Glendale Area Schools Credit Union

INDEPENDENT AUDITOR'S REPORT ON AUDITED FINANCIAL STATEMENTS

September 30, 2024 and 2023

Serving credit unions since 1967

RICHARDS & ASSOCIATES
Certified Public Accountants

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FINANCIAL REPORT CONTENTS
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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, 2024 and 2023, 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, 2024 and 2023, 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 and to meet our other 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, 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 accounting 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 21, 2025

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
September 30, 2024 and 2023

	2024	2023
ASSETS		
Cash and cash equivalents	$ 36,526,556	$ 54,922,339
Investment in other financial institution	-	1,000,000
Investments in debt securities - available-for-sale	157,121,955	164,463,194
Investments in debt securities - held-to-maturity	86,805,386	93,230,789
Investments in equity securities	3,567,600	3,570,775
Loans to members, net of allowance for credit losses-loans	141,269,098	137,408,214
Premises & equipment	1,335,424	1,227,058
Operating lease right-of-use assets	112,255	169,007
Accrued interest receivable	1,107,221	1,044,770
Share insurance deposit	4,845,916	5,172,359
Prepaid expenses and other assets	1,970,843	770,290
TOTAL ASSETS	$ 434,662,254	$ 462,978,795
LIABILITIES AND EQUITY		
Liabilities:		
Members' share and savings accounts	$ 365,425,820	$ 372,423,019
Notes payable	20,000,000	50,000,000
Operating lease liabilities	114,084	169,268
Accounts payable and other liabilities	2,073,809	1,998,988
TOTAL LIABILITIES	387,613,713	424,591,275
Commitments and contingent liabilities		
Members' equity, substantially restricted		
Appropriated (regular reserve)	12,038,936	10,952,315
Unappropriated (undivided earnings)	55,343,381	55,933,901
	67,382,317	66,886,216
Accumulated other comprehensive loss	(20,333,776)	(28,498,696)
TOTAL MEMBERS' EQUITY	47,048,541	38,387,520
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 434,662,254	$ 462,978,795

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF INCOME

Years ended September 30, 2024 and 2023

	2024	2023
INTEREST INCOME		
Loans	$ 6,441,682	$ 4,509,345
Investments	7,660,913	7,248,934
TOTAL INTEREST INCOME	14,102,595	11,758,279
INTEREST EXPENSE		
Members' share and savings accounts	7,722,688	4,370,876
Borrowed funds	988,373	186,315
TOTAL INTEREST EXPENSE	8,711,061	4,557,191
NET INTEREST INCOME	5,391,534	7,201,088
PROVISION FOR CREDIT LOSSES	505,000	300,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	4,886,534	6,901,088
NON-INTEREST INCOME		
Service charges and other income	860,486	1,268,850
Recovery payment from liquidated corporate credit unions	-	145,182
Rental income	59,561	67,856
Gain (loss) on non-operating activities	(4,860)	30,127
TOTAL NON-INTEREST INCOME	915,187	1,512,015
NON-INTEREST EXPENSE		
General and administrative expenses		
Compensation and benefits	2,798,528	2,374,011
Loan servicing	905,763	704,513
Office operations	680,305	578,774
Professional and outside services	434,324	518,105
Other expenses	486,700	424,514
TOTAL NON-INTEREST EXPENSES	5,305,620	4,599,917
NET INCOME	$ 496,101	$ 3,813,186

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

GLENDALE AREA SCHOOLS CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
Years ended September 30, 2024 and 2023

	2024	2023
NET INCOME	$ 496,101	$ 3,813,186
Changes in net unrealized loss on available-for-sale securities	8,164,920	(6,434,974)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 8,661,021	$ (2,621,788)

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

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Years ended September 30, 2024 and 2023

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, September 30, 2022	9,401,831	53,671,199	(22,063,722)	41,009,308
Comprehensive income:				
Net income		3,813,186		3,813,186
Other comprehensive loss			(6,434,974)	(6,434,974)
Total comprehensive income (loss)	-	3,813,186	(6,434,974)	(2,621,788)
Transfer:	1,550,484	(1,550,484)	-	-
Balances, September 30, 2023	$ 10,952,315	$ 55,933,901	$ (28,498,696)	$ 38,387,520
Comprehensive income:				
Net income		496,101		496,101
Other comprehensive loss			8,164,920	8,164,920
Total comprehensive income	-	496,101	8,164,920	8,661,021
Transfer:	1,086,621	(1,086,621)		-
Balances, September 30, 2024	$ 12,038,936	$ 55,343,381	$ (20,333,776)	$ 47,048,541

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

STATEMENTS OF CASH FLOWS
Years ended September 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 496,101	$ 3,813,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	505,000	300,000
Depreciation and amortization	104,599	68,731
Amortization of loan premium	1,805,314	8,004,318
Amortization (accretion) of securities, net	(51,920)	321,047
Net changes in operating assets and liabilities:		
Increase in accrued interest receivable	(62,451)	(153,716)
Decrease (increase) in right-of-use operating lease assets	56,752	(169,007)
Increase in prepaid expenses and other assets	(1,200,553)	(59,192)
(Decrease) increase in operating lease liabilities	(55,184)	169,268
Increase (decrease) increase in accounts payable and other liabilities	74,821	(1,055,817)
Total adjustments	1,176,378	7,425,632
Net cash provided by operating activities	1,672,479	11,238,818
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale or maturing of debt securities available-for-sale	15,554,071	21,708,633
Proceeds from maturing debt securities-held-to-maturity	6,429,411	10,443,075
Net decrease in investments in CUSOs	3,175	-
Net increase in FHLB capital stocks	-	(85,100)
Decrease (increase) in deposits in financial institutions	1,000,000	(1,000,000)
Loans to members, net of principal collections	(6,171,198)	(37,529,504)
Acquisition of premises and equipment, net of disposals	(212,965)	(92,039)
Net decrease in share insurance deposit	326,443	91,604
Net cash provided by (used in) investing activities	16,928,937	(6,463,331)

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

STATEMENTS OF CASH FLOWS - *continued*
Years ended September 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease) in members' share and savings accounts	$ (6,997,199)	$ (33,520,083)
Net (decrease) increase in notes payable	(30,000,000)	50,000,000
Net cash (used in) provided by financing activities	(36,997,199)	16,479,917
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,395,783)	21,255,404
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	54,922,339	33,666,935
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 36,526,556	$ 54,922,339

SUPPLEMENTAL DISCLOSURES:

	2024	2023
Cash received during the year from interest on loans and investments	$ 15,846,713	$ 19,929,928
Cash paid during the year for interest	$ 8,711,061	$ 4,370,876

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of management's review of subsequent events: Management has evaluated subsequent events through January 21, 2025, 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. 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.

Deposits in other financial institutions: Deposits in other financial institutions include certificates of deposit. These are stated at cost. The certificates of deposit all mature within one year.

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: SUMMARY OF 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:

> <u>Held-to-maturity</u>: 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.
>
> <u>Available-for-sale</u>: 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.

With the adoption of ASU 2016-13, expected credit losses on held-to-maturity securities are measured on a collective basis by major security type, when similar risk characteristics exist. Risk characteristics for segmenting held-to-maturity debt securities include issuer, maturity, coupon rate, yield, payment frequency, source of repayment, bond payment structure, and embedded options. Upon assignment of the risk characteristics to the major security types, management may further evaluate the qualitative factors associated with these securities to determine the expectation of credit losses, if any. Impairments below cost in the estimated fair value of individual held-to-maturity debt securities that are attributable to credit losses are recorded through an allowance for held-to-maturity credit losses. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Impairments below cost attributable to other factors are realized in noninterest income in the statements of income. Gains and losses on the sale of held-to-maturity debt securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Fair value measurements – continued: 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. for expected losses. Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. Impairments below cost in the estimated fair value of individual available-for-sale debt securities when there is an intent to sell or for which it more likely than not the Credit Union will be required to sell before the impairment is recovered, are realized in noninterest income in the consolidated statements of income. When there is not an intent to sell or it is more likely than not the Credit Union will not be required to sell the security before the impairment is recovered, management assesses whether the decline in fair value has resulted from credit losses or other factors. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for available-for-sale credit losses is recorded. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Any future changes in the allowance for credit losses is recorded as provision for (reversal of) credit losses. Losses attributable to other factors are charged to accumulated other comprehensive income. Gains and losses on the sale of available-for-sale debt 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.

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. The stock is not publicly traded and it is not reflected in the Credit Union’s statements of financial condition.

Loans to members: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost, 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 method on principal amounts outstanding. When principal or interest is delinquent for sixty days or more, the Credit Union evaluates the loan for nonaccrual status.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loans to members – continued: 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 credit losses - loans: With the adoption of ASU 2016-13 on March 1,2023, an allowance for credit losses is established upon origination for all loans through a provision for credit losses charged to earnings. ASU 2016-13 replaced the previous probable incurred loss model which incorporated only known information as of the balance sheet date. The expected credit loss model is based on management's best estimate of lifetime expected credit losses (ECL) inherent in the Credit Union's relevant financial assets. There are two components of the allowance for credit losses: reserves on pooled loans sharing risk characteristics (portfolio segments) and individually evaluated loans that do not fit within a portfolio segment. For loans, the ECL is typically estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio as well as supportable forecasts of the economic outlook over the life of the loan.

The Credit Union uses a disciplined process and methodology to establish the allowance for credit losses each month. To determine the total allowance for credit losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans with similar risk factors (such as, but not limited to, loan type and structure, collateral type, leverage ratio, refinancing risk and origination quality) analyzed on a pooled basis. The allowance for credit 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 both internally-developed and vendor-supplied models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Allowance for credit losses – loans – continued: The establishment of the allowance for credit 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 credit losses. The Credit Union's Allowance for credit 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 credit losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for credit losses are made by charges to the provision for credit losses. Credit exposures deemed to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts are credited to the allowance for credit losses.

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.
- *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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loan modifications: 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 loan modification. The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

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. 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.

Leases: Contracts are evaluated at inception to determine if an arrangement is or contains a lease. Operating lease is included in operating lease right-of-use (ROU) assets and operating lease liabilities in the statements of financial condition. The operating lease relates primarily to branch facility. The Credit Union has no finance leases. Short-term leases are not recorded on the statements of financial condition. Operating lease ROU assets represent right to use an underlying asset for the lease term, and operating lease liabilities represent obligation to make lease payments arising from the lease.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leases -continued: Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of future lease payments over the lease term. The lease does not provide an implicit rate, so incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is reevaluated upon leases modification. The operating lease ROU asset also includes initial direct costs and prepaid lease payments made, if any, less incentives, if any. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

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 foreclosures 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 credit 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, 2024 and 2023.

Members' share and savings accounts Members' share and savings account deposits that exceed $250,000 (the NCUA insurance limit), i.e. uninsured shares and deposits, are subordinated to all other liabilities of the Credit Union upon liquidation, except subordinated debt. Interest on members' share 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 and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

Advertising costs: Advertising and promotion costs, which totaled approximately $85,024 and $79,705 for the years ended September 30, 2024 and 2023, respectively, are expensed as incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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, 2023 financial statement presentation to correspond to the current year's format. Total members' equity and net income are unchanged due to these reclassifications.

Accounting standard adopted in 2023: On March 1, 2023, the Credit Union adopted *FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments held by the Credit Union that are measured at amortized cost, such as loan receivables and held-to-maturity debt securities. Prior to March 1, 2023, the allowance for losses on such assets was determined based on Management's estimate of probable incurred losses. ASU 2016-13 also modified the impairment model on available-for-sale securities whereby credit losses are recognized as an allowance, rather than as a direct write-down. The Credit Union adopted this new guidance utilizing the modified retrospective transition method for loans and prospectively for debt securities available-for-sale. The adoption of this Standard did not have a material impact on the Credit Union's financial statements but did change how the allowance for credit losses is determined. See Notes 4 and 5.

On *March 1, 2023*, the Credit Union adopted FASB ASU 2022-2, *Financing Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, on a prospective basis. ASU 2022-2 eliminates the troubled debt restructuring recognition and measurement guidance and instead requires entities to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Expected credit losses are recorded in the allowance for credit losses. The adoption of this Standard did not have a material impact on the Credit Union's financial statements. See Note 5.

The Credit Union adopted ASU 2016-02, *Leases (Topic 842)*, on March 1, 2023 using the optional transition method, which allows for the prospective application of the standard. In addition, the Credit Union elected practical expedients permitted under the transition guidance permitting the Credit Union to not reassess historical lease classification, prior conclusions relating to initial direct costs, and whether any expired or existing contracts are or contain leases. For lease agreements with lease and non-lease components, the Credit Union elected the practical expedient to account for them as a single lease component. Upon adoption of ASU 2016-02 on March 1, 2023, the Credit Union was not required to recognize operating lease right-of-use assets (ROU) and operating lease liabilities. In August, 2023, the Credit Union entered into operating leases and recognized operating lease ROU assets of $174,044 and operating lease liabilities of $173,744. The adoption of this Standard did not have a material impact on the Credit Union's financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 2: DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The carrying value of deposits in other financial institutions are as follows:

	September 30, 2024	September 30, 2023
CERTIFICATES OF DEPOSIT	$ -	$ 1,000,000

Certificates of deposit outstanding as of September 30, 2023 have maturity dates within one year.

NOTE 3: DEBT SECURITIES – AVAILABLE-FOR-SALE

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

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities guaranteed by U.S. government sponsored enterprises	$ 15,700,000	$ -	$ 634,327	$ 15,065,673
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	146,809,478	273,449	19,622,439	127,460,488
U.S. Treasury notes	14,946,253	-	350,459	14,595,794
	$177,455,731	$ 273,449	$ 20,607,225	$ 157,121,955

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $123,864,926 and fair market value of $105,798,803 as of September 30, 2024.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 3: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities guaranteed by U.S. government sponsored enterprises	$ 15,699,012	$ -	$ 1,517,967	$ 14,181,045
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	162,331,801	29,790	26,015,592	136,345,999
U.S. Treasury notes	14,931,077	-	994,927	13,936,150
	$192,961,890	$ 29,790	$ 28,528,486	$ 164,463,194

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $133,716,798 and fair market value of $110,485,116 as of September 30, 2023.

The amortized cost and fair value of investments debt securities, as of September 30, 2024, 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 in one year or less	$ 5,815,105	$ 5,739,262
Due after one year through five years	$ 45,568,489	$ 36,174,951
Due after five years through ten years	3,901,351	3,716,545
Due after ten years	122,170,426	111,491,197
	$177,455,371	$ 157,121,955

Information pertaining to debt securities available-for-sale with gross unrealized losses at September 30, 2024 and 2023, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 3: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2024			
		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	$ 15,065,673	$ -	$ 634,327	$ 634,327
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	106,637,147		19,622,440	19,622,440
U.S. Treasury notes	14,595,795	-	350,458	350,458
				-
	$ 136,298,615	$ -	$ 20,607,225	$ 20,607,225

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 3: DEBT SECURITIES – AVAILABLE-FOR-SALE – *continued*

	September 30, 2023			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Securities guaranteed by U.S. government sponsored enterprises	$ 14,181,045		$ 1,517,967	$ 1,517,967
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	131,124,882	42,616	25,972,976	26,015,592
U.S. Treasury Notes	13,936,150	-	994,927	994,927
	$ 159,242,077	$ 42,616	$ 28,485,870	$ 28,528,486

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 unrealized losses. The reason for the unrealized losses 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 additional impairment associated with these debt securities as of September 30, 2024.

There were no sales of securities classified as available-for-sale for the years ending September 30, 2024 and 2023.

NOTE 4: DEBT SECURITIES – HELD-TO-MATURITY

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

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities guaranteed by U.S. government sponsored enterprises	$ 69,371,076	$ -	$ 4,131,136	$ 65,239,940
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	17,434,310	138,415	1,368,735	16,203,989
	$ 86,805,386	$ 138,415	$ 5,499,871	$ 81,443,929

Included with mortgage-backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of $8,798,090 and fair market value of $7,596,184 as of September 30, 2024.

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities guaranteed by U.S. government sponsored enterprises	$ 71,341,619	$ -	$ 8,449,760	$ 62,891,859
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	21,889,170	29,693	2,414,242	19,504,621
	$ 93,230,789	$ 29,693	$ 10,864,002	$ 82,396,480

NOTE 4: 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 $10,987,665 and fair market value of $9,25,767 as of September 30, 2023.

The amortized cost and estimated fair value of investment debt securities as of September 30, 2024, 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 after one year through five years	$ 70,769,232	$ 66,604,662
Due after five years through ten years	6,118,521	5,945,385
Due after ten years	9,917,633	8,893,882
	$ 86,805,386	$ 81,443,929

Information pertaining to debt securities with gross unrealized losses as of September 30, 2024 and 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	September 30, 2024			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Securities guaranteed by U.S. government sponsored enterprises	$ 65,239,940	$ -	$ 4,131,136	$ 4,131,136
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	12,735,003	-	1,368,735	1,368,735
	$ 77,974,943	$ -	5,499,871	$ 5,499,871

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 4: DEBT SECURITIES – HELD-TO-MATURITY – *continued*

	September 30, 2023			
		Continuous Unrealized Losses Existing for		
	Fair Value	Less than 12 months	More than 12 months	Total Unrealized Losses
Securities guaranteed by U.S. government sponsored enterprises	$ 62,891,859	$ 7,918	$ 8,441,842	$ 8,449,760
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	16,861,265	6,936	2,407,306	2,414,242
	$ 79,753,124	$ 14,854	10,849,148	$ 10,864,002

In estimating 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 unrealized losses. The reason for the unrealized losses 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 additional impairment associated with these securities as of September 30, 2024.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 5: INVESTMENTS IN EQUITY SECURITIES

The carrying value of equity securities are as follows:

	September 30, 2024	September 30, 2023
Capital stock, Federal Home Loan Bank	$ 3,497,600	$ 3,497,600
Capital stock, Credit Union Service Organizations	70,000	73,175
	$ 3,567,600	$ 3,570,775

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 6: LOANS TO MEMBERS

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

	September 30, 2024	September 30, 2023
Real estate	$ 32,262,013	$ 34,281,869
Commercial loans	27,685,405	28,790,054
Solar loans	59,825,527	55,519,412
Automobile	9,786,963	11,351,151
Student loans	8,314,755	5,610,654
Credit cards	4,105,560	3,999,873
Other consumer loans	2,874,062	2,129,202
Home equity lines of credit	4,314,650	3,311,713
	149,168,935	144,993,928
Discount on loans, net of premiums	(7,188,956)	(6,171,136)
Allowance for credit losses - loans	(710,881)	(1,414,578)
	$141,269,098	$137,408,214

NOTE 6: 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 $10,159,784 and $10,921,327 as of September 30, 2024 and 2023, respectively, and are included under Solar loans. The commercial participation loan balance totaled $11,926,481 and $12,320,299 as of September 30, 2024 and 2023, respectively, and are included under Commercial loans. The real estate secured participation loan balance totaled $3,044,752 and $3,298,319 as of September 30, 2024 and 2023, respectively, and are included under Commercial loans. The automobile secured participation loan balance totaled to $1,938,056 and $2,476,338 as of September 30, 2024 and 2023, respectively, and are included under Automobile loans.

As of September 30, 2024 and 2023, accrued interest receivable for loans totaled $426,999 and $293,625, respectively, and is included in accrued interest receivable in the consolidated statements of financial condition.

Allowance for credit losses - loans: The Credit Union has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for credit 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 and vendor-supplied 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.

NOTE 6: LOANS RECEIVABLE - *continued*

Allowance for credit losses - loans - continued:

Auto loans: 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 credit loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest credit loss ratio. As of September 30, 2024, 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.

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, 2024, 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 credit loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest credit loss ratio. As of September 30, 2024, the historical loss time frame used was for the past twelve months.

The Credit Union estimates an additional component of the Allowance for credit 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, 2024, 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.

NOTE 6: LOANS TO MEMBERS - *continued*

Allowance for credit losses - loans - continued:

Consumer unsecured and secured portfolio – *continued*: The Credit Union calculates the credit loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest credit loss ratio. As of September 30, 2024, 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, 2024, the Credit Union considered additional loss estimations based on the current delinquency status.

The Credit Union's estimation process: The Credit Union estimates credit 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 credit loss. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

Loans by segment: The total allowance reflects Management's estimate of credit losses inherent in the loan portfolio as of September 30, 2024 and 2023. The Credit Union considers the Allowance for credit losses of $710,881 and $1,414,578 adequate to cover credit losses inherent in the loan portfolio as of September 30, 2024 and 2023, respectively. The following tables present by portfolio segment, the changes in the Allowance for credit losses and the recorded investment in loans.

NOTE 6: LOANS TO MEMBERS - *continued*

Allowance for credit losses - loans - continued:

Loans by segment - *continued*:

	Allowance for Credit Losses and Recorded Investment in Loans For the Year Ended September 30, 2024		
	Real Estate	Non-Real Estate	Total
Allowance for Credit Losses:		-	-
Beginning balance	$ 226,762	$ 1,187,816	$ 1,414,578
Charge-offs	-	(1,412,589)	(1,412,589)
Recoveries	-	203,892	203,892
Provision for credit losses	(187,332)	692,333	505,001
Ending balance	$ 39,430	$ 671,451	$ 710,881
Ending balance:			
• individually evaluated for impairment	-	489,069	489,069
• collectively evaluated for impairment	39,430	182,382	221,812
	$ 39,430	$ 671,451	$ 710,881
Loans to Members:			
Ending balance:			
• individually evaluated for impairment	-	489,069	489,069
• collectively evaluated for impairment	64,262,068	84,417,798	148,679,866
	$ 64,262,068	$ 84,906,867	$ 149,168,935

NOTE 6: LOANS TO MEMBERS - *continued*

Allowance for credit losses - loans - continued:

Loans by segment - *continued*:

	Allowance for Credit Losses and Recorded Investment in Loans For the Year Ended September 30, 2023		
	Real Estate	Non-Real Estate	Total
Allowance for credit losses:			
Beginning balance	$ 349,469	$ 907,178	$ 1,256,647
Charge-offs	-	(432,056)	(432,056)
Recoveries	-	289,987	289,987
Provision for credit losses	(122,707)	422,707	300,000
Ending balance	$ 226,762	$ 1,187,816	$ 1,414,578
Ending balance:			
• individually evaluated for impairment	-	227,957	227,957
• collectively evaluated for impairment	226,762	959,353	1,186,115
	$ 226,762	$ 1,187,310	$ 1,414,072
Loans to Members:			
Ending balance:			
• individually evaluated for impairment	-	311,212	311,212
• collectively evaluated for impairment	66,383,636	78,299,080	144,682,716
	$ 66,383,636	$ 78,610,292	$ 144,993,928

There was no impact of adopting FASB ASU 2016-13. The Credit Union was not required to make a one-time adjustment to Undivided earnings due to adoption of CECL methodologies.

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 6: 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 considered 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 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 loans are classified as nonperforming at the time of modification and may only be returned to performing status after considering 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, 2024 and 2023.

Age analysis of past due loans to members by class: Following are tables which include an aging analysis of the recorded investment of past due loans to members as of September 30, 2024 and 2023. 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.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 6: 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, 2024

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans to Members
Real estate	$ -	$ -	$ -	$ 64,262,068	$ 64,262,068
Consumer	883,936	1,873,005	2,756,941	78,044,366	80,801,307
Credit cards	76,437	1,389	77,826	4,027,734	4,105,560
Total	$ 960,373	$ 1,874,394	$ 2,834,767	$ 146,334,168	$ 149,168,935

Credit Quality Information
Age Analysis of Past Due Loans to Members by Class of Loan to Member
As of September 30, 2023

	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans to Members
Real estate	$ -	$ -	$ -	$ 66,383,636	$ 66,383,636
Consumer	40,004	252,541	292,545	74,317,884	74,610,419
Credit cards	10,725	58,368	69,093	3,930,780	3,999,873
Total	$ 50,729	$ 310,909	$ 361,638	$ 144,632,300	$ 144,993,928

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.

NOTE 6: LOANS TO MEMBERS – *continued*

Nonaccrual loans – continued: 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, 2024 and 2023, $1,710,984 and $124,613 of loans were placed on nonaccrual status, respectively, with approximately $1,570 and $1,200 of accrued interest not recognized in the financial statements.

There were no nonaccrual loans for which no related allowance for credit losses was recorded as of September 30, 2024.

There were no loans as of September 30, 2024 that had been modified during the year ended September 30, 2024 and then subsequently redefaulted in the year ended September 30, 2024.

At September 30, 2024, there are no commitments to lend additional funds to any member experiencing financial difficulties whose loan terms have been modified.

NOTE 7: CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is as follows:

	September 30,	
	2024	2023
Cash on hand	$ 7,419,141	$ 3,331,989
Cash on deposit	29,107,415	51,590,350
	$ 36,526,556	$ 54,922,339

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 8: PREMISES AND EQUIPMENT

Premises and equipment is summarized as follows:

	September 30, 2024	September 30, 2023
Land	$ 1,000,000	$ 1,000,000
Building and improvements	659,122	660,142
Furniture, fixtures, and equipment	656,090	1,785,194
Subtotal	2,315,212	3,445,336
Accumulated depreciation and amortization	(979,788)	(2,218,278)
	$ 1,335,424	$ 1,227,058

Depreciation and amortization expense amounted to $104,599 and $68,731 for the years ended September 30, 2024 and 2023, respectively.

NOTE 9: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

	September 30, 2024	September 30, 2023
Share drafts	$ 63,692,427	$ 73,777,270
Share savings	82,694,250	104,150,371
Other deposits	219,039,143	194,495,378
	$365,425,820	$372,423,019

Member accounts are insured to at least $250,000 by the American Share Insurance. There were no aggregate amounts of members' share accounts that exceed the limit as of September 30, 2024 and 2023.

There were no nonmember certificates of deposit as of September 30, 2024 and 2023.

Overdrawn share accounts reclassified to unsecured loans to members totaled $9,308 and $7,879 as of September 30, 2024 and 2023, respectively.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 9: MEMBERS' SHARE AND SAVINGS ACCOUNTS – *continued*

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

	September 30, 2024	September 30, 2023
No contractual maturity	$233,752,936	$243,080,225
Within one year	62,355,261	75,543,418
One to three years	25,446,557	29,267,650
Over three years	43,871,066	24,531,726
	$365,425,820	$372,423,019

NOTE 10: LINES 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. The Credit Union had no outstanding balance as of September 30, 2024 and 2023, 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. The Credit Union had an outstanding balance of $20,000 and $50,000,000 as of September 30, 2024 and 2023, 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 11: LEASE COMMITMENTS

The Credit Union leases a branch office and an ATM site, under the following operating leases:

Branch	Term (Years)	Expiration Date	Annual Rent
Glendale branch, Glendale, CA	3	August 2026	$ 54,000
ATM site, Glendale, CA	3	August 2026	$ 6,000

NOTE 11: LEASE COMMITMENTS – *continued*

The Credit Union's leases have remaining lease terms of 2.9 years require the Credit Union to pay real estate taxes, insurance, maintenance, and other operating expenses associated with the leased premises. Those expenses are classified in occupancy expense on the statements of income but are not included in operating lease cost below.

The statements of financial condition present operating lease ROU assets of $112,255 and $169,007 and operating lease liabilities of $114,084 and $169,268 as of September 30, 2024 and 2023, respectively.

Operating lease cost is recognized on a straight-line basis over the lease term and is included in occupancy expense in the statements of income. Operating lease cost was approximately $58,898 and $63,391 for the years ended September 30, 2024 and 2023, respectively.

As of September 30, 2024, the weighted-average remaining lease term was 1.9 years and the weighted average discount rate was 5% for operating leases recognized in the financial statements.

The future minimum lease payments for each of the succeeding three fiscal years under noncancelable operating leases with initial or remaining lease terms in excess of one year consisted of the following as of September 30,2024:

Minimum Payments		
2025	$	60,000
2026		60,000
Total minimum lease payments	$	120,000
Less imputed interest		(5,916)
Present value of operating lease liabilities	$	114,084

NOTE 12: 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 12: 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 $21,500,000 and $32,500,000 as of September 30, 2024 and 2023, 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 13: 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 14: 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. 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.

NOTE 14: REGULATORY CAPITAL – *continued*

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Effective January 1, 2022, for credit unions with less than $500 million of consolidated total assets, there is no requirement to calculate the RBNWR or the complex credit union leverage ratio (CCULR).

As of September 30, 2024, 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, 2024 and 2023 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, 2024					
$67,382,317	15.5%	≥ $ 26,079,735	≥ 6.0%	≥ $30,426,358	≥ 7.0%
September 30, 2023					
$66,886,216	14.4%	≥ $ 27,778,728	≥ 6.0%	≥ $32,408,516	≥ 7.0%

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

NOTE 15: 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 $164,996 and $97,108 for the years ended September 30, 2024 and 2023, respectively. The plan’s net assets available for benefits amounted to $2,935,567 and $2,475,265 as of September 30, 2024 and 2023, respectively.

NOTES TO FINANCIAL STATEMENTS
September 30, 2024 and 2023

NOTE 16: 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, 2024 and 2023 are $781,680 and $867,000, respectively. Deposits from related parties as of September 30, 2024 and 2023 amounted to approximately $470,610 and $850,000 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, 2024 and 2023 are not significant.

NOTE 17: 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 18: 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, 2024:

Non-interest Income		
In Scope of FASB ASC 606		
Debit and credit card interchange, net	$	525,909
Loan fees		111,496
Other fees and charges		207,770
		845,175
Out of Scope of FASB ASC 606		
Rental income		59,561
Referral fee		15,311
Others, net		(4,860)
		70,012
Total non-interest income	$	915,187

NOTE 19: 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, 2024 and 2023.

	Securities Available for Sale	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2022	$ (22,063,722)	$ (22,063,722)
Other comprehensive loss before reclassifications	(6,434,974)	(6,434,974)
Amounts reclassified from accumulated other comprehensive income	-	-
Balance at September 30, 2023	$ (28,498,696)	$ (28,498,696)
Other comprehensive loss before reclassifications	8,164,920	8,164,920
Amounts reclassified from accumulated other comprehensive loss	-	-
Balance at September 30, 2024	$ (20,333,776)	$ (20,333,776)