REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

ARIZONA FINANCIAL CREDIT UNION
AND SUBSIDIARIES

December 31, 2022 and 2021

MOSSADAMS

Table of Contents

Report of Independent Auditors

The Board of Directors and Supervisory Committee
Arizona Financial Credit Union and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Arizona Financial Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Arizona Financial Credit Union and Subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2022, Arizona Financial Credit Union and Subsidiaries adopted new accounting guidance, Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Financial Credit Union and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated 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 Arizona Financial Credit Union and Subsidiaries' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Financial Credit Union and Subsidiaries' 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.

Moss Adams LLP

Phoenix, Arizona
March 24, 2023

This page has intentionally been left blank.

ASSETS

	December 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 124,588,676	$ 506,235,765
Investments		
Securities available-for-sale	984,604,598	904,812,981
Interest bearing time deposits, net	15,786,075	496,000
Other	22,816,430	13,800,072
Loans held-for-sale	661,096	2,988,761
Loans receivable, net	1,678,498,651	1,165,972,714
Accrued income receivable	9,508,256	5,714,145
Property held-for-sale	-	3,230,000
Property and equipment, net	49,836,264	41,318,522
Operating lease right-of-use assets	3,003,313	-
National Credit Union Share Insurance Fund (NCUSIF) deposit	26,353,805	21,013,187
Goodwill	106,139,494	33,116,981
Core deposit and other intangibles, net	19,315,694	589,779
Cash surrender value of life insurance	75,003,425	65,298,958
Other assets	55,077,489	15,432,880
Total assets	$ 3,171,193,266	$ 2,780,020,745

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2022	December 31, 2021
LIABILITIES		
Members' share accounts	$ 2,879,179,139	$ 2,436,462,676
Operating lease liabilities	3,092,340	-
Accrued expenses and other liabilities	46,692,752	31,898,496
Total liabilities	2,928,964,231	2,468,361,172
MEMBERS' EQUITY		
Regular reserve	-	30,424,552
Undivided earnings	346,881,014	291,694,858
Accumulated other comprehensive loss	(104,651,979)	(10,459,837)
Total members' equity	242,229,035	311,659,573
Total liabilities and members' equity	$ 3,171,193,266	$ 2,780,020,745

Arizona Financial Credit Union and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31, 2022	2021
INTEREST INCOME		
Loans receivable	$ 60,082,944	$ 53,581,032
Investments and cash and cash equivalents	20,875,943	3,222,888
Total interest income	80,958,887	56,803,920
INTEREST EXPENSE		
Members' share accounts	7,065,368	4,773,215
Total interest expense	7,065,368	4,773,215
NET INTEREST INCOME	73,893,519	52,030,705
PROVISION (BENEFIT) FOR LOAN LOSSES	2,401,383	(1,344,480)
NET INTEREST INCOME AFTER PROVISION (BENEFIT) FOR LOAN LOSSES	71,492,136	53,375,185
NONINTEREST INCOME		
Interchange income, net	26,144,694	24,867,667
Other fees and charges	19,399,630	16,361,433
Other income	17,738,474	15,325,091
Gain on sale of loans, net	1,419,500	5,418,205
Gain on property held-for-sale, net	178,340	-
Loss on disposal of property and equipment	(191,933)	(24,859)
Total noninterest income	64,688,705	61,947,537
NONINTEREST EXPENSE		
Compensation and benefits	64,815,507	58,787,129
Operations	40,699,363	34,905,871
Occupancy and equipment	5,904,367	5,753,076
Total noninterest expense	111,419,237	99,446,076
NET INCOME	$ 24,761,604	$ 15,876,646

See accompanying notes.

Consolidated Statements of Comprehensive (Loss) Income

	Years Ended December 31, 2022	Years Ended December 31, 2021
NET INCOME	$ 24,761,604	$ 15,876,646
OTHER COMPREHENSIVE LOSS		
Securities available-for-sale		
Unrealized holding loss arising during the year, net	(94,192,142)	(8,671,546)
Total other comprehensive loss	(94,192,142)	(8,671,546)
COMPREHENSIVE (LOSS) INCOME	$ (69,430,538)	$ 7,205,100

See accompanying notes.

Consolidated Statements of Members' Equity

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE, December 31, 2020	$ 30,424,552	$ 275,818,212	$ (1,788,291)	$ 304,454,473
Net income	-	15,876,646	-	15,876,646
Other comprehensive loss	-	-	(8,671,546)	(8,671,546)
BALANCE, December 31, 2021	30,424,552	291,694,858	(10,459,837)	311,659,573
Reserve transfers	(30,424,552)	30,424,552	-	-
Net income	-	24,761,604	-	24,761,604
Other comprehensive loss	-	-	(94,192,142)	(94,192,142)
BALANCE, December 31, 2022	$ -	$ 346,881,014	$ (104,651,979)	$ 242,229,035

See accompanying notes.

	Years Ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 24,761,604	$ 15,876,646
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	4,521,444	4,823,802
Gain on sale of property held-for-sale	(178,340)	-
Amortization of investments, net	3,562,797	12,474,595
Provision (benefit) for loan losses	2,401,383	(1,344,480)
Amortization of intangible assets	557,550	145,350
Appreciation of cash surrender value life insurance	(1,811,020)	(1,255,011)
Loss on disposal of property and equipment	191,933	24,859
Gain on sale of loans held-for-sale	(1,419,500)	(5,418,205)
Noncash operating leases expense	89,027	-
Amortization of finance lease	(366,807)	-
Net change in operating assets and liabilities		
Loans held-for-sale	3,747,165	12,964,280
Accrued interest receivable	(2,869,959)	355,549
NCUSIF deposit	(5,340,618)	(3,747,062)
Other assets	(37,906,510)	746,024
Accrued expenses and other liabilities	10,392,394	(823,844)
Net cash provided by operating activities	332,543	34,822,503
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing time deposits	2,884,948	248,000
Purchases of securities available-for-sale	(195,225,991)	(745,738,619)
Proceeds from maturities and principal payments received on securities available-for-sale	178,939,093	268,370,070
Net purchase of central liquidity facility stock	(1,150,658)	(892,891)
Purchase of Federal Home Loan Bank stock	(4,319,800)	-
Investment in other securities	(750,000)	-
Net (decrease) increase in loans receivable	(250,304,531)	36,243,764
Purchase of loan participations	(13,593,210)	(27,827,333)
Purchase of cash surrender value of life insurance	-	(19,200,000)
Purchases of property and equipment	(4,108,712)	(2,841,067)
Proceeds from sale of property held-for-sale	3,408,340	-
Proceeds from sale of property and equipment	25,671	-
Cash consideration paid in acquisition, net of cash received	(64,108,286)	-
Net cash used in investing activities	(348,303,136)	(491,638,076)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	(33,676,496)	443,341,791
Net cash (used) provided by financing activities	(33,676,496)	443,341,791
CHANGE IN CASH AND CASH EQUIVALENTS	(381,647,089)	(13,473,782)
CASH AND CASH EQUIVALENTS, beginning of year	506,235,765	519,709,547
CASH AND CASH EQUIVALENTS, end of year	$ 124,588,676	$ 506,235,765
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Dividends paid on members' share accounts	$ 7,065,368	$ 4,773,215
Right-of-use asset obtained in exchange for operating lease liabilities	$ 1,808,984	$ -
Fair value of assets obtained in business combination	$ 544,903,107	$ -
Fair value of liabilities assumed in business combination	$ (480,794,821)	$ -

Note 1 – Summary of Significant Accounting Policies

Principles of consolidation – The consolidated financial statements include the accounts of Arizona Financial Credit Union (the "Credit Union") (formerly Arizona Federal Credit Union) and its wholly owned subsidiaries, Western States Financial Group, LLC ("WSFG") and Arizona Federal Insurance Solutions, LLC ("AFIS"). WSFG is engaged in providing auto-buying services to members through third-party relationships. AFIS was formed and organized under the laws of the State of Arizona on November 21, 2005. AFIS is licensed to own and operate general property/casualty and life insurance agencies. AFIS operates principally in the Southwest Region of the United States. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of business – The Credit Union is a state-chartered Credit Union organized under the laws of Arizona and subject to the jurisdiction of the Arizona Department of Insurance and Financial Institutions. The primary purpose of the Credit Union is to promote thrift among and create a source of credit for its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's charter and bylaws. The Credit Union's primary source of revenue is generated from loans to its members.

Field of membership and sponsor – The Credit Union is chartered with the State of Arizona. Membership eligibility includes those who have a family or household member who is already a member of the Credit Union; those who are members of Local First Arizona; and those who live, work, worship, attend school, or regularly conduct business in one of the following counties: Coconino, Gila, La Paz, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai, and Yuma.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses, fair value of assets acquired and liabilities assumed in a business combination, and fair value of financial instruments.

Acquisition accounting – Credit Union acquisitions are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, assets acquired, including identifiable intangibles, and liabilities assumed are recorded at estimated fair value at the date of acquisition. Any difference in purchase consideration over the fair value of assets acquired and liabilities assumed results in the recognition of goodwill, should purchase consideration exceed net estimated fair values, or bargain purchase gain, should estimated net fair values exceed purchase consideration. Expenses in connection with an acquisition are expensed as incurred.

Note 1 – Summary of Significant Accounting Policies (continued)

Fair value – Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the 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 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 or liabilities, quoted market prices that are not in an 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; and

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's financial instruments and other accounts subject to fair value measurement and/or disclosure are summarized in Note 14.

Cash and cash equivalents – Cash consists of funds due from banks, Credit Union cash, cash in vaults, automatic teller machines (ATMs), and cash on-hand. For purposes of the consolidated statements of cash flows, the Credit Union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Amounts due from financial institutions may, at times, exceed National Credit Union Administration (NCUA) insured limits.

Investments – Debt securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and carried at fair value. Unrealized gains and losses on securities available-for-sale are recognized as a direct increase or decrease in other comprehensive (loss) income. Amortization of purchased premiums are included in interest income from investments.

Note 1 – Summary of Significant Accounting Policies (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual securities available-for-sale below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. In determining whether OTTI exists, management considers many factors, including (1) the length of time and 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 investments 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 determined using the specific-identification method.

Interest-bearing time deposits in banks mature in varying maturities over the next year and are carried at cost net any purchase accounting premium or discount.

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in restricted capital stock of the FHLB in an amount equal to the greater of 1% of its Membership Asset Value, subject to a cap of $15 million, or 2.7% of advances from the FHLB. There is no ready market for the restricted FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial condition at cost. FHLB stock is periodically reviewed for impairment based on the ultimate recovery of par value (cost). Both cash and stock dividends are included in interest income from investments.

The Credit Union became a member of the Central Liquidity Facility (CLF) through the purchase of its capital stock. The capital stock purchase amount was calculated based on one-half of 1% of the Credit Union's paid-in and unimpaired capital and surplus. At least one-half of the payment for the subscription amount required that membership shall be transferred to the CLF. The remainder may be held by the Credit Union on call of the Board. As a member of the CLF, the Credit Union can request any amount of funding it needs up to its legal borrowing limit as long as the Credit Union is creditworthy and demonstrates liquidity needs.

Other investments are classified separately and stated at cost.

Loans receivable, net – Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses, net deferred loan origination fees and costs, and net discounts and premiums on acquired loans. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding plus any accretion or amortization on acquired loans.

The accrual of interest on loans is generally discontinued at the time the loan is 91 days delinquent. Loans are typically charged off no later than 180 days past due. Past-due status is based on the contractual terms of the loan and the actual number of days since the last payment date. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

Note 1 – Summary of Significant Accounting Policies (continued)

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for using the cash-basis method until the loans qualify for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain loan fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for loan losses – The Credit Union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased (decreased) by the provision (benefit) for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into three segments: commercial, residential real estate, and consumer. The Credit Union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics, or its method of monitoring and assessing credit risk. The commercial portfolio segment is comprised of commercial real estate and non-real estate loans. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgages. The classes within the consumer portfolio segment are automobile, credit card, and other consumer.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The Credit Union evaluates the residential real estate and consumer segments for impairment on a pooled basis, unless they represent Troubled Debt Restructurings (TDRs), as part of the general loan loss allowance and evaluates the commercial segment individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral, and cash flows indicates that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

Note 1 – Summary of Significant Accounting Policies (continued)

A general loan loss allowance is provided for loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer, and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The Credit Union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the Credit Union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and duration of the current business cycle.

In estimating the allowance for loan losses, the significant risk characteristics considered for the residential real estate segment were historical and expected future charge-offs, borrower's credit, and property collateral. The significant characteristics considered for the commercial segment were type of property, geographical concentrations and risks, and individual borrower financial condition.

Troubled debt restructurings (TDRs) – In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession to a member for other than an insignificant period of time that the Credit Union would not otherwise consider, the related loan is classified as a TDR. 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 avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants a member new terms that provide for a reduction of interest or principal, the Credit Union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

Loans held-for-sale – Loans are designated as held-for-sale when the Credit Union has a positive intent to sell them. Loans are transferred to the loans held-for-sale category at the lower of cost or fair market value. At the time of transfer, write-downs on the loans are recorded as charge-offs against the allowance for loan losses. Any subsequent lower of cost or market adjustment is determined on an individual basis and is recognized as a valuation allowance with any charges included in other noninterest income. Gains or losses on the sale of these loans, including direct origination costs and fees of which are deferred at the origination of the loan, are included in other noninterest income when realized.

Mortgage loans held-for-sale are generally sold without servicing rights retained, other than the industry standard representations and warranties.

Note 1 – Summary of Significant Accounting Policies (continued)

Sale of SBA loan participations – The Credit Union sells participations in fully funded Small Business Administration (SBA) loans. The Credit Union will generally sell only the guaranteed portion of the loan and retain the unguaranteed portion as a loan held for investment. The Credit Union issues various representations and warranties associated with the sale of loans. The Credit Union has not incurred any losses resulting from these provisions. The Credit Union also generally retains the right to service the loans sold. The book basis of SBA loan participations sold are reduced by the amount allocated to the loan servicing asset. Gains and losses on sales of SBA loan participations are based on the difference between the selling price and the carrying value of the related loan sold.

Loan servicing assets – When loans are sold with servicing rights retained, loan servicing assets are recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. All loan servicing assets are subsequently measured using the amortization method which requires loan servicing assets to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Loan servicing assets are evaluated for impairment based upon the fair value of the servicing rights as compared to the asset carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within other noninterest expenses on the consolidated statements of income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. No impairment on loan servicing assets was recorded for the years ended December 31, 2022 and 2021.

Servicing fee income, which is reported on the income statement as other noninterest income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of loan servicing assets is netted against loan servicing fee income. Servicing fees totaled approximately $355,233 and $400,090 for the years ended December 31, 2022 and 2021, respectively.

Mortgage banking derivatives – The Credit Union enters into commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market on a “best efforts” basis. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed. Interest rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives and are, therefore, recorded at fair value with changes in fair value recorded in earnings. The Credit Union had minimal interest rate lock commitments at December 31, 2022 and 2021, and any exposure from those commitments was determined to be immaterial.

Note 1 – Summary of Significant Accounting Policies (continued)

Other real estate owned – Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs 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. Subsequent to foreclosure, valuations are periodically performed by management and property held-for-sale is carried at the lower of the initial cost basis or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

Transfers of financial assets – Transfers of an entire financial asset, a group of entire financial assets, or participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the 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.

Property and equipment, net – Land is carried at cost. Buildings, furniture, and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 2 to 50 years. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

Property held-for-sale, net – Property held-for-sale includes two parcels of vacant land which were recorded on a nonrecurring basis at the lower of their respective carrying amount or fair value less cost to sell. The Credit Union obtains third-party valuations including appraisals and broker's price opinions to value the asset at fair value upon transfer to property held-for-sale.

Valuation of long-lived assets – The Credit Union evaluates long-lived assets and certain identifiable intangible assets 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. No long-lived assets were deemed to be impaired at December 31, 2022 and 2021.

NCUSIF deposit – The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured Credit Union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF insurance premiums and Temporary Corporate Credit Union Stabilization Fund (TCCUSF) assessment – The Credit Union is required to pay an annual insurance premium based on a percentage of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA did not approve an assessment during the years ended December 31, 2022 and 2021.

Note 1 – Summary of Significant Accounting Policies (continued)

Goodwill and intangible assets – Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. Intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values.

Accounts receivable from insurance – Accounts receivable of AFIS represent billed insurance premiums and commissions for insurance coverage provided by various insurance carriers represented by AFIS. Trade credit is generally extended on a short-term basis; thus, trade receivables do not bear interest. It also includes a contract asset and a receivable which represents the bonus and contingent commissions revenues estimated to be received during 2022. The total amount of accounts receivable of AFIS included in other assets on the consolidated statements of financial condition is $2,655,261 and $2,364,260 as of December 31, 2022 and 2021, respectively.

AFIS follows the direct write-off method of recognizing uncollectible accounts receivable, which management believes approximates the allowance method. The direct write-off method recognizes a bad debt expense only when a specific account is determined to be uncollectible. Under certain circumstances, uncollectible accounts receivable are charged directly against a producer's commissions. In the opinion of the management of AFIS, no existing accounts receivable are deemed uncollectible. For the year ended December 31, 2022, AFIS recorded bad debt expense in the amount of $17. For the year ended December 31, 2021, AFIS recorded bad debt expense in the amount of $250.

Cash surrender value of life insurance – The carrying amount of cash surrender value of life insurance approximates its fair value, net of any surrender charges.

Members' share accounts – Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors based on an evaluation of current and future market conditions.

Members' equity – Historically, the Credit Union was required by regulation to maintain a statutory reserve referred to as "regular reserves." This reserve, which represented a regulatory restriction on accumulated earnings, was not available for the payment of dividends. Due to regulatory changes in 2022, this category of equity was renamed "other reserves," and previous amounts within regular reserves were transferred into undivided earnings. Going forward, if capital levels deteriorate to where the Credit Union is no longer classified as well-capitalized, the Credit Union may be subject to earnings transfers back into other reserves which are restricted for payment of dividends.

Note 1 – Summary of Significant Accounting Policies (continued)

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes. However, effective July 1, 2022, with approval of the Credit Union's change in charter from federal to state, the Credit Union is subject to unrelated business income tax. The Credit Union's wholly owned subsidiaries, WSFG and AFIS, are subject to state and federal income tax. Operations of the Credit Union and wholly owned subsidiaries resulted in an insignificant amount of income taxes for the years ended December 31, 2022 and 2021.

Advertising costs – Advertising costs are generally charged to operations when incurred. Certain advertising costs related to prepaid marketing campaigns are capitalized and expensed as the advertising takes place. Advertising costs were $2,799,178 and $2,692,787 for the years ended December 31, 2022 and 2021, respectively.

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, and gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the equity section on the consolidated statements of financial condition.

Leases - On January 1, 2022, the Credit Union adopted FASB Accounting Standards Update (ASU) No. 2016-02*, Leases* (Topic 842). ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use (ROU) asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period 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. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis.

The Credit Union adopted the standard using the modified retrospective transition approach. The new standard provides for a number of practical expedients in transition. The Credit Union elected the package of practical expedients, which permits the Credit Union to not reassess under the new standard prior conclusions about lease identification, lease classification, and initial direct costs. The Credit Union also elected the use-of-hindsight and elected the practical expedient to not separate lease and non-lease components on real estate leases where the Credit Union is the lessee. The Credit Union did not elect the practical expedient pertaining to land easement as it is not applicable.

The Credit Union has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to-month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized. The adoption of this ASU on January 1, 2022, created ROU assets of $1,808,984 and operating lease liabilities of $1,903,651. Refer to Note 7 for further discussion on leases.

Note 1 – Summary of Significant Accounting Policies (continued)

Summary of Recent Accounting Standards Issued But Not Yet Adopted in 2022

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The FASB is issuing this ASU to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires enhanced disclosures and judgments in estimating credit losses and also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This original amendment was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In October 2019, the FASB unanimously approved a vote to delay the effective date of this ASU to be effective for fiscal years beginning after December 15, 2022. Management is currently finalizing the evaluation of the Credit Union's allowance for credit losses.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statements of financial condition date but before the consolidated financial statements are available to be issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Credit Union's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial condition but arose after the consolidated statements of financial condition date and before the consolidated financial statements are available to be issued. The Credit Union has evaluated subsequent events through March 24, 2023, which is the date the consolidated financial statements became available to issue. See Note 17, "Subsequent Events," for additional information related to subsequent events.

Reclassifications – Certain reclassifications have been made to the prior year's consolidated financial statements to conform with current year presentation. These reclassifications had no impact on previously reported net income or members' equity.

Note 2 – Investments

The amortized cost and fair value of securities available-for-sale at December 31 are as follows:

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and federal agency securities	$ 97,768,231	$ 51,760	$ (578,240)	$ 97,241,751
Collateralized mortgage obligations	67,839,702	-	(8,068,614)	59,771,088
Mortgage-backed and asset-backed securities	913,078,827	498,586	(96,527,819)	817,049,594
Municipals	10,569,817	120,520	(148,172)	10,542,165
	$ 1,089,256,577	$ 670,866	$ (105,322,845)	$ 984,604,598

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency securities	$ 15,523,309	$ 148,008	$ (153,184)	$ 15,518,133
Collateralized mortgage obligations	80,492,936	7,542	(964,904)	79,535,574
Mortgage-backed and asset-backed securities	819,256,573	667,990	(10,165,289)	809,759,274
	$ 915,272,818	$ 823,540	$ (11,283,377)	$ 904,812,981

Note 2 – Investments (continued)

Gross unrealized losses and fair value by length of time the individual securities have been in a continuous unrealized loss position at December 31 are as follows:

2022	Fair Value	Continuous Unrealized Losses Existing for: Less than 12 Months	Continuous Unrealized Losses Existing for: 12 Months or Longer	Total Unrealized Losses
U.S. Treasury and federal agency securities	$ 91,470,880	$ (489,269)	$ (88,971)	$ (578,240)
Collateralized mortgage obligations	59,771,088	(244)	(8,068,370)	(8,068,614)
Mortgage-backed and asset-backed securities	779,596,527	(11,264,384)	(85,263,435)	(96,527,819)
Municipals	5,846,129	(148,172)	-	(148,172)
	$ 936,684,624	$ (11,902,069)	$ (93,420,776)	$ (105,322,845)
2021				
Federal agency securities	$ 9,942,794	$ -	$ (153,184)	$ (153,184)
Collateralized mortgage obligations	78,930,354	(195,167)	(769,737)	(964,904)
Mortgage-backed and asset-backed securities	762,603,228	(7,040,653)	(3,124,636)	(10,165,289)
	$ 851,476,376	$ (7,235,820)	$ (4,047,557)	$ (11,283,377)

As of December 31, 2022, 165 investments had been in a continuous unrealized loss position for less than 12 months and 130 had been in a continuous unrealized loss position for 12 months or longer. As of December 31, 2021, 96 investments had been in a continuous unrealized loss position for less than 12 months and 33 had been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

The majority of unrealized losses are related to the Credit Union's mortgage-backed securities. At December 31, 2022, 100% of the mortgage-backed securities held by the Credit Union were issued by U.S. government-sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Credit Union does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Credit Union does not consider these securities to be other-than-temporarily impaired at December 31, 2022.

Note 2 – Investments (continued)

The amortized cost and fair value of available-for-sale securities by contractual maturity are shown below. Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities and collateralized mortgage obligations may differ from the contractual maturities. Mortgage-backed securities and collateralized mortgage obligations are therefore classified separately with no specific maturity date.

2022	Amortized Cost	Fair Value
Less than one year	$ 43,590,374	$ 43,487,530
One to five years	43,985,510	43,768,420
Five to ten years	6,150,283	5,987,096
More than ten years	14,611,881	14,540,870
	108,338,048	107,783,916
Collateralized mortgage obligations, mortgage-backed and asset-backed securities	980,918,529	876,820,682
	$1,089,256,577	$ 984,604,598
2021		
One to five years	$ 975,608	$ 962,569
Five to ten years	3,389,707	3,454,911
More than ten years	11,157,994	11,100,653
	15,523,309	15,518,133
Collateralized mortgage obligations, mortgage-backed and asset-backed securities	899,749,509	889,294,848
	$ 915,272,818	$ 904,812,981

During the years ended December 31, 2022 and 2021, the Credit Union made no sales of securities.

Other investments at December 31 consist of the following:

	2022	2021
Federal Home Loan Bank stock	$ 15,706,200	$ 8,590,500
Central Liquidity Facility (CLF) stock	6,340,230	5,189,572
Other	770,000	20,000
	$ 22,816,430	$ 13,800,072

The Credit Union is a member of the CLF, where it maintains capital stock of the CLF and has a credit facility as described in Note 9.

Note 3 – Loans Receivable, Net

Total loans outstanding by portfolio segment and class of loan at December 31 are as follows:

	2022	2021
Commercial		
Commercial – non real estate	$ 61,719,559	$ 37,935,141
Commercial real estate	649,296,774	406,680,087
	711,016,333	444,615,228
Residential real estate		
First mortgage	240,423,403	166,167,989
HELOC and other mortgage	167,089,973	107,711,680
	407,513,376	273,879,669
Consumer		
Automobile	471,831,436	356,867,243
Credit card	99,853,608	91,577,575
Other consumer	33,685,703	28,547,472
	605,370,747	476,992,290
Total loans	1,723,900,456	1,195,487,187
Deferred loan origination costs (fees), net	1,859,138	(118,842)
Discount on acquired loans, net	(16,518,132)	(1,257,492)
Allowance for loan losses	(30,742,811)	(28,138,139)
Total loans receivable, net	$ 1,678,498,651	$ 1,165,972,714

Note 3 – Loans Receivable, Net (continued)

The allowance for loan losses and loans outstanding, by portfolio segment, at December 31 is as follows:

2022	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses				
Beginning balance	$ 10,004,978	$ 5,604,864	$ 12,528,297	$ 28,138,139
Charge-offs	-	(145,533)	(5,402,153)	(5,547,686)
Provision (benefit) for loan losses	(3,536,216)	1,002,930	4,934,669	2,401,383
Recoveries	1,797,961	1,071,647	2,881,367	5,750,975
Ending balance	$ 8,266,723	$ 7,533,908	$ 14,942,180	$ 30,742,811
Ending balance: individually evaluated for impairment	$ -	$ 75,179	$ 10,299	$ 85,478
Ending balance: collectively evaluated for impairment	8,266,723	7,458,729	14,931,881	30,657,333
Ending balance	$ 8,266,723	$ 7,533,908	$ 14,942,180	$ 30,742,811
Recorded investment in loans				
Ending balance: individually evaluated for impairment	$ 648,667	$ 2,343,019	$ 276,660	$ 3,268,346
Ending balance: collectively evaluated for impairment	710,367,666	405,170,357	605,094,087	1,720,632,110
Ending balance	$ 711,016,333	$ 407,513,376	$ 605,370,747	$1,723,900,456

2021	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses				
Beginning balance	$ 8,951,321	$ 5,774,409	$ 15,210,685	$ 29,936,415
Charge-offs	(78,904)	(47,375)	(4,897,435)	(5,023,714)
Provision (benefit) for loan losses	1,127,746	(1,208,550)	(1,263,676)	(1,344,480)
Recoveries	4,815	1,086,380	3,478,723	4,569,918
Ending balance	$ 10,004,978	$ 5,604,864	$ 12,528,297	$ 28,138,139
Ending balance: individually evaluated for impairment	$ 214,916	$ 114,436	$ 6,684	$ 336,036
Ending balance: collectively evaluated for impairment	9,790,062	5,490,428	12,521,613	27,802,103
Ending balance	$ 10,004,978	$ 5,604,864	$ 12,528,297	$ 28,138,139
Recorded investment in loans				
Ending balance: individually evaluated for impairment	$ 7,966,517	$ 2,619,841	$ 141,807	$ 10,728,165
Ending balance: collectively evaluated for impairment	436,648,711	271,259,828	476,850,483	1,184,759,022
Ending balance	$ 444,615,228	$ 273,879,669	$ 476,992,290	$1,195,487,187

Note 3 – Loans Receivable, Net (continued)

Credit quality indicators – The Credit Union assesses the credit quality of its commercial loans with an eight-grade risk rating system whereby a higher grade represents a higher level of credit risk. The eight-grade risk rating system can generally be classified into the following categories: pass, special mention, substandard, doubtful, and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention is considered a transitory grade, and generally, the Credit Union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss, but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

The credit quality of each class of commercial loan based on the internal risk grading system at December 31 is as follows:

2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial – non real estate	$ 60,691,465	$ 564,284	$ 463,810	$ -	$ 61,719,559
Commercial real estate	634,722,424	2,840,175	11,734,175	-	649,296,774
Total	$ 695,413,889	$ 3,404,459	$ 12,197,985	$ -	$ 711,016,333

2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial – non real estate	$ 35,545,610	$ 1,831,175	$ 558,356	$ -	$ 37,935,141
Commercial real estate	382,535,887	16,736,893	7,407,307	-	406,680,087
	$ 418,081,497	$ 18,568,068	$ 7,965,663	$ -	$ 444,615,228

Management grades loans other than commercial loans as performing or nonperforming. Nonperforming are defined as those loans that are more than 89 days past due or nonaccruing.

Note 3 – Loans Receivable, Net (continued)

The following tables present the credit risk profile of the Credit Union's residential real estate and consumer loans based on rating category and payment activity at December 31 is as follows:

2022	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
Performing	$ 240,423,403	$ 167,014,794	$ 471,628,222	$ 99,780,162	$ 33,685,703	$ 1,012,532,284
Nonperforming	-	75,179	203,214	73,446	-	351,839
	$ 240,423,403	$ 167,089,973	$ 471,831,436	$ 99,853,608	$ 33,685,703	$ 1,012,884,123

2021	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
Performing	$ 166,167,989	$ 107,561,285	$ 356,600,586	$ 91,557,785	$ 28,524,139	$ 750,411,784
Nonperforming	-	150,395	266,657	19,790	23,333	460,175
	$ 166,167,989	$ 107,711,680	$ 356,867,243	$ 91,577,575	$ 28,547,472	$ 750,871,959

Nonaccrual and past due loans – Information relating to the age and nonaccrual status of the loans by class at December 31 is as follows:

2022	Current	30-59 Days Past Due	60 Days or more Past Due	Total	Loans on Nonaccrual Status
Commercial – non real estate	$ 61,209,037	$ 231,063	$ 279,459	$ 61,719,559	$ 196,280
Commercial real estate	648,964,067	332,707	-	649,296,774	338,811
First mortgage	239,719,685	128,042	575,676	240,423,403	-
HELOC and other mortgage	166,344,466	532,775	212,732	167,089,973	75,179
Automobile	470,412,986	1,014,921	403,529	471,831,436	203,214
Credit card	99,395,151	207,056	251,401	99,853,608	73,446
Other consumer	33,393,322	237,378	55,003	33,685,703	-
	$ 1,719,438,714	$ 2,683,942	$ 1,777,800	$ 1,723,900,456	$ 886,930

2021	Current	30-59 Days Past Due	60 Days or more Past Due	Total	Loans on Nonaccrual Status
Commercial – non real estate	$ 37,902,918	$ 32,223	$ -	$ 37,935,141	$ -
Commercial real estate	406,680,087	-	-	406,680,087	550,480
First mortgage	164,692,324	1,154,897	320,768	166,167,989	-
HELOC and other mortgage	107,136,742	304,478	270,460	107,711,680	150,395
Automobile	355,772,928	684,450	409,865	356,867,243	266,657
Credit card	91,269,101	145,518	162,956	91,577,575	19,790
Other consumer	28,247,725	216,562	83,185	28,547,472	23,333
	$ 1,191,701,825	$ 2,538,128	$ 1,247,234	$ 1,195,487,187	$ 1,010,655

Note 3 – Loans Receivable, Net (continued)

There were no loans that were greater than 89 days past due and still accruing interest as of December 31, 2022 and 2021.

Impaired loans – Impaired loans individually evaluated for impairment at December 31 are as follows:

	2022		2021	
	Loans Outstanding	Related Allowance	Loans Outstanding	Related Allowance
With an allowance recorded				
Commercial – non real estate	$ -	$ -	$ 344,435	$ 214,916
HELOC and other mortgage	75,179	75,179	284,007	114,436
Other consumer	47,362	10,299	93,265	6,684
	$ 122,541	$ 85,478	$ 721,707	$ 336,036

Impaired loans individually evaluated for impairment without a specific allowance at December 31 are as follows:

	2022		2021	
	Loans Outstanding	Related Allowance	Loans Outstanding	Related Allowance
Without an allowance recorded				
Commercial – non real estate	$ 309,856	$ -	$ 214,775	$ -
Commercial real estate	338,811	-	7,407,307	-
First Mortgage	497,278	-	320,768	-
HELOC and other mortgage	1,770,562	-	2,015,066	-
Other consumer	229,298	-	48,542	-
	$ 3,145,805	$ -	$ 10,006,458	$ -

There were no loans modified as TDRs during the years ended December 31, 2022 and 2021. There were no commitments to fund any TDRs at December 31, 2022 or 2021.

During the years ended December 31, 2022 and 2021, the Credit Union purchased $13,593,210 and $27,827,333 of fully guaranteed commercial loan participations, respectively. The loans are guaranteed by the United States government through the SBA or the U.S. Department of Agriculture Rural Development (USDA). As the loans are fully guaranteed by the U.S. government through the respective programs, the Credit Union does not maintain an allowance for loan loss against these guaranteed loans. Total loan participation guaranteed under the SBA or USDA programs as of December 31, 2022 and 2021 was $143,460,520 and $185,443,989, respectively.

Note 3 – Loans Receivable, Net (continued)

Pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020, the Credit Union funded 518 loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the SBA. PPP loans have terms of two to five years and earn interest at 1%. In addition, the Credit Union received a fee of 1%–5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at December 31, 2022 and December 31, 2021, was $623,335 and $4,956,692, respectively. On June 5, 2020, the PPP Flexibility Act was signed into law that modified, among other things, rules governing the PPP payment deferral period. In October 2020, due to updated guidance from the SBA that PPP loan payments were to be deferred until SBA had remitted forgiveness funds to the lender if the Borrower applied for forgiveness within ten months after the end of their covered period, the Credit Union modified the first payment due dates for PPP loans that originated prior to June 5, 2020, and extended the payment deferral period from six to sixteen months. The extended payment deferral period will affect the timing over which the accretion of PPP net loan origination fees are recognized.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (the “Coronavirus Relief Act”) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under U.S. GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Credit Union elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. As of December 31, 2022, there were no loans modified as CARES Act deferrals and not subject to TDR accounting and reporting.

Note 4 – Business Combination

On October 1, 2022, the Credit Union completed its planned purchase of substantially all assets and assumption of liabilities of Horizon Community Bank, an Arizona state-chartered bank headquartered in Lake Havasu City, Arizona, and a wholly owned subsidiary of Horizon Bancorp, Inc. The transaction added six branches and expanded the Credit Union’s footprint into western Arizona. Under the terms of the agreement, the Credit Union acquired total assets of $509,172,308, loans of $251,029,579, and assumed total deposits of $476,392,959. Horizon Bancorp, Inc. received $101,400,000 in cash as consideration in connection with the transaction. The assets acquired and liabilities assumed, both intangible and tangible, in the merger were recorded at their estimated fair values as of the merger date and have been accounted for under the acquisition method of accounting.

Note 4 – Business Combination (continued)

Goodwill of $73,022,513 was recorded in connection with the transaction resulted from the ongoing business contribution of Horizon Community Bank and anticipated synergies arising from the combination of certain operational areas of the Credit Union. The following table summarizes total purchase price and the estimated fair values of assets acquired and liabilities assumed as of the respective acquisition date:

Cash	$ 101,400,000
Fair value of total consideration transferred	$ 101,400,000

Cash and cash equivalents	$ 37,291,714
Securities	179,434,681
Federal Home Loan Bank stock	2,795,900
Loans	251,029,579
Premises and equipment	8,781,271
Core deposit intangibles	19,283,465
Real estate owned	157,850
Other assets	10,397,848
Total assets acquired	509,172,308
Deposits	476,392,959
Other liabilities	4,401,862
Total liabilities assumed	480,794,821
Total identifiable net assets	$ 28,377,487
Goodwill	$ 73,022,513

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Credit Union believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance related to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include cash and stock of the FHLB of $37,291,714 and $2,795,900 on the date of acquisition, respectively.

Note 5 – Property and Equipment

The composition of property and equipment at December 31 is summarized as follows:

	2022	2021
Land	$ 13,407,234	$ 11,970,234
Buildings	51,880,953	45,309,166
Furniture and equipment	21,427,267	17,023,778
Leasehold improvements	1,604,601	1,567,599
Financed lease right of use assets	366,807	-
	88,686,862	75,870,777
Accumulated depreciation and amortization	(38,850,598)	(34,552,255)
	$ 49,836,264	$ 41,318,522

Property held-for-sale represents two parcels of land which are reported at the lower of cost or net realizable value. As of December 31, 2021, property held-for-sale was valued at $3,230,000. The Credit Union recognized no impairment losses on property held-for-sale for the year ended December 31, 2021. The Credit Union sold the property held-for-sale during 2022, recognizing a net gain on sale of $178,340 for the year ended December 31, 2022.

Depreciation and amortization for the years ended December 31, 2022 and 2021, totaled $4,521,444 and $4,823,802, respectively.

The Credit Union leases certain office equipment under a finance lease that is included in property and equipment. See Note 7 for detail regarding this lease.

Note 6 – Members' Share Accounts

Members' share accounts at December 31 are summarized as follows:

	2022	2021
Regular share	$ 754,275,770	$ 686,391,140
Share draft	1,054,919,197	830,440,663
Money market	885,028,624	751,289,964
Share and Individual Retirement Account (IRA) certificate	184,955,548	168,340,909
	$ 2,879,179,139	$ 2,436,462,676

Individual share and IRA certificates of $250,000 or more for the years ended December 31, 2022 and 2021, were $48,385,584 and $57,113,279, respectively.

Note 6 – Members' Share Accounts (continued)

The scheduled maturities of share and IRA certificates are as follows:

Years Ending December 31,	
2023	$ 122,213,024
2024	28,169,066
2025	15,869,803
2026	9,585,560
2027	9,019,472
Thereafter	98,623
	$ 184,955,548

Note 7 – Lease Commitments

The Credit Union adopted FASB Topic 842 as of January 1, 2022. See Note 1 regarding transition guidance related to the new standard.

The Credit Union determines if an arrangement is or contains a lease at contract inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities in the Credit Union's consolidated statement of financial condition at December 31, 2022. Finance leases are included in property and equipment and accrued expenses and other liabilities in the Credit Union's consolidated statements of financial condition at December 31, 2022.

Right-of-use assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Credit Union uses the implicit lease rate when readily determinable. As most of the Credit Union's leases do not provide an implicit rate, the Credit Union has elected to use the risk-free rate, or the closest term US government treasury bill, under the private company election as the risk-free rate in calculating the amount to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment.

The Credit Union has operating leases on six branches and a financed lease on office equipment. These leases are generally for periods of 5 to 10 years with various renewal options. The Credit Union considered certain renewal options in the measurement of the Credit Union's right-of-use assets and lease liabilities if they are reasonably certain to be exercised. Variable lease payments that are dependent on an index or a rate were considered in the initially measured using the index or rate at the commencement date and included in the measurement of the lease liability. Variable lease payments that are not dependent on an index or a rate are excluded from the measurement of the lease liability and are recognized in profit and loss. Variable lease payments are defined as payments made for the right to use an asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

Note 7 – Lease Commitments (continued)

The Credit Union has made a policy election to exclude the recognition requirements of Topic 842 to all classes of leases with original terms of 12 months or less. Instead, the short-term lease payments are recognized in profit or loss on a straight-line basis over the lease term.

The Credit Union has lease agreements with lease and non-lease components, which are generally accounted for separately. For real estate leases, non-lease components and other non-components, such as common area maintenance charges, real estate taxes, and insurance are not included in the measurement of the lease liability since they are generally segregated. For certain equipment leases, the Credit Union accounts for the lease and non-lease components as a single lease component using the practical expedient available for that class of assets.

The Credit Union does not have any material sub-lease agreements.

Information related to the Credit Union's leases is presented below:

	Classification	December 31, 2022
Right-of-use assets		
Operating leases	Operating lease right-of-use assets	$ 3,003,313
Finance leases	Property and equipment, net	366,807
Total right-of-use assets		3,370,120
Lease liabilities		
Operating leases	Operating lease liabilities	3,092,340
Finance leases	Accrued expenses and other liabilities	366,232
Total lease liabilities		$ 3,458,572
Weighted-average remaining lease term (in years) – operating		5.5
Weighted-average remaining lease term (in years) – finance		4.8
Weighted-average discount rate – operating		2.52%
Weighted-average discount rate – finance		3.66%

The components of lease expense were as follows:

	Classification	December 31, 2022
Operating lease costs		
Operating lease expense of right-of-use assets	Occupancy expense	$ 653,795
Finance lease costs		
Interest on lease liabilities	Occupancy expense	2,217
Amortization of right-of-use assets	Occupancy expense	18,651
Short-term lease cost	Occupancy expense	184,402
Total lease cost		$ 859,065

Prior to the adoption of ASU 2016-02 on January 1, 2022, lease expense included in occupancy expense during the year ended December 31, 2021, amounted to $826,212.

Note 7 – Lease Commitments (continued)

A maturity analysis of operating and finance lease liabilities and a reconciliation of undiscounted cash flows to the total lease liability as of December 31, 2022 is as follows:

	Operating Lease	Finance Lease
Lease payments due on or before		
December 31, 2023	$ 812,541	$ 81,504
December 31, 2024	721,177	81,504
December 31, 2025	427,852	81,504
December 31, 2026	437,258	81,504
December 31, 2027	398,695	61,128
Thereafter	600,480	-
Total undiscounted cashflows	3,398,003	387,144
Discount on cash flows	(305,663)	(20,912)
Total lease liability	$ 3,092,340	$ 366,232

Note 8 – Intangible Assets and Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The carrying amount of goodwill was $106,139,494 and $33,116,981 at December 31, 2022 and 2021, respectively.

Goodwill is tested annually, or more often if circumstances warrant, for impairment. Impairment exists when a reporting unit's carrying value exceeds its fair value. During the years ended December 31, 2022 and 2021, the Credit Union performed a qualitative assessment and determined it was more likely than not that the fair value of the reporting units exceeded its carrying value, including goodwill. As such, no impairment was recorded as of December 31, 2022 or 2021.

Core deposit and other intangibles include core deposit intangibles and customer relationship intangibles. The composition of core deposit and other intangibles as of December 31, 2022 and 2021, is as follows:

	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$19,283,465	$ (482,087)	$ -	$ -
Other customer relationship intangibles	730,000	(215,684)	825,908	(236,129)
Total	$20,013,465	$ (697,771)	$ 825,908	$ (236,129)

Amortization expense was $557,550 and 145,350 for the years ended December 31, 2022 and 2021, respectively.

Note 8 – Intangible Assets and Goodwill (continued)

The estimated aggregate future amortization expense of core deposit and other intangibles is as follows:

2023	$	1,994,710
2024		1,994,710
2025		1,994,710
2026		1,994,710
2027		1,994,710
Thereafter		9,342,144
	$	19,315,694

Note 9 – Borrowed Funds

Line of credit with the FHLB – The Credit Union maintains an advances and security agreement with the FHLB of San Francisco. The agreement requires the Credit Union to pledge its investment securities held in safekeeping by the FHLB and certain loans. The aggregate fair value of pledged securities was $630,486,704 and $648,777,817 at December 31, 2022 and 2021, respectively. The aggregate fair value of pledged loans was $133,839,768 and $143,988,210 as of December 31, 2022 and December 31, 2021, respectively. Maximum available borrowings are limited to 35% of total assets as of December 31, 2022 and 2021, and were approximately $847,679,817 and $915,294,070 at December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Credit Union has a letter of credit with the FHLB for $15,000,000. The letter of credit is used to cover uninsured public deposits. There were no outstanding borrowings under this arrangement at December 31, 2022 and 2021.

Federal Reserve Bank (FRB) discount window – The Credit Union maintains a secured borrowing arrangement through the FRB discount window. At December 31, 2022 and 2021, the Credit Union had investments securities held in safekeeping at FRB as collateral with outstanding fair values of $3,872,094 and $6,332,041, respectively. Maximum available borrowings for the FRB secured borrowing is determined as a percentage of collateral. There were no outstanding borrowings as of December 31, 2022 and 2021, under the FRB secured borrowing arrangement.

U.S. Bank – The Credit Union maintains an unsecured Federal Funds Purchasing Agreement with U.S. Bank. The agreement allows the Credit Union to borrow federal funds on a revolving 15-business-day basis at a rate agreed upon at the time of the transaction. There is no limit on the number of days within a calendar year that funds may be borrowed on an overnight basis. The maximum amount of funds available to the Credit Union at any time was $10,000,000 as of December 31, 2022 and 2021. There were no outstanding borrowings as of December 31, 2022 and 2021, under this borrowing arrangement.

Note 9 – Borrowed Funds (continued)

Central Liquidity Facility – In 2012, the Credit Union became a member of the CLF through the purchase of its capital stock. The capital stock purchase amount was calculated based on one-half of 1% of the Credit Union's paid-in and unimpaired capital and surplus. At least one-half of the payment for the subscription amount required that membership shall be transferred to the CLF. The remainder may be held by the Credit Union on call of the Board. As a member of the CLF, the Credit Union can request any amount of funding it needs up to its legal borrowing limit as long as the Credit Union is creditworthy and demonstrates liquidity needs. Each Facility advance must be secured with a first-priority security interest in assets of the Credit Union. As of December 31, 2022 and 2021, there was no collateral pledged and no outstanding borrowings under this arrangement.

Note 10 – Other Assets

Other assets at December 31 consist of the following:

	2022	2021
Prepaid expenses	$ 5,818,789	$ 4,648,211
Government guaranteed loan participations receivables	29,582,985	-
Other assets and receivables	19,675,715	10,784,669
	$ 55,077,489	$ 15,432,880

United States government guaranteed loan participations receivables – The Credit Union purchases United States government guaranteed loan participations with the SBA or USDA and such amounts are reported in loans receivable. When the Credit Union receives notification that these loans mature or are paid off, amounts are reclassed from loans receivable to other assets pending receipt of final payoff amounts from the United States government fiscal transfer agent.

Other assets and receivables – Other receivables are comprised primarily of serviced mortgage payments receivable, principal payments receivable from an investment brokerage firm, payments receivable from fiscal transfer agents for guaranteed commercial loan participations, and various clearing accounts.

Note 11 – Commitments and Contingencies

The Credit Union is 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 amounts recognized in the consolidated 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 the loans recorded in the consolidated financial statements.

Note 11 – Commitments and Contingencies (continued)

The following financial instruments were outstanding at December 31 whose contract amounts represent credit risk:

	2022	2021
Commercial – non real estate	$ 18,802,939	$ 3,589,585
Commercial real estate	40,708,352	31,188,572
Credit card	316,524,735	319,412,842
First mortgage	52,551,239	17,561,699
HELOC and other mortgage	106,331,828	69,844,101
Other consumer	18,016,748	18,417,231
Overdraft line	109,588,550	105,191,744
	$ 662,524,391	$ 565,205,774

As of December 31, 2022, there was $11,937,991 in loans approved but not funded.

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 member. Collateral held generally consists of certificates of deposit, share accounts, and real estate.

Legal contingencies – The Credit Union is party to various legal actions normally associated with the collection of loans and other business activities of financial institutions, the aggregate effect of which, in the opinion of management and legal counsel, would not be material to the consolidated financial condition of the Credit Union and subsidiaries.

Regulatory net worth requirements – In accordance with the regulatory requirements of HUD, governing non-supervised, the Credit Union is required to maintain a minimum net worth (as defined by HUD) of $1,000,000. At December 31, 2022, the Credit Union exceeded the regulatory net worth requirement by $22,351,459.

Note 12 – Employee Benefits

401(k) retirement plan – The Credit Union provides a 401(k) employee benefit plan that has a defined contribution retirement savings fund pension plan provision available to employees with at least 3 months of service who have attained the age of 18 years at the anniversary date of the plan. The plan provides for a portion of each participant's gross base compensation to be contributed to the plan based on the employee's number of years of service. Plan expenses for the years ended December 31, 2022 and 2021, totaled approximately $2,046,000 and $1,886,000, respectively.

Deferred compensation plan – The Credit Union has a 457(b) nonqualified deferred compensation plan for members of top management. Under the terms of the 457(b) plan, contributions made to the plan are the responsibility of the plan participants. The Credit Union is responsible for administering the plan and provides no funding. The deferred compensation investments are shown as assets on the consolidated financial statements and are available to creditors in the event of liquidation. The deferred compensation investments totaled approximately $769,000 and $754,000 as of December 31, 2022 and 2021, respectively. The Credit Union has accrued liabilities of approximately $769,000 and $754,000 at December 31, 2022 and 2021, respectively.

Supplemental Executive Retirement Plan (SERP) – Effective November 13, 2014, the Credit Union has a SERP for certain key members of management. The plan provides a cash benefit in the amount specified in the participation agreement by remaining employed with the Credit Union until the normal distribution date(s) for such payment(s). The cash surrender value of life insurance policies amounts to $75,003,425 and $65,298,958 with a weighted-average yield of 2.66% and 2.40% as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, the Credit Union recognized approximately $1,811,000 and $1,255,000, respectively, in investment income related to the appreciation in cash surrender value, which was used to offset contributions to the Credit Union's SERP.

The Credit Union's liability under the SERP was approximately $2,141,000 and $1,513,000 as of December 31, 2022 and 2021, respectively. The costs associated with the plan totaled approximately $663,000 and $608,000 for the years ended December 31, 2022 and 2021, respectively.

The Credit Union also has a Survivor Income Plan in connection with the cash surrender value of life insurance policies that provides death benefits to beneficiaries of participants who die while employed by the Credit Union. Such benefit automatically terminates upon employment or surrender of the life insurance and is limited to the available life insurance gains with the policy on any participant. No cash surrender value of the Credit Union will be impaired or used to provide a survivor income benefit.

Note 13 – Related-Party Transactions

In the normal course of business, the Credit Union extends credit to members of the Board of Directors, Supervisory Committee members, and executive officers. The aggregate loans to related parties at December 31, 2022 and 2021, totaled $905,830 and $959,248, respectively. Loans to related parties are made under the same terms available to other members. Shares from related parties at December 31, 2022 and 2021, totaled $9,383,638 and $7,870,686, respectively.

Note 14 – Fair Value Measurements

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities available-for-sale – Fair values of securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or on discounted cash flow models based on the expected payment characteristics of the underlying mortgage instruments.

Impaired loans receivable – The Credit Union evaluates the residential real estate and consumer segments for impairment on a pooled basis. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

Fair values of assets measured on a recurring basis at December 31 are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale	$ 984,604,598	$ -	$ 984,604,598	$ -
2021				
Securities available-for-sale	$ 904,812,981	$ -	$ 904,812,981	$ -

There were no transfers of assets between levels of valuation measurements during the years ended December 31, 2022 and 2021.

Fair values of assets measured on a nonrecurring basis at December 31 are summarized as follows:

		Fair Value Measurements at Reporting Date Using		
2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans receivable	$ 122,541	$ -	$ -	$ 122,541
Other real estate owned	157,850	-	-	157,850
2021				
Impaired loans receivable	$ 721,707	$ -	$ -	$ 721,707

Note 14 – Fair Value Measurements (continued)

Additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value at December 31 is summarized as follows:

2022		Fair Value	Valuation Technique	Unobservable Input	Range
Impaired loans receivable	$	122,541	Fair market value	Costs to sell	25%
Other real estate owned	$	157,850	Fair market value	Costs to sell	18%
2021					
Impaired loans receivable	$	721,707	Fair market value	Costs to sell	25%

Note 15 – Revenue from Contracts with Customers

All of the Credit Union's revenue from contracts with customers in the scope of Topic 606 is recognized in non-interest income. The following table presents the Credit Union's sources of non-interest for the years ended December 31, 2022 and 2021:

	Years Ended December 31, 2022	Years Ended December 31, 2021
NONINTEREST INCOME		
In-scope of Topic 606		
Service charges on members' share accounts		
Overdraft fees	$ 11,649,441	$ 9,046,743
Other fees	4,708,968	3,751,337
Interchange income, net	26,144,694	24,867,667
Other noninterest income (a)	15,096,714	13,947,484
	57,599,817	51,613,231
Not in-scope of Topic 606		
Fees and charges of loan accounts	3,041,221	3,563,353
Gain on sales of loans held-for-sale	1,419,500	5,418,205
Gain on property held-for-sale	178,340	-
Loss on disposal of property and equipment	(191,933)	(24,859)
Other noninterest (loss) income (b)	2,641,760	1,377,607
Total noninterest income	7,088,888	10,334,306
Total non-interest income	$ 64,688,705	$ 61,947,537

(a) Includes ATM fees, insurance commissions, and investment services income.
(b) Includes net loan servicing income and income on life insurance policies.

Note 15 – Revenue from Contracts with Customers (continued)

Fees and charges – The Credit Union earns fees on deposit and transaction accounts related to fee income for periodic service charges on deposit accounts and transaction-based fees such as those related to overdrafts, ATM charges, and wire transfer fees. Performance obligations for periodic service charges on deposit accounts are typically short-term in nature and are generally satisfied on a monthly basis, while performance obligations for other transaction-based fees are typically satisfied at a point in time (which may consist of only a few moments to perform the service or transaction) with no further obligations on behalf of the Credit Union to the member. Periodic service charges are generally collected monthly directly from the member's deposit account, and at the end of a statement cycle, while transaction-based service charges are typically collected at the time of or soon after the service is performed.

Interchange income – Debit/ATM interchange income represents fees earned when a debit card issued by the Credit Union is used for a transaction. These fees are earned each time a request for payment is originated by a member debit cardholder at a merchant. In these transactions, the Credit Union transfers funds from the debit cardholder's account to a merchant through a payment network at the request of the debit cardholder by way of the debit card transaction. The related performance obligations are generally satisfied when the transfer of funds is complete, which is generally a point in time when the debit card transaction is processed, and the fees are earned when the cost of the transaction is charged to the customer's account. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

ATM fees – The Credit Union charges fees to members and non-members through ATM transactions, including point of sale and surcharges. ATM fees are reported as other noninterest income in the consolidated statements of income.

Insurance commissions and investment services income – The Credit Union arranges for its members to purchase insurance products and brokerage services from contracted service providers. Insurance commissions and investment services income are reported as other non-interest income in the consolidated statements of income.

Principal versus agent considerations – When more than one party is involved in providing goods or services to a customer, ASC 606 requires the Credit Union to determine whether it is the principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal, and therefore records revenue on a gross basis, if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The Credit Union most commonly acts as a principal and records revenue on a gross basis.

Note 15 – Revenue from Contracts with Customers (continued)

Practical expedients – The Credit Union has elected to apply the practical expedient allowed in ASC 340-40-25-4, which permits the Credit Union to immediately expense contract acquisition costs, such as commissions, when the asset that would have resulted from capitalizing these costs would be amortized in one year or less. The practical expedient described in ASC 606-10-32-18, which is associated with the determination of whether a significant financing component exists, is not currently applicable to the Credit Union.

Contract balances – The timing of revenue recognition may differ from the timing of cash settlements or invoicing to customers. The Credit Union records contract liabilities, or deferred revenue, when payments from customers are received or due in advance of providing services to customers. The Credit Union records contract assets or receivables when revenue is recognized prior to receipt of cash from the customer. The Credit Union generally invoices and receives payments for its services during the period or at the time services are provided and, therefore, does not have material contract assets or liabilities at period end.

Note 16 – Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under U.S. GAAP. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures, established by regulation to ensure capital adequacy, require the Credit Union to maintain minimum amounts and ratios of net worth to total assets. Further, due to regulatory capital changes effective January 1, 2022, credit unions with over $500,000,000 in assets are also required to calculate a Risk-Based Capital Ratio (RBCR) or a Complex Credit Union Leverage Ratio (CCULR), to determine its net worth classification. The Credit Union elected the CCULR option for calculating capital adequacy during 2022. As of December 31, 2021, the Credit Union was required to calculate a risk-based net worth (RBNW) ratio that establishes whether the Credit Union will be considered "complex" under the regulatory framework. As of December 31, 2021, the Credit Union's RBNW ratio was 5.89%. The minimum ratio to be considered complex under the regulatory framework is 6.00%.

To be categorized as "well capitalized" as of December 31, 2022, the Credit Union must maintain a minimum net worth ratio of 7.00% of assets, as well as a CCULR of 9.00% or more. As of December 31, 2022, the Credit Union's net worth ratio and CCULR was 10.94%. Management believes, as of December 31, 2022, that the Credit Union meets all capital adequacy requirements to which it is subject. In addition, there are no conditions or events since that notification that management believes have changed the Credit Union's category.

Note 16 – Regulatory Capital (continued)

To be categorized as “well capitalized” as of December 31, 2021 the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. As of December 31, 2021, the Credit Union’s net worth ratio was 11.59%. Management believes, as of December 31, 2021, that the Credit Union meets all capital adequacy requirements to which it is subject. In addition, there are no conditions or events since that notification that management believes have changed the Credit Union’s category.

Note 17 – Subsequent Events

Subsequent events have been evaluated through March 24, 2023, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Arizona Financial Credit Union and Subsidiaries
Title II Single Family Program Lenders' – Adjusted Net Worth Computation

FHA servicing portfolio at year-end December 31, 2022	$ -
FHA originations – FHA-insured Title II loan originations during the fiscal year	2,429,370
FHA purchases – FHA-insured Title II loan originator purchases during the fiscal year	-
Total FHA loan activity	2,429,370
FHA-insured Title II loan originations retained at fiscal year-end	-
FHA-insured Title II third-party originator purchases retained at the end of the fiscal year	-
Adjustments	-
Total adjusted FHA loan activity	$ 2,429,370
Net worth required	$ 1,000,000
Additional net worth required	-
Total net worth	1,000,000
Net worth per balance sheet	242,229,035
Less unacceptable assets	218,877,576
Adjusted net worth	23,351,459
Minimum net worth required	1,000,000
Adjusted net worth above required minimum amount	$ 22,351,459

Balance Sheet – Assets

Line Item #	Title	Value
100	Cash and Cash Equivalents	$ 124,588,676
101	Escrow Deposit Cash	$ -
102	Restricted Cash / Compensating Balances	$ -
103	Trading Account Securities	$ -
104	Net Mortgage Servicing Rights	$ 45,913
105	Other Real Estate Owned at Net Realizable Value	$ 157,850
106	Loans Held for Investment	$1,678,498,651

Balance Sheet – Unacceptable Assets

Line Item #	Title	Value
200	Pledged Assets	$ -
201	Assets Due from an Officer, Stockholder, or Related Entity	$ 905,830
202	Personal Interest Investment	$ -
203	Investment in Related Entity, Greater than Equity as Adjusted	$ -
204	Intangible Assets, Net of Amortization	$ 125,455,188
205	Value of Servicing Contract not in Accordance with ASC 948 and ASC	$ -
206	Assets not Readily Marketable	$ -
207	Marketable Security in Excess of Cost or Market	$ 670,866
208	Amount in Excess of Foreclosure Value	$ -
209	Assets Used for Personal Enjoyment	$ -
210	Other Unacceptable Assets	$ 49,258,700
211	Contributed Property in Excess of Appraised Value	$ -
212	Real Property	$ 36,768,203
213	Prepaid Expenses	$ 5,818,789
214	Deferred Tax Asset	$ -
215	Total Unacceptable Assets	$ 218,877,576

Balance Sheet – Total Assets as Reported

Line Item #	Title	Value
250	Total Assets as Reported	$3,171,193,266

Balance Sheet – Liability

Line Item #	Title	Value
300	Escrows Payable	$ -

Statement of Operations and Equity – Revenue

Line Item #	Title	Value
409	Correspondent and Broker Fee Income	$ 1,419,500
410	Other Retail Origination Income	$ -
412	Other Income (Loss) Not Related To Mortgage Lending Activities	$ 144,228,092

Statement of Equity

Line Item #	Title	Value
500	Balance at Beginning of the Year, as Reported	$ 311,659,573
501	Prior Period Adjustments	$ -
502	Balance at Beginning of the Year, Restated	$ 311,659,573
503	Net Income	$ 24,761,604
504	Dividend / Distribution	$ -
505	Contributions – from Cash Flow Statement	$ -
506	Contributions – Non-cash	$ -
507	Other Equity	$ (94,192,142)
508	Ending Balance	$ 242,229,035

Net Worth

Line Item #	Title	Value
600	FHA Servicing Portfolio	$ -
601	FHA Originations	$ 2,429,370
602	FHA Purchases	$ -
603	Subtotal – FHA Loan Activity	$ 2,429,370
604	FHA Origination Servicing Retained	$ -
605	FHA Purchase Servicing Retained	$ -
606	Subtotal – Servicing Retained Adjustments	$ -
607	Total Adjusted FHA Loan Activity	$ 2,429,370
608	Net Worth Required Baseline	$ 1,000,000
609	Additional Net Worth Required	$ -
610	Total Minimum Net Worth Required	$ 1,000,000
611	Stockholder Equity – Ending Balance	$ 242,229,035
612	Total Unacceptable Assets	$ 218,877,576
613	Adjusted Net Worth	$ 23,351,459
614	Adjusted Net Worth Above / Below Required Minimum Amount	$ 22,351,459

Liquidity

Line Item #	Title	Value
700	Cash and Cash Equivalents	$ 124,588,676
701	Trading Account Securities	$ -
702	Total of Liquid Assets per HUD Guidelines	$ 124,588,676
703	Liquid Assets Required	$ 200,000
704	Liquid Assets Above / Below Required Amount	$ 124,388,676

MOSSADAMS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors and Supervisory Committee
Arizona Financial Credit Union and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Arizona Financial Credit Union and Subsidiaries, which comprise the consolidated statement of financial condition as of December 31, 2022, and the related consolidated statements of income, comprehensive (loss) income, members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Arizona Financial Credit Union and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arizona Financial Credit Union and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona Financial Credit Union and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Financial Credit Union and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Phoenix, Arizona
March 24, 2023

MOSSADAMS

Report of Independent Auditors

The Board of Directors and Supervisory Committee
Arizona Financial Credit Union and Subsidiaries

Report on Compliance for Major HUD Program

Opinion on Major HUD Program

We have audited Arizona Financial Credit Union and Subsidiaries' compliance with the compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the "Guide") that could have a direct and material effect on Arizona Financial Credit Union and Subsidiaries' major U.S. Department of Housing and Urban Development (HUD) program for the year ended December 31, 2022. Arizona Financial Credit Union and Subsidiaries' major HUD program is the Title II Single Family Lender Program, and the related direct and material compliance requirements are as follows: Quality Control Plan; Branch Office Operations; Loan Origination; Financial and Activity Reports; Lender Annual Recertification, Adjusted Net Worth, Liquidity, and Licensing; Loan Settlement; and Kickbacks.

In our opinion, Arizona Financial Credit Union and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on their major HUD program for the year ended December 31, 2022.

Basis for Opinion on Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Arizona Financial Credit Union and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major HUD program. Our audit does not provide a legal determination of Arizona Financial Credit Union and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to its HUD programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Arizona Financial Credit Union and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Arizona Financial Credit Union and Subsidiaries' compliance with the requirements of the major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Arizona Financial Credit Union and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of Arizona Financial Credit Union and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Guide, but not for purpose of expressing an opinion on the effectiveness of Arizona Financial Credit Union and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Phoenix, Arizona
March 24, 2023

Our audit disclosed no findings, questioned costs, and/or recommendations that are required to be reported herein under the HUD Consolidated Audit Guide during 2022.

Status of Prior Findings, Questioned Costs, and Recommendations
Year Ended December 31, 2022

Our audit disclosed no findings, questioned costs, and/or recommendations that are required to be reported herein under the HUD Consolidated Audit Guide during 2022.