit Union does not charge commitment fees.

Allowance for loan losses: The allowance for loan losses reflects Management's judgment of probable loan losses inherent in the portfolio. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each month. To determine the total allowance for loan losses, Management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the auto secured portfolio; (ii) the real estate portfolio; and (iii) the consumer secured and unsecured portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Credit Union uses internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *– continued*

Allowance for loan losses – continued: The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of Management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing Management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by Senior Management of the loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses. The Credit Union intends to adopt the new Current Expected Credit Losses (CECL) model as discussed further under *"Recent Accounting Pronouncement"* below.

Loan charge-offs: For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- Management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union's internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets; or
- the loan is one hundred eighty days past due unless both well secured and in the process of collection.

The Credit Union's charge-off policies by segment of the loan portfolio are as follows:

- *Real estate loans* – The Credit Union generally writes down to the net realizable value when the loan is one hundred eighty days past due.
- *Auto loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.
- *Unsecured loans* – The Credit Union generally charges off when the loan is one hundred eighty days past due.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loan charge-offs – continued:

- *Credit cards* – The Credit Union generally fully charges off when the loan is one hundred eighty days past due.
- *Other secured loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.

In addition, the Credit Union generally fully charges off uncollectible trade receivables that have a contractual maturity of one year or less and arose from services provided when the receivable is one hundred eighty days past due.

Troubled debt restructurings: In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Credit Union develops a separate allowance for loans that are identified as impaired through a TDR.

Transfers of financial assets and participating interests: The Credit Union accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Transfers of financial assets and participating interests – continued: A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Premises and equipment: Land is carried at cost. Building, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. The building, furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

Impairment of long-lived assets: Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

ASI deposit: Each member’s share and savings account is insured up to $250,000 by a private insurance company, the American Share Insurance (ASI). There is no limitation to the number of accounts a member can have under ASI’s coverage. ASI requires the maintenance of a deposit by each insured credit union in an amount equal to 1% to 1.3% of a credit union’s total shares, depending upon the credit union’s rating with state regulators.

Foreclosed assets: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to hold property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The Credit Union had no foreclosed real estate assets as of September 30, 2022 and 2021.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Members' share and savings accounts: Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end an interest period and is not guaranteed by the Credit Union. Interest on members' share and savings accounts are set by the Board of Directors, based on evaluation of current and future market conditions.

Members' equity: Members' equity consists of undivided earnings and accumulated other comprehensive income (loss).

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) that includes unrealized gains and losses on securities available-for-sale.

Revenue recognition: In the ordinary course of business, the Credit Union recognizes income from various revenue generating activities. Certain revenues are generated from contracts with members where such revenues are recognized when, or as, services or products are transferred to members' for amounts to which the Credit Union expects to be entitled. Certain specific policies related to revenue recognition from contracts with members include:

> Service fees: Service fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.
>
> Credit and debit card revenue: Credit and debit card revenue includes interchange fees from credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Credit Union records interchange fees as services are provided. Transaction and account management fees are recognized as services are provided, except for annual fees which are recognized over the applicable period. The costs of related loyalty rewards programs are netted against interchange revenue as a direct cost of the revenue generating activity.

Income taxes: The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions, except for certain income producing activities of exempt organizations that are not subject to unrelated business income tax as specified in the memo released by the IRS in May 2015. Many states have similar laws. In the opinion of Management, any liability arising from federal or state taxation of activities deemed to be unrelated to its exempt purposes is not expected to have a material effect on the Credit Union's financial position or results of operation.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

Advertising costs: Advertising and promotion costs, which totaled approximately $112,708 and $73,533 for the years ended September 30, 2022 and 2021, respectively, are expensed as incurred.

Off-balance-sheet credit related financial instruments: In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Reclassifications: Certain reclassifications have been made to the September 30, 2021 financial statement presentation to correspond to the current year's format. Total members' equity and net income are unchanged due to these reclassifications.

Recent accounting pronouncements: In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new Current Expected Credit Losses (CECL) model will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration, and certain off-statement of financial condition credit exposures. The Credit Union will apply the standard's provisions as a cumulative-effect adjustment to unappropriated undivided earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU will become effective for the Credit Union for fiscal periods beginning after December 15, 2022. Management is currently evaluating the potential impact of ASU No. 2016-13 on the Credit Union's financial statements.

The FASB issued ASU 2016-02, a new standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for nearly all lease arrangements. The option of an operating lease that is recorded off-balance sheet will be significantly limited in its use. In measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For a lessee, the effect of recording all leases as debt might affect financial covenants that exist in loan and other agreements. The lessor accounting remains largely consistent with existing GAAP. The new standard is effective for the Credit Union for fiscal periods beginning after December 15, 2021 and there are several options as to how the new pronouncement can be implemented. Management is currently evaluating the potential impact of ASU No. 2016-02 on the Credit Union's financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 2: DEBT SECURITIES – AVAILABLE-FOR-SALE

The amortized cost and fair value of debt securities available-for-sale are as follows:

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Securities guaranteed by U.S. government sponsored enterprises	$ 15,698,593	$ -	$ 1,755,216	$ 13,943,377
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	184,247,834	90,966	19,308,766	165,030,034
U.S. treasury notes	14,905,657	-	1,090,707	13,814,950
	$ 214,852,084	$ 90,966	$ 22,154,689	$ 192,788,361

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $149,906,828 and fair market value of $133,588,118 as of September 30, 2022.

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 2: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Securities guaranteed by U.S. government sponsored enterprises	$ 15,698,179	$ 2,276	$ 37,500	$ 15,662,955
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	209,063,417	2,601,728	1,403,606	210,261,539
	$ 224,761,596	2,604,004	$ 1,441,106	$ 225,924,494

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $160,851,641 and fair market value of $160,965,872 as of September 30, 2021.

The amortized cost and fair value of investments debt securities, as of September 30, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Amounts maturing in:		
Due after one year through five years	$ 32,847,720	$ 29,968,202
Due after five years through ten years	27,579,773	27,384,318
Due after ten years	154,424,591	135,435,841
	$ 214,852,084	$ 192,788,361

Information pertaining to debt securities with gross unrealized losses as of September 30, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

NOTE 2: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2022			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Available-for-sale:				
Securities guaranteed by U.S. government sponsored enterprises	$ 13,943,377	$ 639,616	$ 1,115,600	$ 1,755,216
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	$ 148,238,024	$ 7,581,451	11,727,315	$ 19,308,766
U.S. treasury notes	13,814,950	1,090,707	-	1,090,707
	$ 175,996,351	$ 9,311,774	12,842,915	$ 22,154,689

NOTE 2: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2021			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Available-for-sale:				
Securities guaranteed by U.S. government sponsored enterprises	$ 9,962,500	$ 37,500	-	$ 37,500
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	73,782,180	1,392,700	10,906	1,403,606
	$ 83,744,680	$ 1,430,200	$ 10,906	$ 1,441,106

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. The reason for the temporary loss is that the credit ratings are lower than when these securities were originally purchased. The Credit Union reviews all of its securities for impairment periodically. The Credit Union has determined that there was no other-than-temporary impairment associated with these securities as of September 30, 2022.

There was no sale of securities classified as available-for-sale for the years ending September 30, 2022 and 2021.

NOTE 3: DEBT SECURITIES – HELD-TO-MATURITY

The amortized cost and fair value of debt securities held-to-maturity securities are as follows:

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 76,312,398	$ 21,031	9,432,902	$ 66,900,527
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	27,500,953	63,591	2,387,028	25,177,516
	$ 103,813,351	$ 84,622	11,819,930	$ 92,078,043

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $13,812,618 and fair market value of $12,238,323 as of September 30, 2022.

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 56,358,614	$ 236,070	$ 571,585	$ 56,023,099
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	45,199,130	1,787,821	373,432	46,613,519
	$ 101,557,744	$ 2,023,891	$ 945,017	$ 102,636,618

NOTE 3: DEBT SECURITIES – HELD-TO-MATURITY – *continued*

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $25,862,519 and fair market value of $25,954,837 as of September 30, 2021.

The amortized cost and estimated fair value of investment debt securities as of September 30, 2022, by contractual maturity, are show below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Amounts maturing in:		
Due in one year or less	$ 5,000,080	$ 4,920,331
Due after one year through five years	51,902,123	45,561,671
Due after five years through ten years	28,445,687	24,724,379
Due after ten years	18,465,461	16,871,662
	$ 103,813,351	$ 92,078,043

Information pertaining to debt securities with gross unrealized losses as of September 30, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	September 30, 2022			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 64,879,807	$ 1,812,206	$ 7,620,696	$ 9,432,902
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	21,108,445	1,314,800	1,072,228	$ 2,387,028
	$ 85,988,252	$ 3,127,006	$ 8,692,924	$ 11,819,930

NOTE 3: DEBT SECURITIES – HELD-TO-MATURITY – *continued*

	September 30, 2021			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Held-to-maturity:				
Securities guaranteed by U.S. government sponsored enterprises	$ 53,787,519	$ 571,585	-	$ 571,585
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	8,593,364	373,432	-	373,432
	$ 62,380,883	$ 945,017	-	$ 945,017

In estimating other-than-temporary impairment losses, the Credit Union considers, among other things, the length of time and the extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer. The Credit Union does not intend to sell these securities, and it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in cost. All securities owned by the Credit Union are payable at par at maturity.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. The reason for the temporary loss is that market interest rates are higher than when these securities were originally purchased. The Credit Union has determined that there was no other-than-temporary impairment associated with these securities as of September 30, 2022.

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 4: INVESTMENTS IN EQUITY SECURITIES

The carrying value of equity securities are as follows:

	September 30,	
	2022	2021
Capital stock, Federal Home Loan Bank	$ 3,412,500	$ 3,127,700
Capital stock, Credit Union Service Organizations	73,175	74,036
	$ 3,485,675	$ 3,201,736

Investments in Credit Union Service Organizations are not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value.

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) of San Francisco, is required to maintain a minimum stock investment with the FHLB based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the statement of financial condition at cost in investments and classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

NOTE 5: LOANS TO MEMBERS

The composition of recorded investment in loans by segment is as follows:

	September 30,	
	2022	2021
Real estate	$ 37,111,051	$ 31,726,574
Commercial loans	27,968,414	17,240,479
Solar loans	19,196,528	20,327,633
Automobile	13,240,837	15,683,569
Student loans	4,904,837	1,869,113
Credit cards	3,734,167	3,722,717
Other consumer loans	1,985,280	1,769,535
Home equity lines of credit	1,951,335	1,213,645
	110,092,449	93,553,265
Discount on loans, net of premiums	(652,774)	83,907
Allowance for loan losses	(1,256,647)	(999,954)
	$ 108,183,028	$ 92,637,218

NOTE 5: LOANS TO MEMBERS - *continued*

The Credit Union has purchased loan participations originated by various other credit unions that are secured by solar, commercial, real estate and automobile to members of other credit unions. All of these loan participations were purchased without recourse and secured by real property. Loan servicing functions on these loans were retained by the other credit unions. The Credit Union holds a fractional security interest in the underlying collateral. The solar secured participation loan balance totaled to $14,035,917 and $20,327,633 as of September 30, 2022 and 2021, respectively. The commercial participation loan balance totaled to $27,968,414 and $17,240,479 as of September 30, 2022 and 2021, respectively. The real estate secured participation loan balance totaled to $2,583,059 and $2,633,780 as of September 30, 2022 and 2021, respectively. The automobile secured participation loan balance totaled to $3,485,430 and $5,751,632 as of September 30, 2022 and 2021, respectively.

Allowance for loan losses: The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: auto, real estate, and consumer secured and unsecured portfolios. The Credit Union also sub-segments two of these segments into classes based on the associated risks within those segments. Auto loans are divided into the following two categories: (a) direct auto loans and (b) indirect auto loans. Consumer secured and unsecured loans are divided into the following three categories: (a) credit card, (b) solar participation loans, and (c) other secured and unsecured loans. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. The Credit Union uses internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions that the Credit Union uses to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following are the factors that the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

<u>Auto loans</u>: Auto loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2022, the historical loss time frame used was for the past thirteen to twenty-four months for direct auto loans and the past twelve months for indirect auto loans.

NOTE 5: LOANS RECEIVABLE - *continued*

Allowance for loan losses - continued:

Auto loans - *continued*: Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2022, the Credit Union considered additional loss estimations based on the current delinquency status.

Real estate loans: These loans are not assessed at an underlying class level. A historical loss percentage is applied to the segment. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2022, the historical loss time frame used was for the past twelve months.

The Credit Union estimates an additional component of the allowance for loan losses for the non-impaired real estate segment through the application of loss factors to loans grouped by their individual credit risk rating categories. These ratings reflect the estimated default probability and quality of underlying collateral. The loss factors used are statistically derived through the observation of losses incurred for loans within each internal credit risk rating over a specified period of time.

In addition, based on the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to the loan balances. For the year ending September 30, 2022, the Credit Union considered additional loss estimations based on the current delinquency status.

Consumer unsecured and secured portfolio: Secured and unsecured consumer loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other qualitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2022, the historical loss time frame used was for the past twelve months for solar participation loans and credit card loans and the past thirteen to twenty-four months for other secured and unsecured loans.

Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2022, the Credit Union considered additional loss estimations based on the current delinquency status.

NOTE 5: LOANS TO MEMBERS - *continued*

Allowance for loan losses - continued:

The Credit Union's estimation process: The Credit Union estimates loan losses under multiple economic scenarios to establish a range of potential outcomes for each criterion the Credit Union applies to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

Substantially all of the Credit Union's consumer loans are secured by collateral. The Credit Union determines loss multipliers based on the loan-to-value (LTV) percentage. There is an inverse relationship between the LTV percentage and the loss multiplier. The higher the LTV percentage, the higher the risk of the Credit Union not receiving all contractual amounts of the loan.

Reflected in the portions of the allowance previously described, is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of Management's judgment of risks inherent in the portfolio, economic uncertainties, historical loss experience, and other subjective factors, including industry trends, calculated to better reflect the Credit Union's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Loans by Segment: The total allowance reflects Management's estimate of loan losses inherent in the loan portfolio as of September 30, 2022 and 2021. The Credit Union considers the allowance for loan losses of $1,256,647 and $999,954 adequate to cover loan losses inherent in the loan portfolio as of September 30, 2022 and 2021, respectively. The following tables present by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 5: LOANS TO MEMBERS - *continued*

Allowance for loan losses - continued:

Loans by Segment - *continued*:

	Allowance for Loan Losses and Recorded Investment in Loans For the Year Ended September 30, 2022		
	Real Estate	Non-Real Estate	Total
Allowance for Loan Losses:			
Beginning balance	$ 43,506	$ 956,448	$ 999,954
Charge-offs	-	(173,286)	(173,286)
Recoveries	-	129,979	129,979
Provision for loan losses	305,963	(5,963)	300,000
Ending balance	$ 349,469	$ 907,178	$ 1,256,647
Ending balance:			
• individually evaluated for impairment	-	120,587	120,587
• collectively evaluated for impairment	349,469	786,591	1,136,060
	$ 349,469	$ 907,178	$ 1,256,647
Loans to Members:			
Ending balance:			
• individually evaluated for impairment	-	128,308	128,308
• collectively evaluated for impairment	67,030,800	42,933,341	109,964,141
	$ 67,030,800	$ 43,061,649	$ 110,092,449

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 5: LOANS TO MEMBERS - *continued*

Allowance for loan losses - continued:

Loans by Segment - *continued*:

	Allowance for Loan Losses and Recorded Investment in Loans For the Year Ended September 30, 2021		
	Real Estate	Non-Real Estate	Total
Allowance for Loan Losses:			
Beginning balance	$ 140,348	$ 881,660	$ 1,022,008
Charge-offs	-	(152,769)	(152,769)
Recoveries	-	90,715	90,715
Provision for loan losses	(96,842)	136,842	40,000
Ending balance	$ 43,506	$ 956,448	$ 999,954
Ending balance:			
• individually evaluated for impairment	-	77,548	77,548
• collectively evaluated for impairment	43,506	878,900	922,406
	$ 43,506	$ 956,448	$ 999,954
Loans to Members:			
Ending balance:			
• individually evaluated for impairment	-	145,713	145,713
• collectively evaluated for impairment	50,180,698	43,226,854	93,407,552
	$ 50,180,698	$ 43,372,567	$ 93,553,265

Credit quality information: The use of creditworthiness categories to grade loans permits Management's use of migration analysis to estimate a portion of credit risk. The Credit Union's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed periodically, at which time Management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan performance. Loans that trend upward toward higher levels generally have a lower risk factor associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to these related loan balances.

NOTE 5: LOANS TO MEMBERS - *continued*

Credit quality information - continued: The Credit Union's internal risk ratings based on FICO scores are as follows:

720 and above – Member poses little to no additional risk.
676 to 719 – Member poses a nominal risk of loss.
637 to 675 – Composed of the Credit Union's average member profile. The additional risk-based migration analysis of this part of the portfolio is based on whether the migration of the portfolio is remaining constant or moving higher or lower.
608 to 636 – Members are experiencing some degree of stress. Additional risk factors are based on migration analysis of this portfolio.
563 to 607 – Members are showing above average risk. Additional risk factors are based on migration analysis of this portfolio.
562 and below – Members are consider as high risk. Additional risk factors are based on migration analysis of this portfolio.

Payment activity is reviewed by Management periodically to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than ninety days in the previous quarter.

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDR's are classified as nonperforming at the time of restructure and may only be returned to performing status after the borrower's sustained repayment performance for a reasonable period, generally six months. There were no non-performing real estate loans as of September 30, 2022.

Age analysis of past due loans to members by class: Following are tables which include an aging analysis of past due loans to members as of September 30, 2022 and 2021. Also included are loans that are ninety days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or (c) loans exempt under regulatory rules from being classified as nonaccrual.

NOTE 5: LOANS TO MEMBERS – *continued*

Age analysis of past due loans to members by class - continued:

Credit Quality Information
Age Analysis of Past Due Loans to Members by Class of Loan to Member
As of September 30, 2022

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans to Members
Real estate	$ 26,574	$ -	$ 26,574	$ 67,004,226	$ 67,030,800
Consumer	62,417	106,742	169,159	39,158,323	39,327,482
Credit cards	2,928	21,567	24,495	3,709,672	3,734,167
Total	$ 91,919	$ 128,309	$ 220,228	$ 109,872,221	$ 110,092,449

Credit Quality Information
Age Analysis of Past Due Loans to Members by Class of Loan to Member
As of September 30, 2021

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans to Members
Real estate	$ -	$ -	$ -	$ 50,180,698	$ 50,180,698
Consumer	89,837	143,159	232,996	39,416,854	39,649,850
Credit cards	4,690	2,554	7,244	3,715,473	3,722,717
Total	$ 94,527	$ 145,713	$ 240,240	$ 93,313,025	$ 93,553,265

Impaired loans: The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a ninety-day default period and all loans classified as TDRs.

NOTE 5: LOANS TO MEMBERS – *continued*

Impaired loans - continued: When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonaccrual loans: The Credit Union generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach ninety days past due.

Generally, consumer loans not secured by real estate or autos are placed on nonaccrual status only when part of the principal has been charged off. These loans are charged off or charged down to the net realizable value of the collateral when deemed uncollectible, due to bankruptcy or other factors, or when they reach a defined number of days past due based on loan product, industry practice, country, terms and other factors.

When the Credit Union places a loan on nonaccrual status, the Credit Union reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Credit Union returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable. As of September 30, 2022 and 2021, $124,613 and $80,223 of loans were placed on nonaccrual status, respectively, with approximately $1,200 and $2,000 of accrued interest not recognized in the financial statements.

NOTE 6: CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is as follows:

	September 30,	
	2022	2021
Cash on hand	$ 739,522	$ 830,788
Cash on deposit	32,927,413	24,144,205
	$ 33,666,935	$ 24,974,993

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 7: PREMISES AND EQUIPMENT

Premises and equipment is summarized as follows:

	September 30, 2022	September 30, 2021
Land	$ 1,000,000	$ 1,000,000
Building and improvements	660,142	737,555
Furniture, fixtures, and equipment	1,714,204	1,588,738
Subtotal	3,374,346	3,326,293
Accumulated depreciation and amortization	(2,170,596)	(2,044,715)
	$ 1,203,750	$ 1,281,578

Depreciation and amortization expense amounted to $125,881 and $299,766 for the years ended September 30, 2022 and 2021, respectively.

NOTE 8: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

	September 30, 2022	September 30, 2021
Share drafts	$ 78,881,227	$ 66,528,127
Share savings	131,609,907	122,788,982
Other deposits	195,451,968	206,009,939
	$ 405,943,102	$ 395,327,048

Member accounts are insured to at least $250,000 by the American Share Insurance. The aggregate amounts of uninsured members’ share and savings accounts were approximately $31,635,000 and $19,221,000 as of September 30, 2022 and 2021, respectively.

There were no nonmember certificates of deposit as of September 30, 2022 and 2021.

Overdrawn share accounts reclassified to unsecured loans to members totaled to $18,243 and $1,235 as of September 30, 2022 and 2021, respectively.

NOTE 8: MEMBERS' SHARE AND SAVINGS ACCOUNTS - *continued*

A summary by maturity of members' share and savings accounts is as follows:

	September 30, 2022	September 30, 2021
No contractual maturity	$ 259,523,726	$ 238,469,739
Within one year	61,067,213	69,910,713
One to three years	69,427,652	51,687,811
Over three years	15,924,511	35,258,785
	$ 405,943,102	$ 395,327,048

NOTE 9: LINE OF CREDIT

The Credit Union maintains a line of credit agreement with Federal Reserve Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2022 and 2021, the Credit Union had no outstanding balances on the line of credit but could borrow up to $2,000,000 for both years. The line of credit agreement is secured with the investment portfolio held at Federal Reserve Bank of San Francisco for safekeeping. The line has no expiration date, but is subject to review and change by the issuing institution.

The Credit Union maintains a line of credit agreement with the Federal Home Loan Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2022 and 2021, the Credit Union had no outstanding balance on the line of credit but could borrow up to $253,665,028 and $285,926,062, respectively. The line of credit agreement is secured with the investment portfolio held at Federal Home Loan Bank of San Francisco for safekeeping. The line has no expiration date, but is subject to review and change by the issuing institution.

NOTE 10: OFF-BALANCE SHEET ACTIVITIES

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The Credit Union’s exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for loans recorded in the financial statements.

NOTE 10: OFF-BALANCE SHEET ACTIVITIES- *continued*

These financial instruments include commitments for lines of credit, credit cards, and home equity lines of credit. The contract amounts represent credit risk totaling approximately $22,780,000 and $19,461,000 as of September 30, 2022 and 2021, respectively.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on Management's credit evaluation of the counterparty. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

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

Financial instruments with concentration of credit risk: Most of the Credit Union's business activity is with its members as previously described in Note 1. The Credit Union's policy for requiring collateral is to obtain collateral whenever necessary.

NOTE 11: LEGAL CONTINGENCIES

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

NOTE 12: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the California Department of Financial Protection and Innovation. 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 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 principles.

NOTE 12: REGULATORY CAPITAL - *continued*

The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amount and ratios (set forth in the table below) of net worth (as defined in the regulations) to total assets (as defined). Management believes that as of September 30, 2022 and 2021, the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2022, the most recent call reporting period, the Credit Union is categorized as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized,", the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that Management believes have changed that Credit Union's category.

The Credit Union's actual capital amounts and ratios as of September 30, 2022 and 2021 are also presented in the following tables:

Actual		To be Adequately Capitalized under the Prompt Corrective Action Provisions		To be Well-Capitalized under the Prompt Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2022					
$ 63,073,030	14.0%	≥ $ 27,000,433	≥ 6.0%	≥ $ 31,500,505	≥ 7.0%
September 30, 2021					
$ 58,514,053	12.8%	≥ $ 27,416,217	≥ 6.0%	≥ $ 31,985,587	≥ 7.0%

In performing its calculation of total assets, the Credit Union used the quarter end balance option.

NOTE 13: RETIREMENT PLAN

401(k) Retirement plan: The Credit Union has a 401(k) retirement plan for all employees who have met both the tenure and minimum age requirements specified in the plan. The Credit Union contributions are based on a percentage of employee compensation and totaled $114,907 and $112,617 for the years ended September 30, 2022 and 2021, respectively. The plan's net assets available for benefits amounted to $2,259,755 and $3,935,602 as of September 30, 2022 and 2021, respectively.

NOTES TO FINANCIAL STATEMENTS
September 30, 2022 and 2021

NOTE 14: RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans as of September 30, 2022 and 2021 are $870,000 and $530,000, respectively. Deposits from related parties as of September 30, 2022 and 2021 amounted to approximately $980,000 and $710,000 respectively.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union as of September 30, 2022 and 2021 are not significant.

NOTE 15: FAIR VALUE MEASUREMENTS

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Credit Union commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, provides a framework for measuring fair value that requires an entity to determine fair value based on exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

> Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
>
> Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The Credit Union has no financial instruments or other accounts subject to fair value measurement and disclosure, other than the debt securities classified as available-for-sale and held-to-maturity.

NOTE 16: NON-INTEREST INCOME

Following is a detail of noninterest income including disaggregation of revenue from contracts with customers, gains (losses) on transfers of nonfinancial assets and other revenue for the year ended September 30, 2022:

Non-Interest Income		
In Scope of FASB ASC 606		
Visa interchange income	$	532,811
Fees and charges		315,145
Other		10,922
		858,878
Out of Scope of FASB ASC 606		
Recovery from liquidated corporate credit unions		1,845,610
Grant revenue		333,292
Rental income		58,700
Loss on non-operating activities		(24,956)
		2,212,646
Total non-interest income	$	3,071,524

During the year, the Credit Union received Employee Retention Credits amounting to $333,292. These were recorded as grant revenue.

NOTE 17: COMPONENTS OF OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income, for the years ended September 30, 2022 and 2021.

	Securities Available for Sale	Accumuated Other Comprehensive Income (Loss)
Balance at September 30, 2020	$ 3,052,129	$ 3,052,129
Other comprehensive loss before reclassifications	(1,889,231)	(1,889,231)
Amounts reclassified from accumulated other comprehensive income	-	-
Balance at September 30, 2021	$ 1,162,898	$ 1,162,898
Other comprehensive loss before reclassifications	(23,226,620)	(23,226,620)
Amounts reclassified from accumulated other comprehensive loss	-	-
Balance at September 30, 2022	$ (22,063,722)	$ (22,063,722)