SharePoint Credit Union

Financial Statements

Year Ended December 31, 2023

WIPFLI

WIPFLI

Independent Auditor's Report

Supervisory Committee
SharePoint Credit Union
Bloomington, Minnesota

Opinion

We have audited the accompanying financial statements of SharePoint Credit Union (the "Credit Union"), which comprise the balance sheet as of December 31, 2023, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SharePoint Credit Union as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

Basis for Opinion

We conducted our audit 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 SharePoint Credit Union and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Wipfli LLP

Wipfli LLP

Minneapolis, Minnesota
May 2, 2024

SharePoint Credit Union
Balance Sheet

As of December 31,	2023
Assets:	
Cash and cash equivalents	$ 13,641,885
Other interest-bearing deposits	3,224,000
Securities available for sale (amortized cost of $88,421,482 as of December 31, 2023)	80,953,016
Loans, net of allowance for credit losses of $1,440,359 at December 31, 2023	184,807,519
Premises and equipment, net	4,471,491
Other investments	399,707
Accrued interest receivable	527,072
Foreclosed assets	61,786
NCUSIF deposit	2,562,533
Cash value of life insurance	5,108,340
Right of use asset	220,166
Other assets	2,149,382
Total assets	$ 298,126,897
Liabilities:	
Non-interest-bearing shares	$ 21,148,913
Interest-bearing shares	248,096,968
Total members' share and savings accounts	269,245,881
Accrued payroll	190,190
Lease liabilities - operating	221,224
Other liabilities	836,033
Total liabilities	270,493,328
Members' Equity:	
Regular reserve	4,464,762
Undivided earnings	28,164,441
Accumulated other comprehensive loss	(7,468,466)
Equity acquired in merger	2,472,832
Total members' equity	27,633,569
Total liabilities and members' equity	$ 298,126,897

See accompanying notes to financial statements.

SharePoint Credit Union
Statement of Income

Year Ended December 31	**2023**
Interest and dividend income:	
Loans, including fees	$ 9,405,908
Securities available for sale	1,172,911
Other	335,364
Total interest and dividend income	10,914,183
Interest expense:	
Members' share and savings accounts	2,786,476
Borrowed funds	57,919
Total interest expense	2,844,395
Net interest income	8,069,788
Provision for credit losses	63,447
Net interest income after provision for credit losses	8,006,341
Noninterest income:	
Service fees	1,401,697
Other noninterest income	811,694
Total noninterest income	2,213,391
Noninterest expense:	
Salaries and employee benefits	4,751,561
Occupancy and equipment	1,263,144
Advertising and promotions	372,380
Professional fees	337,138
Other noninterest expense	2,836,362
Total noninterest expense	9,560,585
Net income	$ 659,147

See accompanying notes to financial statements.

SharePoint Credit Union
Statement of Comprehensive Income

Year Ended December 31	**2023**
Net income	$ 659,147
Other comprehensive income:	
Unrealized gain on securities available for sale	2,469,972
Total other comprehensive income	2,469,972
Total comprehensive income	$ 3,129,119

See accompanying notes to financial statements.

SharePoint Credit Union

Statement of Changes in Members' Equity

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Equity Acquired in Merger	Total Members' Equity
Balances at January 1, 2022	$ 4,464,762	$ 27,605,305	$ (9,938,438)	$ 2,472,832	$ 24,604,461
Net income	-	659,147	-	-	659,147
Other comprehensive income	-	-	2,469,972	-	2,469,972
Cumulative effect of change in accounting principle (See Note 1)	-	(100,011)	-	-	(100,011)
Balances at December 31, 2023	$ 4,464,762	$ 28,164,441	$ (7,468,466)	$ 2,472,832	$ 27,633,569

See accompanying notes to financial statements.

SharePoint Credit Union

Statement of Cash Flows

Year Ended December 31, 2023	**2023**
Change in cash and cash equivalents:	
Cash flows from operating activities:	
Net income	$ 659,147
Adjustments to reconcile net income to net cash from operating activities:	
Net amortization of securities available for sale	176,188
Provision for credit losses	63,447
Provision for depreciation	314,657
Increase in cash value of life insurance	(95,464)
Changes in operating assets and liabilities:	
Accrued interest receivable	(19,334)
Other assets	(1,053,559)
Right of use asset	1,058
Accrued payroll	(14,173)
Other liabilities	(17,095)
Net cash from operating activities	14,872
Cash flows from investing activities:	
Decrease in other interest-bearing deposits	2,136,000
Proceeds from sales, calls, and maturities of securities available for sale	5,986,638
Net increase in loans	3,968,412
Capital expenditures on premises and equipment	(367,616)
Net increase in NCUSIF deposit	(5,139)
Net cash from investing activities	11,718,295
Cash flows from financing activities:	
Net decrease in members' share and savings accounts	(1,939,841)
Net decrease in borrowed funds	(5,000,000)
Net cash from financing activities	(6,939,841)
Net change in cash and cash equivalents	4,793,326
Cash and cash equivalents at beginning of year	8,848,559
Cash and cash equivalents at end of year	$ 13,641,885
Supplemental cash flow information:	
Cash paid during the year for:	
Interest	$ 2,862,858
Noncash investing and financing activities:	
Loans transferred to foreclosed assets	61,786
Lease liabilities arising from obtaining right-of use assets	221,224

See accompanying notes to financial statements.

Note 1: Summary of Significant Accounting Policies

Organization

SharePoint Credit Union (the "Credit Union") is a full-service state-charted cooperative association headquartered in Bloomington, Minnesota. The main loan and share accounts offered by the Credit Union are fully disclosed in Notes 4 and 7. Substantially, all of the loans are made within the Minnesota geographic area and are secured by specific items of collateral including consumer assets, commercial, and residential real estate.

Membership in the Credit Union is available to persons who live, work, workship, attend school, or conduct business in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington, or Wright Counties.

The significant risks associated with Credit Union include interest rate risk, credit risk, concentration risk, and liquidity risk.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less and are utilized in the daily operations of the Credit Union.

In the normal course of business, the Credit Union maintains cash and due from bank balances with a corporate credit union. Balances in these accounts may exceed the NCUA's insured limit of $250,000. Management believes this financial institution has a strong credit rating and that the credit risk related to these deposits is minimal.

Other Interest-Bearing Deposits

Other interest-bearing deposits consist of certificates of deposit at insured financial institutions. The interest-bearing deposits are carried at cost.

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Securities

Debt securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Effective January 1, 2023, the Credit Union evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Credit Union considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

If the Credit Union intends to sell, or it is more likely than not the Credit Union will be required to sell, the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the security's fair value at the reporting date with any incremental impairment recognized in earnings.

The Credit Union excludes accrued interest receivable from the amortized cost basis of securities available for sale when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities available for sale totaling $154,457 at December 31, 2023 was excluded from the amortized cost basis of securities available for sale.

The accrual of interest on a security available for sale is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income. No accrued interest was written off during 2023.

Note 1: Summary of Significant Accounting Policies (Continued)

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses on the sale of loans held for sale are determined using the specific-identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, deferred loan fees and costs, charge-offs, and an allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan-origination fees and direct origination costs are recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements.

The accrual of interest on a loan is discontinued when the loan becomes 90 days delinquent or whenever management believes the borrower will be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis or using the cost-recovery method until qualifying 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.

Allowance for Credit Losses on Loans and Unfunded Loan Commitments

The Credit Union adopted ASU No. 2016-13 and began accounting for credit losses under ASC 326, *Financial Instruments - Credit Losses*, on January 1, 2023. The new standard significantly changed the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss impairment model to an expected credit loss model. Refer to the "New Accounting Pronouncements" section of this note for more information on the impact to the consolidated financial statements.

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Credit Union's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

Management considers the following when assessing risk in the Credit Union's loan portfolio segments:

- Real estate loans are affected by the local real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Credit Union evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flow sufficiency to service debt at the time of origination.

- Auto loans are extended to individuals for the purchase of a personal vehicle. At the time of origination, the Credit Union evaluates the borrower's repayment ability through review of debt to income ratios and credit scores. Collateral valuations are obtained to support the loan amount.

- Other consumer loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Credit Union evaluates the borrower's repayment ability through a review of debt to income ratios and credit scores.

- Business loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other purposes. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flow of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan.

Effective January 1, 2023, the Credit Union uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Credit Union segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Credit Union's loan portfolio.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates loans with evidence of credit deterioration. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

The following describes the types of collateral that secure collateral dependent loans:

- Real Estate - First mortgages are primarily secured by first liens on residential real estate.

- Auto - New or used vehicles.

- Business loans considered collateral dependent are primarily secured by accounts receivable, inventory and equipment.

- Commercial Real Estate - Other are primarily secured by office and industrial buildings, warehouses, retail shopping facilities and various special purpose properties.

Management evaluates all collectively evaluated loans using the weighted average remaining life (WARM) methodology. The WARM methodology applies calculated quarterly net loss rates to collectively evaluated loan pools on a periodic basis based on the estimated remaining life of each pool. The estimated losses under the remaining life methodology are then adjusted for qualitative factors deemed appropriate by management.

The Credit Union excludes accrued interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling $372,615 at December 31, 2023 was excluded from the amortized cost basis of loans.

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Credit Union may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

Upon the Credit Union's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Note 1: Summary of Significant Accounting Policies (Continued)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Other Investments

Other investments include equity securities without a readily determinable fair value. The Credit Union has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Credit Union is required to hold Alloya stock, and transfer of the stock is substantially restricted. The Alloya stock is pledged as collateral for outstanding Alloya advances. Alloya stock are evaluated for impairment on an annual basis.

NCUSIF Deposit

Member savings accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF). Membership in the NCUSIF requires that the Credit Union place on deposit an amount equivalent to 1% of insured members' savings accounts. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the National Credit Union Administration (NCUA) Board.

Life Insurance

The Credit Union has purchased life insurance policies on certain key executives. Life insurance is measured at the amount that could be realized under the insurance contract as of the balance sheet date, which generally is the cash surrender value of the policy.

Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to a select group of senior management personnel. The loans are collateralized by the assignment of the cash surrender value of the respective life insurance policies. The policies are owned by the executives and they have sole control over the listed beneficiaries. At the time of retirement, the loan becomes due and payable and can be paid with the cash value of the life insurance policies, or with other personal funds at the executive’s discretion. The total value of the loans are included in loans, net on the balance sheet and was $3,195,412 at December 31, 2023.

Note 1: Summary of Significant Accounting Policies (Continued)

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Off-Balance-Sheet Instruments

In the ordinary course of business, the Credit Union has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Members' Share and Savings Account

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

Revenue from Contracts with Members

The core revenue recognition principle requires the Credit Union to recognize revenue to depict the transfer of services or products to members in an amount that reflects the consideration to which the Credit Union expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following; (1) identify the contract with a member; (2) identify the performance obligation(s) within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) within the contract; and (5) recognize revenue when (or as) the performance obligation(s) are/is satisfied.

The Credit Union generally fully satisfies its performance obligations on its contracts with members as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition principles (ASC 606) that significantly affects the determination of the amount and timing of revenue from contracts with members.

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Members (Continued)

The following revenue-generating transactions are within the scope of ASC 606, which are presented in the statement of income as components of noninterest income:

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

Interchange fees – Members use a credit union-issued debit card to purchase goods and services, and the Credit Union earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Credit Union is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Credit Union that could be subject to a claw-back in future periods.

Insurance commissions – Insurance agency commissions are received from insurance carriers for the agency's share of commissions from member premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the member, but the time lag is insignificant and does not impact the revenue recognition process. The Credit Union has evaluated the potential amount of premium refunds due to member when policies are cancelled and has determined such amounts are insignificant.

Net gain (loss) on sales of foreclosed assets – The Credit Union records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Credit Union finances the sale to the buyer, the Credit Union assesses whether the buyer is committed to perform their obligations under the contract and whether the Credit Union expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Credit Union adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

Rate Lock Commitments

The Credit Union enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Credit Union is generally exempt, by statute, from federal income taxes and state corporate business tax. However, the Credit Union is subject to federal tax on net unrelated business income.

The Credit Union may recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income tax expense.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is shown on the statements of comprehensive income. The Credit Union's accumulated other comprehensive income (loss) is comprised of the unrealized gain (loss) on securities available for sale and is shown on the statement of changes in members' equity. All realized gains or losses, if any, are reclassed out of accumulated other comprehensive income (loss) and are included in net gain (loss) on securities in the statement of income.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the financial statements of the Credit Union.

Advertising

Advertising costs are expensed as incurred.

New Accounting Pronouncements

The Credit Union recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB)

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard also changes the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The Credit Union adopted ASU No. 2016-13 on January 1, 2023, and recorded a cumulative effect adjustment of $100,011 to undivided earnings. Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards generally accepted in the United States (US GAAP).

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses) – This standard eliminates the recognition and measurement guidance for troubled debt restructurings by creditors under ASC Subtopic 310- 40, Receivables-Troubled Debt Restructurings by Creditors, and, instead, requires the Credit Union to evaluate (consistent with other loan modification accounting standards) whether a loan modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of loans made to borrowers experiencing financial difficulty. The Credit Union adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 4 for new disclosures related to the new accounting standard.

Subsequent Events

Subsequent events have been evaluated through May 2, 2024, which is the date the financial statements were available to be issued.

Note 2: Other Interest-Bearing Deposits

Other interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of $250,000 or less and are fully insured by the FDIC and/ or NCUA.

Maturities of other certificates of deposits as of December 31, 2023, are as follows:

2024	$ 1,736,000
2025	1,240,000
2026	248,000
Total	$ 3,224,000

Note 3: Debt Securities Available for Sale

The amortized cost and estimated fair value of securities available for sale with gross unrealized gains and losses at December 31, 2023, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. treasury	$ 47,813,465	$ -	$ (3,184,387)	$ 44,629,078
U.S. government and agency securities	3,480,388	-	(106,856)	3,373,532
Mortgage-backed securities	36,646,708	676	(4,181,535)	32,465,849
Other debt obligations	480,921	5,755	(2,119)	484,557
Total securities available for sale	$ 88,421,482	$ 6,431	$ (7,474,897)	$ 80,953,016

Fair values of debt securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

The following table shows the fair value and gross unrealized losses of securities with unrealized losses at December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury	$ -	$ -	$ 44,627,109	$ (3,184,387)	$ 44,629,078	$ (3,184,387)
U.S. government and agency securities	-	-	3,373,532	(106,856)	3,373,532	(106,856)
Mortgage-backed securities	-	-	31,781,273	(4,181,535)	31,781,273	(4,181,535)
Other debt obligations	-	-	339,896	(2,119)	339,896	(2,119)
Totals	$ -	$ -	$ 80,121,810	$ (7,474,897)	$ 80,123,779	$ (7,474,897)

Note 3: Debt Securities Available for Sale (Continued)

At December 31, 2023, 112 debt securities have unrealized losses with aggregate depreciation of 8.5% from the Credit Union's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the securities were issued by a government body or agency, the securities continue to be highly rated (AA or better) where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Credit Union expects to recover the amortized cost basis of these securities before they are sold or mature.

The following is a summary of amortized cost and estimated fair value of debt securities available for sale by contractual maturity as of December 31, 2023. Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 7,005,454	$ 6,802,789
Due after one year through five years	40,839,041	37,856,603
Due after five years through ten years	349,444	332,227
Due after ten years	3,580,835	3,495,548
Subtotal	51,774,774	48,487,167
Mortgage-backed securities	36,646,708	32,465,849
Totals	$ 88,421,482	$ 80,953,016

There were no sales of debt securities in 2023.

No securities were pledged at December 31, 2023.

Note 4: Loans

The following table presents total loans at December 31, 2023 by portfolio segment and class of loan:

	2023
Real Estate	$ 88,598,991
Auto	55,130,125
Other consumer	14,560,915
Business	27,957,847
Subtotal	186,247,878
Allowance for credit losses	(1,440,359)
Loans, net	$ 184,807,519

Share accounts in an overdraft position and reclassified as loans totaled $13,449 at December 31, 2023.

The Credit Union's allowance for credit losses on loans information for the year ended December 31, 2023, is presented under ASC 326. The Credit Union's allowance for credit losses on loans information for the year ended December 31, 2022, is presented under the incurred loss impairment model. Refer to the "New Accounting Pronouncements" section of Note 1 for more information.

Activity in the allowance for credit losses on loans by portfolio segment follows:

	Real Estate	Auto	Other Consumer	Business	Total
Balance at December 31, 2022	$ 350,838	$ 232,577	$ 127,277	$ 777,348	$ 1,488,040
Impact of adoption of ASU No. 2016-13 (ASC 326)	(298,999)	(166,313)	703,820	(138,497)	100,011
Provision for credit losses on loans	(4,211)	54,201	81,596	(68,139)	63,447
Additions from purchases of loans with credit deterioration	-	(103,572)	(159,274)	-	(262,846)
Loans charged off	2,500	23,663	25,544	-	51,707
Balance at December 31, 2023	$ 50,128	$ 40,556	$ 778,963	$ 570,712	$ 1,440,359

Note 4: Loans (Continued)

Information about how loans were evaluated and the related allowance for credit losses on loans as of December 31, 2023 follows:

	Real Estate	Auto	Other Consumer	Business	Total
2023					
Loans:					
Individually evaluated	$ -	$ -	$ -	$ -	$ -
Collectively evaluated	88,598,991	55,130,125	14,560,915	27,957,847	186,247,878
Total loans	$ 88,598,991	$ 55,130,125	$ 14,560,915	$ 27,957,847	$ 186,247,878
Related allowance for credit losses:					
Individually evaluated	$ -	$ -	$ -	$ -	$ -
Collectively evaluated	50,128	40,556	778,963	570,712	1,440,359
Total allowance for credit losses on loans	$ 50,128	$ 40,556	$ 778,963	$ 570,712	$ 1,440,359

The Credit Union regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses on loans. The credit quality indicators monitored differ depending on the class of loan.

Business loans are generally evaluated using the following internally prepared ratings:

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectibility of the contractual loan payments is highly probable.
- "Watch/special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectibility of the contractual loan payments is still probable.
- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectibility of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectibility of the contractual loan payments is unlikely.

Internally prepared ratings for business loans are updated at least annually.

Note 4: Loans (Continued)

Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan.

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31, 2023 follows:

	Pass	Special Mention/Watch	Substandard	Doubtful	Total
2023					
Business	$ 26,255,162	$ 1,702,685	$ -	$ -	$ 27,957,847
Total	$ 26,255,162	$ 1,702,685	$ -	$ -	$ 27,957,847

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31, 2023 follows:

	Performing	Non-performing	Total
2023			
Real Estate	$ 88,491,684	$ 107,307	$ 88,598,991
Auto	54,927,674	202,451	55,130,125
Other Consumer	14,555,284	5,631	14,560,915
Total	$ 157,974,642	$ 315,389	$ 158,290,031

Loan aging information as of December 31, 2023 follows:

	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Loans
2023				
Real Estate	$ 88,009,091	$ 488,705	$ 101,195	$ 88,598,991
Auto	54,645,277	245,199	239,649	55,130,125
Other consumer	14,448,346	95,321	17,248	14,560,915
Business	27,957,847	-	-	27,957,847
Total	$ 185,060,561	$ 829,225	$ 358,092	$ 186,247,878

Note 4: Loans (Continued)

Information regarding nonaccrual loans during the years ended December 31, 2023 follows:

	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With an Allowance for Credit Losses	Total Nonaccrual Loans	Total Nonaccrual Loans at Beginning of Year	Amortized Cost Basis of Loans 90+ Days Past Due Not on Nonaccrual
2023					
Real Estate	$ 107,307	$ -	$ 107,307	$ 17,748	$ -
Auto	202,451	-	202,451	19,104	37,198
Other consumer	5,631	-	5,631	453	11,617
Business	-	-	-	97,165	-
Total	$ 315,389	$ -	$ 315,389	$ 134,470	$ 48,815

Modifications to members experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions and other actions to minimize economic loss and to avoid foreclosure or repossession of collateral. The modifications to members experiencing difficulty were immaterial for the year December 31, 2023.

There were no loans that were modified due to financial difficulty within twelve months of the balance sheet date for which there was a payment default.

Directors and executive officers of the Credit Union, including their families and firms in which they are principal owners, are considered related parties. Substantially all loans to these related parties were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectibility or present other unfavorable features.

A summary of loans to directors, executive officers, and their affiliates as of December 31, 2023 is as follows:

	2023
Beginning balance	$ 1,224,680
Adjustments for changes in directors or executive officers	(15,608)
New loans	1,116,969
Repayments	(216,211)
Ending balance	$ 2,109,830

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2023, is as follows:

	2023
Land	$ 1,202,810
Land improvements	125,155
Buildings	4,282,555
Leasehold improvements	116,826
Furniture and equipment	2,929,854
Subtotal	8,657,200
Accumulated depreciation	(4,185,709)
Total	$ 4,471,491

Depreciation of premises and equipment charged to noninterest expense totaled $314,657 during 2023.

Note 6: Leases

The Credit Union leases certain branch facilities. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease term from one to ten years. The exercise of lease renewal options is at the Credit Union's sole discretion. Renewal option periods are included in the measurement of the Right-of-Use Asset (ROU asset) and lease liability when the exercise is reasonably certain to occur.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Components of lease expense were as follows for the year ended December 31, 2023

	2023
Lease cost	
Interest on lease liabilities	$ 3,249
Amortization of right of use assets	103,378
Total lease cost	$ 106,627

Note 6: Leases (Continued)

Supplemental other information related to leases is a follows for the year ended December 31, 2023:

	2023
Weighted Average	
Remaining term of lease in years	2.15
Discount rate	1.24%

Maturities of lease liabilities with initial terms of one year or more are as follows as of December 31, 2023:

	2023
2024	$ 103,880
2025	99,043
2026	21,600
Total lease payements	224,523
Less imputed interest	(3,249)
Total	$ 221,274

Note 7: Members' Share and Savings Accounts

Members' share and savings accounts consisted of the following at December 31, 2023:

	2023
Non-interest-bearing shares	$ 21,148,913
Interest-bearing shares	39,918,255
Savings shares	83,987,123
Money market	37,794,314
Individual retirement accounts (IRA)	4,521,438
Share and IRA certificates	81,875,838
Total	$ 269,245,881

Time deposits that meet or exceed the NCUA insurance limit of $250,000 totaled approximately $7,180,993 at December 31, 2023.

Note 7: Members' Share and Savings Accounts (Continued)

The scheduled maturities of Share and IRA certificates at December 31, 2023, are summarized as follows:

2024	$ 57,125,771
2025	21,936,763
2026	1,181,733
2027	988,904
2028	642,667
Total	$ 81,875,838

Members' shares and savings accounts from directors, executive officers, and their affiliates totaled approximately $989,000 at December 31, 2023.

Note 8: Borrowed Funds

The Credit Union has a line of credit agreement with the Alloya Corporate Federal Credit Union that provides for borrowing up to $16,650,000. The line of credit has a interest rate of 6.96% at December 31, 2023 and the maximum borrowing ability is based on a multiple of 50 times the balance of contributed capital. As a of December 31, 2023, the outstanding balance was $0.

At December 31, 2023, the Credit Union's available and unused portion of this borrowing agreement totaled approximately $16,650,000.

Note 9: Commitments, Contingencies, and Credit Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Credit Union's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31, 2023:

Commitments to extend credit	$ 16,502,754
Unfunded commitments under lines of credit	1,758,304
Credit card commitments	45,132,490

Note 9: Commitments, Contingencies, and Credit Risk (Continued)

Commitments to extend credit are agreements to lend to a member at fixed or variable rates 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. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the member. Collateral held varies, but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds.

Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines of credit may or may not require collateral and may or may not contain a specific maturity date.

Credit card commitments are commitments on credit cards issued by the Credit Union and serviced by other companies. These commitments are unsecured.

Note 10: Employee Benefit Plan

The Credit Union sponsors a 401(k) plan that covers substantially all employees. To be eligible to participate, an employee must be employed by the Credit Union for at least one year and be 18 years of age or older. The Credit Union matches contributions to the Plan equal to 100% of the employees elective deferral for the first 3% and 50% for the following 2%. The Credit Union may also make nonelective contributions to the plan at the discretion of the Board of Directors. Expense charged to operations was approximately $121,000 during 2023.

The Credit Union provides a nonqualified 457(b) deferred compensation plan to certain employees who elect to participate. The Credit Union does not contribute to this plan. The deferred compensation accounts are shown as offsetting assets and liabilities on the Credit Union financial statements and are available to creditors in the event of the Credit Union’s liquidation. The balance of the deferred compensation arrangement was approximately $217,000 as of December 31, 2023.

Note 11: Members' Equity and Regulatory Matters

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

As of December 31, 2023, the most recent notification from the NCUA categorized the Credit Union as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio as set forth in the table. There are no conditions or events since notification that management believes have changed the Credit Union's category.

Note 11: Members' Equity and Regulatory Matters (Continued)

In June 2021, the NCUA approved a final rule modifying their regulatory capital rules, which provided a phase in of the regulatory capital effect of adopting ASU No. 2016-13 ("CECL") over a three-year period.

The Credit Union's capital requirements December 31, 2023, are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2023						
Total Net Worth (to total assets)	$ 35,271,898	11.8 %	≥ $17,921,452	≥ 6.0 %	≥ 20,908,361	≥ 7.0 %

Note 12: Fair Value Measurements

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as collateral dependent loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy:

S*ecurities available for sale* - Securities available for sale may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy. Level 1 securities include debt securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage-backed securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data. Level 3 securities include trust preferred securities that are not traded in a market. The fair value measurements of Level 3 securities are determined by the Credit Union's Chief Financial Officer (CFO), reviewed by the Chief Executive Officer (CEO), and then reported to the Credit Union's Investment Committee. Fair values are calculated using discounted cash flow models that incorporate various assumptions, including expected cash flows and market credit spreads. When comparable sales are available, these are used to validate the models used. Other available industry data, such as information regarding defaults and deferrals, are incorporated into the expected cash flows.

Note 12: Fair Value Measurements (Continued)

Loans - Loans are not measured at fair value on a recurring basis. However, individually evaluated loans (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of a loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other individually evaluated loan measurements are based on other loss estimation methodologies and, thus, are not fair value measurements.

Foreclosed assets - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023, follows:

	Recurring Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available for sale	$ 44,629,078	$ 36,323,938	$ -	$ 80,953,016

Note 12: Fair Value Measurements (Continued)

The following presents quantitative information about nonrecurring Level 3 fair value measurements at December 31, 2023:

		Fair Value	Valuation Technique(s)	Unobservable input(S)	Range/ Weighted Average
Foreclosed assets	$	61,786	Market and/or income approach	Management discount on appraised values	10% - 20%

During 2023, foreclosed assets with a carrying amount of $99,285 were written down to fair value of $61,786. As a result, an impairment charge of $37,500 was included in earnings for the year ended December 31, 2023.

At December 31, 2023, there were no indivudally evaluated loans with a related allowance.

Note 13: Subsequent Event

The Credit Union merged with Star Choice Credit Union in March 2024. As of December 31, 2023 Star Choice Credit Union had total assets of approximately $88,586,000, total liabilities of approximately $82,064,000 and equity of approximately $6,522,000.