Report of Independent Auditors and
Financial Statements

Orange County's Credit Union

December 31, 2024 and 2023

MOSSADAMS

Table of Contents

Report of Independent Auditors

The Members of the Audit Committee and Board of Directors
Orange County's Credit Union

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orange County's Credit Union, which comprise the statements of financial condition as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Orange County's Credit Union as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with 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 Orange County's Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Orange County's Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Orange County's 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 Orange County's 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.

Moss Adams LLP

Irvine, California
March 24, 2025

Financial Statements

Orange County's Credit Union
Statements of Financial Condition
(Dollars in Thousands)
December 31, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
Cash and cash equivalents	$ 276,587	$ 249,690
Investment securities		
Available for sale, at fair value (amortized cost of $305,604 and $385,900 at December 31, 2024 and 2023, respectively)	298,914	336,693
Other investments, at cost	2,198	2,198
Federal Home Loan Bank stock	12,602	12,517
Loans held for sale	-	160
Loans to members, net of allowance for credit losses of $17,397 and $15,975 at December 31, 2024 and 2023, respectively	2,031,708	1,886,403
Accrued interest receivable	6,195	5,481
Premises and equipment, net	18,046	18,793
NCUSIF deposit	20,828	19,505
Life insurance policies, net	18,924	18,282
Other assets	50,466	32,530
Total assets	$ 2,736,468	$ 2,582,252
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	$ 2,251,510	$ 2,117,387
Borrowed funds	210,900	204,300
Subordinated debt	35,000	35,000
Accrued expenses and other liabilities	39,881	42,219
Total liabilities	2,537,291	2,398,906
MEMBERS' EQUITY		
Regular reserve	14,248	14,248
Undivided earnings	231,419	218,305
Accumulated other comprehensive loss	(46,490)	(49,207)
Total members' equity	199,177	183,346
Total liabilities and members' equity	$ 2,736,468	$ 2,582,252

See accompanying notes.

Orange County's Credit Union
Statements of Income
(Dollars in Thousands)
Years Ended December 31, 2024 and 2023

	2024	2023
INTEREST INCOME		
Interest on loans	$ 99,310	$ 80,383
Interest on investment securities and cash equivalents	19,196	15,384
Total interest income	118,506	95,767
INTEREST EXPENSE		
Dividends on members' share and savings accounts	37,520	17,416
Interest on borrowed funds	10,260	8,584
Total interest expense	47,780	26,000
Net interest income	70,726	69,767
PROVISION FOR CREDIT LOSSES		
Provision for credit losses on loans	8,128	4,912
Provision for credit losses on unfunded commitments	452	-
Provision for credit losses	8,580	4,912
Net interest income after provision for credit losses	62,146	64,855
NONINTEREST INCOME		
Fees and charges	6,506	6,024
Gain on sales of loans held for sale	246	280
Interchange income, net	10,806	10,450
Other noninterest income	7,659	6,310
Total noninterest income	25,217	23,064
NONINTEREST EXPENSE		
Compensation and benefits	42,347	42,305
Occupancy	4,645	4,486
Operations	17,692	16,424
Professional and outside services	1,574	1,961
Educational and promotional	1,523	1,777
Loan servicing	4,032	4,432
Other expense	2,436	2,121
Total noninterest expense	74,249	73,506
NET INCOME	$ 13,114	$ 14,413

See accompanying notes.

Orange County's Credit Union
Statements of Comprehensive Income
(Dollars in Thousands)
Years Ended December 31, 2024 and 2023

	2024	2023
NET INCOME	$ 13,114	$ 14,413
OTHER COMPREHENSIVE INCOME		
Net unrealized holding gain on securities available for sale	2,717	6,209
Total other comprehensive income	2,717	6,209
COMPREHENSIVE INCOME	$ 15,831	$ 20,622

See accompanying notes.

Orange County's Credit Union
Statements of Members' Equity
(Dollars in Thousands)
Years Ended December 31, 2024 and 2023

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2022	$ 14,248	$ 208,845	$ (55,416)	$ 167,677
Cumulative effect of adoption of credit loss accounting standard	-	(4,953)	-	(4,953)
Net income	-	14,413	-	14,413
Other comprehensive income	-	-	6,209	6,209
BALANCE, December 31, 2023	14,248	218,305	(49,207)	183,346
Net income	-	13,114	-	13,114
Other comprehensive income	-	-	2,717	2,717
BALANCE, December 31, 2024	$ 14,248	$ 231,419	$ (46,490)	$ 199,177

See accompanying notes.

Orange County's Credit Union
Statements of Cash Flows
(Dollars in Thousands)
Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,114	$ 14,413
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	2,587	2,228
Amortization of premiums and discounts on investment securities, net	806	985
Amortization of deferred loan origination fees and costs, net	868	650
Provision for credit losses	8,580	4,912
Originations of loans held for sale	(9,743)	(12,101)
Proceeds from sale of loans	10,149	12,221
Gain on sale of loans held for sale	(246)	(280)
Increase in cash surrender value of life insurance policies	(797)	(886)
Capitalization of servicing assets	(77)	(108)
Amortization of servicing assets	555	697
Effect of changes in operating assets and liabilities		
Accrued interest receivable	(714)	(627)
Other assets	(4,641)	(1,411)
Accrued expenses and other liabilities	(1,392)	6,364
Net cash provided by operating activities	19,049	27,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale, repayments, or maturity of available-for-sale securities	39,690	38,341
Purchase of Federal Home Loan Bank stock	(85)	(1,251)
Purchase of life insurance policy	155	(1,391)
Surrender of life insurance policy	-	6,863
Loans to members, net of principal collections	(154,753)	(84,521)
(Increase) decrease in NCUSIF deposit	(1,323)	375
Purchases of premises and equipment	(1,840)	(3,330)
Funding of loan related to collateral split dollar arrangement	(14,719)	-
Net cash used in investing activities	(132,875)	(44,914)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	134,123	10,034
Payments made on borrowed funds	(203,400)	(53,200)
Proceeds from borrowed funds	210,000	110,400
Net cash provided by financing activities	140,723	67,234
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,897	49,377
CASH AND CASH EQUIVALENTS, beginning of year	249,690	200,313
CASH AND CASH EQUIVALENTS, end of year	$ 276,587	$ 249,690
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 47,414	$ 25,967
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized loss on available-for-sale securities	$ 2,717	$ 6,209
Right-of-use assets obtained in exchange for operating lease liabilities	$ 946	$ 3,049

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Nature of operations – Orange County's Credit Union (the Credit Union) is a state-chartered credit union organized under the provisions of the California Credit Union Act and administratively responsible to the California Department of Business Oversight. The Credit Union's primary purpose is to promote thrift among and create a source of credit for its members. Participation in the Credit Union is limited to those individuals that 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 providing loans and services to its members as well as income earned from its investment securities.

Use of estimates in preparing financial statements – The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimate that is particularly susceptible to change relates to the determination of the allowance for credit losses.

Significant group concentrations of credit risk – The Credit Union provides a variety of financial services to members within its field of membership as defined in its Charter and Bylaws. The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in the State of California. The Credit Union continually monitors its operations, including the loan and investment portfolios, for potential impairment.

The Credit Union's loan portfolio primarily consists of member business, residential real estate, and consumer loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lienholder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles, residential real estate, and commercial real estate.

Cash and cash equivalents – For purposes of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Certificates of deposit – Certificates of deposit consist of time deposits in financial institutions with original maturities greater than three months and are stated at cost.

Investment securities – Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts. Securities not classified as held to maturity or trading, including debt and equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Each reporting period, management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value, and historical loss information for financial assets secured with similar collateral, among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component is recognized through the provision for credit losses on the statements of income.

Management measures expected credit losses on held-to-maturity securities by individual basis. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings, historical credit loss information that is adjusted for current conditions, and reasonable and supportable forecasts.

For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes that an available-for-sale security is confirmed uncollectible or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. The Credit Union does not maintain a trading or held-to-maturity portfolio. Other investments are classified separately, stated at cost, and subject to allowance for credit loss evaluation.

Federal Home Loan Bank stock – The Credit Union is a member of the Federal Home Loan Bank (FHLB) of San Francisco. Under the FHLB's capital structure, members are required to own FHLB stock. The FHLB stock is carried at cost because there is no quoted fair market value. FHLB stock is restricted as to purchase, sale, and redemption. The Credit Union evaluates its investment in FHLB stock for impairment on a periodic basis and has not recorded any impairment for the years ended December 31, 2024 and 2023.

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, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. Mortgage loans are sold without recourse and with servicing rights generally retained.

Loans to members – The Credit Union grants mortgage, member business, and consumer loans to members and purchases loan participations. A substantial portion of its members' ability to honor their loan agreements is dependent on the real estate and economic stability of the various groups comprising the Credit Union's field of membership.

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 credit losses and net deferred loan origination fees and direct origination costs. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 60 days delinquent unless it is well-secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. Loans may be charged off at an earlier date if collection of principal or interest is considered doubtful. Past-due loan status is based on contractual terms of the loan. 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until it qualifies to 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.

Loan origination fees and direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income that approximates the effective yield method over the contractual life of the loans.

Allowance for credit losses on loans – The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes that a loan balance is confirmed uncollectible, and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Macroeconomic data for historical credit loss experience provides the basis for the estimation of expected credit losses.

Accrued interest receivable is excluded from the estimate of credit losses for loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments and measures the allowance for credit losses using a discounted-cash-flow-with-probability-of-default-and-loss-given-default (DCF-PD) method for all segments: member business, residential real estate, and consumer. Each portfolio segment is disaggregated further into multiple subcategories by loan type.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

When the discounted cash flow method is used to determine the allowance for credit losses, the discounted cash flow – probability of default model uses current loan-level and macroeconomic data, as well as reasonable and supportable forecasts, to produce monthly probabilities of default in the contractual life of the loan. These results are used to estimate future monthly cash flows. Projected loan-level balances in combination with estimated collateral valuations are used to project potential cash flows in each future month (from payments, prepayments, collateral recovery, etc.). Expected future cash flows are then grouped by each scenario (i.e., default, prepay, or active), then multiplied by each scenario's cash flows by corresponding monthly probabilities. These are all added together to get monthly expected cash flows for each loan. The monthly cash flows are then discounted at the effective interest rate and subtracted from the current balance to get the allowance.

Large groups of smaller-balance homogeneous loans are collectively evaluated for credit loss. Accordingly, the Credit Union does not separately identify individual consumer loans for credit loss evaluation.

Regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for credit losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Allowance for credit losses on off-balance-sheet credit exposures – The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance-sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Servicing – Servicing assets are recognized separately when mortgage servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently records servicing assets at amortized cost, with related amortization recorded into earnings over the estimated remaining weighted-average useful life of the servicing rights.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche to the extent that fair value is less than the capitalized amount for the tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment unless the impairment is permanent. Changes in valuation allowances are reported in noninterest income on the statements of income. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income for serviced loans is based on a contractual percentage of the outstanding principal and is recorded as income when earned.

Mortgage commitment derivatives – The Credit Union enters into commitments to originate mortgage 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 and are therefore recorded at fair value, with changes in fair value recorded in earnings.

The Credit Union sells a portion of the mortgage loans that it originates. Those loans are classified as loans held for sale. The commitments to sell (forward sale commitments) are considered to be derivatives and are recorded at fair value, with changes in fair value recorded in earnings.

Derivatives – At the inception of a derivative contract, the Credit Union designates the derivative as one of three types based on the Credit Union's intentions and belief as to the derivative's likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) as an instrument with no hedging designation (standalone derivative).

For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings as noninterest income.

Net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

At the inception of a hedge, the Credit Union documents certain items including, but not limited to, the relationship between hedging instruments and hedged items, Credit Union risk management objectives, and hedging strategies. Documentation includes linking all derivatives designated as fair value hedges to specific assets and liabilities on the statement of financial condition or to specific forecasted transactions.

Hedge accounting is discontinued prospectively when either (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedge item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings during the period of change.

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

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

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been relinquished. 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 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 maturity.

Premises and equipment – Land is carried at cost. Buildings and improvements, furniture and equipment, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Buildings and improvements and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 2 to 55 years. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

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

Leases – The Credit Union leases retail space via agreements classified as operating leases. Most leases require the Credit Union to pay real estate taxes, maintenance, insurance, and other similar costs in addition to the base rent. Certain leases also contain lease incentives such as tenant improvement allowances and rent abatement. Variable lease payments are recognized as lease expense when incurred.

The Credit Union records an operating lease right-of-use (ROU) asset and an operating lease liability for all operating leases. The ROU asset and lease liability are recorded in other assets and accrued expenses and other liabilities, respectively, in the statements of financial condition.

ROU 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. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. For those leases that do not provide an implicit rate, the Credit Union uses the FHLB borrowing rates over a similar term to that of the lease payments at commencement date. Many of the Credit Union's leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule, which are factored into the Credit Union's determination of lease payments when appropriate. Substantially all of the leases provide the Credit Union with the option to extend the lease term one or more times following expiration of the initial term. The ROU asset and lease liability terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise those options.

Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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

NCUSIF insurance premiums – A credit union is required to pay an annual insurance premium based on a percentage of its total insured shares as declared by the NCUA board unless the payment is waived by the NCUA board.

Members' share and savings accounts – Members' share and savings accounts are federally insured by the NCUSIF, which is similar to deposit insurance coverage provided by the Federal Deposit Insurance Corporation. The fund is administered by the NCUA and is backed by the full faith and credit of the United States. Credit Union members don't need to apply to share insurance coverage as it's provided automatically when they join a federally insured credit union. The NCUSIF insures individual accounts at federally insured credit unions up to $250,000, and a member's interest in all joint accounts is insured up to $250,000 (per owner). Additionally, the NCUSIF separately protects IRA and KEOGH retirement accounts up to $250,000.

Members' equity – The Credit Union is required, by regulation, to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes.

The Credit Union is a tax-exempt entity under Internal Revenue Code (IRC) 501(c)(14) but may be subject to taxation on income unrelated to the Credit Union's exempt function. State-chartered credit unions should pay income tax on certain types of net taxable income from activities that taxing authorities consider unrelated to the purpose for which the Credit Union was granted nontaxable status. The Credit Union has filed Unrelated Business Income Tax (UBIT) returns (990-T) in the past, which has resulted in no income taxes paid for the years ended December 31, 2024 or 2023. In addition, there were no material uncertain tax positions at December 31, 2024 and 2023.

The Credit Union recognizes the tax benefit from uncertain tax positions, if any, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater-than-50% likelihood of being realized upon ultimate settlement. The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. The Credit Union had no unrecognized tax benefits at December 31, 2024 or 2023. During the years ended December 31, 2024 and 2023, the Credit Union recognized no interest and penalties.

A tax-exempt organization information return, unrelated business income tax return, and California income tax return are filed annually with the applicable tax jurisdictions.

As of December 31, 2024, the Credit Union had net operating loss carryforwards available to offset approximately $6.4 million of future unrelated business income taxes. Net operating loss carryforwards incurred in 2017 and prior expire 20 years from when the net operating loss was incurred. Net operating loss carryforwards incurred after 2017 do not expire. The Credit Union utilized a portion of the net operating loss carryforwards for the December 31, 2023, tax return (the most recently filed return).

Pension plan – 401(k) – The Credit Union has a qualified 401(k) plan covering substantially all of its employees. The Credit Union matches a portion of employees' wage reductions, which is recorded in compensation and benefits expense in the statements of income.

Pension plan – deferred compensation plan – The Credit Union has nonqualified deferred compensation plans for members of management. Under the 457(b) nonqualified plan, the Credit Union makes discretionary contributions and employees are allowed to contribute to the plan. The Credit Union contributes 100% of funds to the 457(f) nonqualified deferred compensation plan. Gains and losses for the 457(b) nonqualified plan and 457(f) nonqualified plan are recorded through noninterest income on the statements of income.

Life insurance policies – Life insurance policies held as part of the Credit Union's deferred compensation plan are carried at their cash surrender value.

Split-dollar program – The Credit Union records an executive officer receivable equal to the proceeds paid to the executive for split-dollar life insurance policy premiums plus interest accrued. The notes bear interest at the applicable federal rate under IRC Section 1274(d) in effect on the date of each loan. The rate is based on the executive's life expectancy and the compounding period as provided in Treasury Regulation Section 1.7872-15. Repayment of the notes occurs at the time of death of the executive officer.

Advertising costs – Advertising costs, represented by educational and promotional costs, are charged to operations when incurred and totaled approximately $1,523,000 and $1,777,000 for the years ended December 31, 2024 and 2023, respectively.

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition. The Credit Union has only one component of comprehensive income (loss) for 2024 and 2023.

Fair value measurements – The fair value measurement standard provides a comprehensive framework for measuring fair value and expands disclosures for assets and liabilities reported at fair value. Specifically, it sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

Subsequent events – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date. Management has reviewed subsequent events through March 24, 2025, the date the financial statements were issued.

Note 2 – Investment Securities

The following table presents the amortized cost and fair value of investment securities available for sale (dollars in thousands). Accrued interest receivable of approximately $659,000 and $839,000 as of December 31, 2024 and 2023, respectively, is excluded from these tables and reported under accrued interest receivable in the statements of financial condition.

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government and federal agency securities	$ 69,812	$ 17	$ (2,347)	$ -	$ 67,482
Federal agency mortgage-backed securities	165,219	8	(24,383)	-	140,844
Federal agency collateralized mortgage obligations	110,373	-	(19,785)	-	90,588
	$ 345,404	$ 25	$ (46,515)	$ -	$ 298,914

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government and federal agency securities	$ 78,095	$ 36	$ (4,470)	$ -	$ 73,661
Federal agency mortgage-backed securities	185,843	3	(25,129)	-	160,717
Federal agency collateralized mortgage obligations	121,962	-	(19,647)	-	102,315
	$ 385,900	$ 39	$ (49,246)	$ -	$ 336,693

At December 31, 2024, securities valued at approximately $198,771,000 were pledged as collateral against a line of credit with the FHLB. At December 31, 2024, securities carried at approximately $118,673,000 were pledged as collateral against a line of credit with the Federal Reserve Bank (FRB). At December 31, 2023, securities valued at approximately $281,948,000 were pledged as collateral against a line of credit with the FHLB. At December 31, 2023, securities carried at approximately $59,183,000 were pledged as collateral against a line of credit with the FRB. During the years ended December 31, 2024 and 2023, there were no sales of available-for-sale securities.

The amortized cost and fair values of investment securities available for sale at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

	Amortized Cost	Fair Value
Due in 1 year or less	$ 32,591	$ 31,924
Due in 1 to 5 years	32,347	30,682
Due in 5 to 10 years	1,211	1,209
Due in 10 years or more	3,663	3,667
	69,812	67,482
Federal agency mortgage-backed securities	165,219	140,844
Federal agency collateralized mortgage obligations	110,373	90,588
	$ 345,404	$ 298,914

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, is as follows (dollars in thousands):

	Less Than 12 Months		Greater Than 12 Months	
December 31, 2024	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ (3)	$ 1,389	$ (2,344)	$ 61,739
Federal agency mortgage-backed securities	-	201	(24,383)	139,526
Federal agency collateralized mortgage obligations	-	-	(19,785)	90,588
	$ (3)	$ 1,590	$ (46,512)	$ 291,853

	Less Than 12 Months		Greater Than 12 Months	
December 31, 2023	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	$ (1)	$ 568	$ (4,469)	$ 66,880
Federal agency mortgage-backed securities	(1)	2	(25,128)	160,350
Federal agency collateralized mortgage obligations	-	-	(19,647)	102,315
	$ (2)	$ 570	$ (49,244)	$ 329,545

U.S. government and federal agency – As of December 31, 2024 and 2023, the investment portfolio included 30 and 33 securities, respectively, in an unrealized loss position, 28 and 31 of which had unrealized losses that had existed for longer than one year, respectively.

Federal agency mortgage-backed securities and collateralized mortgage obligations – As of December 31, 2024 and 2023, the investment portfolio included 166 and 181 securities, respectively, in an unrealized loss position, 163 and 180 of which had unrealized losses that had existed for longer than one year, respectively.

As of December 31, 2024 and 2023, the majority of the Credit Union's available-for-sale investments are government-guaranteed securities, including risk-free treasuries, mortgage-based securities, and collateralized mortgage obligations. The Credit Union does not intend to sell these securities, nor does it anticipate that these securities will be required to be sold before recovery. The unrealized losses are due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such securities decline. The Credit Union does not believe any of these securities are impaired due to reasons of credit quality. The Credit Union assesses the need to sell a security due to a corporate's risk rating decline; the related losses are recognized in the earnings. No material credit losses were observed at December 31, 2024 and 2023.

The Credit Union assesses for credit losses using a cash flow model. Based on the assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Credit Union expects to recover the entire amortized cost basis of these securities.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Investment risk – Investment securities are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the statements of financial condition.

As of December 31, 2024 and 2023, there were no securities past due by 90 days or more, nor were there any on nonaccrual.

Other investments – Other investment securities at December 31 are summarized as follows (dollars in thousands):

	2024	2023
Certificates of deposit	$ 200	$ 200
Investment in credit union service organizations	1,998	1,998
	$ 2,198	$ 2,198

Note 3 – Loans to Members

Accrued interest receivable of approximately $5,535,000 and $4,642,000 for the years ended December 31, 2024 and 2023, respectively, is excluded from the tables and reported under accrued interest receivable in the statements of financial condition.

The composition of loans to members at December 31 is as follows (dollars in thousands):

	2024	2023
Member business		
Real estate [a]	$ 273,418	$ 262,145
Residential real estate		
First mortgage	717,237	737,263
Second mortgage	279,870	203,760
	997,107	941,023
Consumer		
Auto	635,765	570,338
Unsecured	109,300	92,251
Other secured	32,178	34,817
	777,243	697,406
Total loans	2,047,768	1,900,574
Net deferred loan origination fees and costs	1,998	2,243
Basis adjustment for fair value hedge	(661)	(439)
Allowance for credit losses	(17,397)	(15,975)
	$ 2,031,708	$ 1,886,403

[a] Includes small business loans of $275,944 and $255,241 as of December 31, 2024 and 2023, respectively.

The Credit Union has purchased loan participations originated by various entities that are secured by commercial property, other real estate, and autos to members of other credit unions. All of the loan participations were purchased without recourse, and the originating entities perform all of the related loan servicing functions on these loans.

The composition of loan participations purchased at December 31 is as follows (dollars in thousands):

	2024	2023
Member business – real estate	$ 14,493	$ 11,115
Residential real estate – first mortgage	47,137	38,232
Consumer	238,337	138,714
	$ 299,967	$ 188,061

Specific changes in the allowance for credit losses and recorded investment in loans by segment for the years ended December 31 are as follows (dollars in thousands):

December 31, 2024	Member Business	Residential Real Estate	Consumer	Total
Allowance for credit losses				
Beginning balance	$ 1,138	$ 1,499	$ 13,338	$ 15,975
(Benefit) provision for credit losses	(82)	(837)	9,047	8,128
Charge-offs	-	-	(8,474)	(8,474)
Recoveries	-	24	1,744	1,768
Ending balance	$ 1,056	$ 686	$ 15,655	$ 17,397

December 31, 2023	Member Business	Residential Real Estate	Consumer	Total
Allowance for credit losses				
Beginning balance, prior to adoption of ASC 326	$ 1,071	$ 275	$ 9,664	$ 11,010
Impact of adopting ASC 326	3	1,922	3,028	4,953
Provision (benefit) for credit losses	64	(714)	5,562	4,912
Charge-offs	-	(8)	(6,337)	(6,345)
Recoveries	-	24	1,421	1,445
Ending balance	$ 1,138	$ 1,499	$ 13,338	$ 15,975

Member business loan credit quality indicators – As part of the ongoing monitoring of the credit quality of the Credit Union's member business loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of member business loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions in the market area.

Management regularly reviews and risk-grades member business loans in the Credit Union's portfolio. The risk rating system allows management to classify each asset by credit quality in accordance with Credit Union policy. The Credit Union's risk grading definitions are as follows:

Pass – Financial condition of the borrower at minimum will have low to moderate leverage and adequate liquidity with stable-to-slightly declining trends. Cash flows can be less than their minimum required debt service coverage ratio (DSCR) with mitigating factors. Loan payments will be current. Collateral will have a loan-to-value ratio at policy maximum or better. The industry outlook, at worst, could have an outlook that is uncertain.

Special mention – Financial condition of the borrower may be marginal with liquidity and/or equity trends declining. Cash flows may be below the Credit Union's policy minimums or negative. Collateral may have a loan-to-value ratio exceeding the Credit Union's policy of 80%. The industry outlook would be in a declining environment.

Substandard – Financial condition of the borrower shows negative trends with highly leveraged loans, poor liquidity and equity, and negative cash flows. Collateral will have a loan-to-value ratio exceeding the Credit Union's policy of 80% with minimal equity. The industry outlook would be showing problems at this point. There were no loans classified as Substandard at December 31, 2024 or 2023.

Doubtful – Financial condition of the borrower will be a negative net worth position. Cash flows could be significantly negative. Legal action would be starting at this point. Collateral will have a loan-to-value ratio exceeding the Credit Union's policy with little to no equity. The industry outlook would be fragmented at this point. There were no loans classified as Doubtful at December 31, 2024 or 2023.

Loss – Loans in this classification are considered uncollectible and of such little value that their continuance as loans is not warranted. There were no loans classified as Loss at December 31, 2024 or 2023.

Member business credit exposure – The credit risk profile of member business loans is monitored by internally assigned risk ratings by class and by performing and nonperforming groupings. Management tracks the loan's performance, and when the loan becomes 30 days past due, the loan is classified as a nonperforming loan. Member business loans summarized by risk rating and performing status at December 31 are as follows (dollars in thousands):

	2024	2023
Real estate		
Pass	$ 271,348	$ 257,889
Special mention	2,070	4,256
	$ 273,418	$ 262,145

	2024	2023
Performing	$ 273,418	$ 262,145
Nonperforming	-	-
	$ 273,418	$ 262,145

The Credit Union individually evalutes loans when a loan does not share risk characteristics of the collective segment, including member business loans with a risk rating of special mention or greater. The Credit Union held $2,070,000 and $4,256,000 as of December 31, 2024 and 2023, respectively, in collateral-dependent loans individually evaluated for credit loss. There was no specific allowance for credit loss required as of December 31, 2024 and 2023. These loans may be further supported by personal guarantees.

Residential real estate and consumer loan credit quality indicators – As part of the ongoing monitoring of the credit quality of the Credit Union's residential real estate and consumer loan portfolios, management tracks certain credit quality indicators based on whether these loans are performing or nonperforming. To differentiate these categories, management tracks the loan's performance and when the loan becomes 60 days past due, the loan is classified as a nonperforming loan.

Residential real estate credit exposure – The residential real estate credit risk profile based on payment activity by class at December 31 is as follows (dollars in thousands):

2024	First Mortgage	Second Mortgage	Total
Performing	$ 713,225	$ 279,520	$ 992,745
Nonperforming	4,012	350	4,362
	$ 717,237	$ 279,870	$ 997,107

2023	First Mortgage	Second Mortgage	Total
Performing	$ 731,413	$ 203,539	$ 934,952
Nonperforming	5,850	221	6,071
	$ 737,263	$ 203,760	$ 941,023

Consumer credit exposure – The consumer loan credit risk profile based on payment activity by class at December 31 is as follows (dollars in thousands):

2024	Auto	Unsecured	Other Secured	Total
Performing	$ 631,626	$ 107,264	$ 32,110	$ 771,000
Nonperforming	4,139	2,036	68	6,243
	$ 635,765	$ 109,300	$ 32,178	$ 777,243

2023	Auto	Unsecured	Other Secured	Total
Performing	$ 567,261	$ 91,332	$ 34,798	$ 693,391
Nonperforming	3,077	919	19	4,015
	$ 570,338	$ 92,251	$ 34,817	$ 697,406

A summary of past-due loans by class as of December 31 is as follows (dollars in thousands):

2024	30–59 Days	60–89 Days	90 Days or Greater	Total Past Due	Current	Total Loans to Members
Member business						
Real estate	$ -	$ -	$ -	$ -	$ 273,418	$ 273,418
Residential real estate						
First mortgage	5,420	1,790	2,222	9,432	707,805	717,237
Second mortgage	2,781	-	350	3,131	276,739	279,870
Consumer						
Auto	7,668	2,224	1,915	11,807	623,958	635,765
Unsecured	1,002	652	1,384	3,038	106,262	109,300
Other secured	18	68	-	86	32,092	32,178
	$ 16,889	$ 4,734	$ 5,871	$ 27,494	$ 2,020,274	$ 2,047,768

2023	30–59 Days	60–89 Days	90 Days or Greater	Total Past Due	Current	Total Loans to Members
Member business						
Real estate	$ -	$ -	$ -	$ -	$ 262,145	$ 262,145
Residential real estate						
First mortgage	2,548	2,222	3,628	8,398	728,865	737,263
Second mortgage	980	204	17	1,201	202,559	203,760
Consumer						
Auto	5,981	1,759	1,318	9,058	561,280	570,338
Unsecured	824	434	485	1,743	90,508	92,251
Other secured	8	8	11	27	34,790	34,817
	$ 10,341	$ 4,627	$ 5,459	$ 20,427	$ 1,880,147	$ 1,900,574

A summary of nonaccrual loans by class at December 31 is as follows (dollars in thousands):

	2024	2023
Member business		
Real estate	$ -	$ -
Residential real estate		
First mortgage	4,012	5,850
Second mortgage	350	221
Consumer		
Auto	4,139	3,077
Unsecured	2,036	919
Other secured	68	19
	$ 10,605	$ 10,086
Forgone interest on nonaccrual loans	$ 650	$ 442

As of December 31, 2024 and 2023, nonaccrual loans were included in the collective evaluation with an allowance for credit loss recorded. The Credit Union had no loans that were greater than 60 days past due and that were also accruing interest at December 31, 2024 or 2023.

Loan modification – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination thereof. As of December 31, 2024 and 2023, the outstanding balance of loans modified to borrowers experiencing financial difficulty was $1,621,000 and zero, respectively. The modified loans to troubled borrowers were residential real estate loans. As of December 31, 2024, these loans had not subsequently defaulted.

Note 4 – Loan Servicing

The Credit Union sells first-mortgage residential real estate loans on the secondary market and retains the servicing. Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balance of first-mortgage residential real estate loans serviced for others was $483,726,000 and $507,792,000 at December 31, 2024 and 2023, respectively. The fair value of the mortgage servicing rights (MSRs) was $5,363,000 and $5,923,000 at December 31, 2024 and 2023, respectively.

Changes in the balance of MSRs net of valuation allowance, which is reported in other assets, were as follows for the years ended December 31 (dollars in thousands):

	2024	2023
BALANCE, beginning of year	$ 3,914	$ 4,503
Additions	77	108
Change to valuation reserve	-	-
Amortization	(555)	(697)
BALANCE, end of year	$ 3,436	$ 3,914

At December 31, 2024 and 2023, there was no valuation allowance associated with MSRs.

At December 31, 2024, the expected weighted-average life of the Credit Union's MSRs was 7.92 years. Projected amortization expense for the gross carrying value of the MSRs at December 31 is estimated to be as follows (dollars in thousands):

2025	$ 511
2026	462
2027	412
2028	364
2029	241
Thereafter	1,446
	$ 3,436

Net servicing fee income earned in connection with MSRs included in the accompanying financial statements as a component of noninterest income was $1,289,000 and $1,313,000 for the years ended December 31, 2024 and 2023, respectively. Late fees related for the years ended December 31, 2024 and 2023, were not material.

The assumptions used in determining the projected amortization expense, such as prepayment speeds (PSAs), are inherently subject to significant fluctuations, primarily due to the effect that changes in mortgage rates have on loan prepayment experience. Accordingly, any projection of MSR amortization in future periods is limited by the conditions that exist at the time the calculations were performed and may not be indicative of actual amortization expense that will be recorded in future periods.

The Credit Union performs an annual valuation of its MSRs to assess the MSRs for impairment. This analysis is based on certain key assumptions, including PSAs, discount rate, and annual inflation. PSAs ranged from 98 to 378 as of December 31, 2024, and 96 to 391 as of December 31, 2023. The discount rate was 8.88% and 9.00% as of December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, the annual inflation rate was 2.23% and 2.40%, respectively.

Note 5 – Premises and Equipment, net

Premises and equipment at December 31 are summarized as follows (dollars in thousands):

	2024	2023
Land	$ 2,506	$ 2,506
Buildings and improvements	17,255	17,254
Furniture and equipment	6,354	6,189
Computer equipment	19,272	18,110
Leasehold improvements	7,312	5,953
	52,699	50,012
In-process software development	-	848
Accumulated depreciation and amortization	(34,653)	(32,067)
	$ 18,046	$ 18,793

Depreciation and amortization expense amounted to $2,587,000 and $2,228,000 for the years ended December 31, 2024 and 2023, respectively.

Note 6 – Leases

The Credit Union follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*, recognizing ROU assets and lease liabilities on the Credit Union's statements of financial condition. At December 31, 2024, the Credit Union had 10 operating leases for retail branch locations. The remaining initial lease terms range from one year to 9.6 years, with most leases carrying optional extensions of 5 years. The Credit Union will include optional lease term extensions in the ROU assets and lease liabilities when management believes it is reasonably certain that the term extension will be exercised, which will be determined based on indicators that the Credit Union would have an economic incentive to extend the lease. Short-term leases, having a term of one year or less, are expensed in the period of the lease. To calculate the present value of future lease payments, the Credit Union uses the incremental borrowing rate, which is equal to the FHLB advance rate at the time of the lease inception.

The minimum monthly lease payments are generally based on square footage of the leased premises, with escalating minimum rent over the lease term. At December 31, 2024, the Credit Union was committed to paying approximately $147,000 per month in minimum monthly lease payments. The minimum monthly lease payment over the initial lease term, including any free rent period, was used to calculate the ROU and lease liability. The Credit Union’s current leases do not include any nonlease components.

Total lease expense included in the Credit Union’s income statement includes the amortized lease expense under ASC 842 combined with variable lease expenses for maintenance or other expenses as defined in the individual lease agreements.

The following table includes details on these items at and for the years ended December 31 (dollars in thousands):

	2024	2023
Lease expense, year-to-date	$ 1,856	$ 1,840
ROU	6,993	7,663
Lease liability	7,507	7,847
Weighted-average remaining term (in years)	5	7
Weighted-average discount rate	3	2.0

The following table provides a reconciliation between the undiscounted minimum lease payments and the discounted lease liability, which is reported in accrued expenses and other liabilities, at December 31 (dollars in thousands):

	2024	2023
Due through one year	$ 1,787	$ 1,740
Due after one year through two years	1,666	1,650
Due after two years through three years	1,470	1,524
Due after three years through four years	1,336	1,324
Due after four years through five years	812	1,185
Due after five years	1,184	1,067
Total minimum lease payments	8,255	8,490
Less present value discount	748	643
Lease liability	$ 7,507	$ 7,847

Note 7 – Derivatives

The Credit Union utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The Credit Union includes the gain or loss on the hedged items in the same line item, interest income, as the offsetting loss or gain on the related interest rate swaps.

Effective February 1, 2019, the Credit Union entered a pay-fixed, receive-variable interest rate swap contract with a total notional amount of $10.0 million. The interest rate swap was designated as a derivative instrument in a fair value hedge with the objective of effectively converting a pool of fixed-rate assets to variable-rate throughout the 10-year period beginning on February 1, 2019, and ending on February 1, 2029. Under the swap arrangement, the Credit Union will pay a fixed interest rate of 2.772% and receive a variable interest rate based on the three-month Secured Overnight Financing Rate (SOFR), or a comparable benchmark interest rate, on the notional amount of $10.0 million, with monthly net settlements.

During April 2024, the Credit Union terminated the $10.0 million interest rate swap for a deferred gain of $769,000. This gain will be amortized on a straight-line basis from April 2024 through the original maturity of the interest rate swap of February 1, 2029.

As of December 31, 2024 and 2023, the amortized cost basis of the closed portfolio used in the hedging relationship was $0 and $27,237,000, the cumulative basis adjustment associated with the hedging relationship was $0 and $(439,000), and the notional amount of the designated hedged item was $0 and $10 million, respectively.

As of December 31, 2024 and 2023, the fair value of the derivative instrument was approximately $0 and $486,000, respectively, and is reported in prepaid expenses and other assets in the statements of financial condition.

Note 8 – Members' Share and Savings Accounts

Members' share and savings accounts at December 31 are summarized as follows (dollars in thousands):

	2024	2023
Regular share accounts	$ 583,671	$ 616,791
Share draft accounts	484,489	474,997
Money market accounts	356,356	389,192
IRA share accounts	12,280	13,468
Total share accounts	1,436,796	1,494,448
Share and IRA certificates		
0.00% to 0.99%	14,983	31,436
1.00% to 1.99%	24,289	32,713
2.00% to 2.99%	105,694	109,852
3.00% to 3.99%	17,829	77,822
4.00% to 4.99%	554,991	141,354
5.00% to 5.99%	96,928	229,640
6.00% and greater	-	122
Total certificate accounts	814,714	622,939
Total members' share and savings accounts	$ 2,251,510	$ 2,117,387

Scheduled maturities of share and IRA certificates at December 31, 2024, are as follows (dollars in thousands):

2025	$ 754,548
2026	16,527
2027	25,342
2028	13,542
2029	4755
	$ 814,714

The aggregate amounts of members' share and IRA certificate accounts in denominations of $250,000 or more were approximately $204,659,000 and $151,203,000 at December 31, 2024 and 2023, respectively.

Overdrawn share accounts reclassified to consumer loans totaled $406,000 and $346,000 at December 31, 2024 and 2023, respectively.

The NCUSIF insures members' share and certain individual retirement accounts up to $250,000.

Note 9 – Lines of Credit and Borrowed Funds

The Credit Union maintains lines of credit (LOC) with the FHLB of San Francisco and the FRB of San Francisco at December 31, which are summarized as follows (dollars in thousands):

2024	FHLB	FRB	Total Lines
Total available	$ 797,568	$ 436,639	$ 1,234,207
Borrowed	(140,900)	(70,000)	(210,900)
Remaining available	$ 656,668	$ 366,639	$ 1,023,307
Term	LOC	LOC	
Weighted-average rate of advances outstanding	4.56%	5.21%	
2023			
Total available	$ 850,371	$ 59,183	$ 909,554
Borrowed	(174,300)	(30,000)	(204,300)
Remaining available	$ 676,071	$ 29,183	$ 705,254
Term	LOC	LOC	
Weighted-average rate of advances outstanding	5.14%	5.26%	

The FHLB line of credit is collateralized by available-for-sale securities held in safekeeping by the FHLB and certain member business real estate and residential real estate first- and second-mortgage loans. The outstanding principal balance of real estate loans pledged as collateral to the FHLB totaled approximately $1,098,039,000 and $1,083,174,000 at December 31, 2024 and 2023, respectively. The FRB line of credit is collateralized by federal agency securities held in safekeeping by the FRB and auto loans. Future advances under these lines would be at then-existing rates.

Scheduled maturities of borrowed funds at December 31, 2024, are as follows (dollars in thousands):

2025	$ 113,500
2026	8,400
2027	9,400
2028	13,300
	144,600
Open-ended advances	66,300
	$ 210,900

Note 10 – Subordinated Debt

On June 1, 2022 (the Issue Date), the Credit Union completed the issuance of a $35,000,000 Subordinated Security (the Security) due June 1, 2052 (the Maturity Date), at an offering price equal to 100% of the aggregate principal amount of the Security, resulting in net proceeds of $35,000,000. The applicable interest rate on the Security from the Issue Date to June 2024 (the First Reset Date) is 2% per annum.

From the First Reset Date through June 15, 2032 (the Last Reset Date), inclusive, the applicable interest rate (the Applicable Rate) will be reset on each anniversary (the Reset Date). The Applicable Rate may range between 0.5% and 2.0% per annum, not to exceed 2.0%, dependent on the percentage change in qualified lending, as defined in the agreement. From the Last Reset Date to, but excluding, the Maturity Date, the interest rate shall be the Applicable Rate as calculated with respect to the Last Reset Date.

On or after the Issue Date, the Credit Union may redeem the Security, in whole or in part, subject to the approval of the NCUA and subject to the requirements of 12 CFR 702.414. The indebtedness of this Security is, to the extent provided in the agreement, subordinate to all other claims on the assets of the Credit Union, including claims of Members, general and secured creditors, and the NCUSIF. The Security may be included in regulatory net worth for the Credit Union under current regulatory guidelines and interpretations.

Note 11 – Off-Balance-Sheet Activities

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

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

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk (dollars in thousands):

	2024	2023
Commitments to extend credit		
Home equity lines of credit	$ 191,744	$ 160,469
Credit cards	244,280	120,381
Line-of-credit loans	31,012	31,219
Overdraft protection program commitments	4,859	5,080
Member business loan commitments	19	13
Other unfunded commitments	211	88
	$ 472,125	$ 317,250

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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

Note 12 – Contingencies and Commitments

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

Loans sold with recourse – The Credit Union has implemented a mortgage program whereby some of its mortgage loans are sold on the secondary market without recourse. Loans sold may have to be subsequently repurchased due to defects that occurred during the origination of the loan. The defects are generally categorized as documentation errors, underwriting errors, early payment defaults, and fraud. When a loan sold to an investor fails to perform, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Credit Union may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no defects, the Credit Union has no commitment to repurchase the loan.

There was one loan repurchased for $236,000 for the year ended December 31, 2024. There was one loan repurchased for $293,000 for the year ended December 31, 2023.

Note 13 – Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under 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 (set forth in the following table) of net worth (as defined in the regulations) to total assets. Effective January 1, 2022, all federally insured credit unions defined as complex are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as complex and an RBC measure is applicable only if the credit union's quarter-end total assets exceed $500 million, as reflected in its most recent call report. A complex credit union may calculate its RBC measure either by using the risk-based capital ratio or, subject to qualification, by opting into the CCULR framework. A qualifying complex credit union that opts into the CCULR framework must maintain a minimum CCULR of 9%, which is calculated in the same manner as its net worth ratio, to be categorized as "well-capitalized." If the CCULR declines below 9%, the credit union has two calendar quarters to either satisfy the requirements to be a qualifying "complex credit union" or to calculate its risk-based capital ratio. In addition, eligibility for applying the simpler CCULR framework requires that a credit union have total off-balance-sheet exposure of 25% or less of total assets, total trading balances of 5% or less of total assets, and total goodwill plus other intangible assets of 25% or less of total assets. The Credit Union met the criteria to apply CCULR, and management opted to apply the CCULR framework. The Credit Union's net worth ratio as of December 31, 2024, was 10.26%.

Management believes that, as of December 31, 2024 and 2023, the Credit Union meets all capital adequacy requirements to which it is subject. As of December 31, 2024, the most recent call reporting period, the NCUA has categorized the Credit Union as well-capitalized under the regulatory framework for Prompt Corrective Action. No conditions or events have occurred since the calculation date that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios as of December 31, 2024 and 2023, are also presented in the following table (dollars in thousands):

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well-Capitalized Under Prompt Corrective Action Provisions		To Be Well-Capitalized Under CCULR Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2024								
Net worth	$ 280,667	10.26%	$ 164,133	6.00%	$ 191,488	7.00%	$ 246,199	9.00%
December 31, 2023								
Net worth	$ 267,553	10.36%	$ 154,953	6.00%	$ 180,779	7.00%	$ 232,430	9.00%

Note 14 – 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, 2024 and 2023, were approximately $2,762,000 and $4,025,000, respectively. In addition, there are also secured split-dollar loans to related parties, as disclosed in Note 1. Deposits from related parties at December 31, 2024 and 2023, amounted to approximately $1,717,000 and $1,229,000, respectively.

Note 15 – 401(k) Retirement Plan

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union matches a portion of employees' wage reductions. Total expense under this plan was $2,012,000 and $1,934,000 for the years ended December 31, 2024 and 2023, respectively.

Note 16 – Deferred Compensation Plans

The Credit Union has a 457(b) nonqualified deferred compensation plan for members of management. The Credit Union may make discretionary contributions to the plan and employees are allowed to contribute to the plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's financial statements and are available to creditors in the event of the Credit Union's liquidation.

The Credit Union has a 457(f) nonqualified deferred compensation plan for members of management. The Credit Union contributes 100% of the funds to this plan. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The deferred compensation accounts are shown as liabilities on the Credit Union's financial statements and are available to participants in the event of the Credit Union's liquidation.

The cash surrender value of life insurance policies pertaining to these plans was $18,924,000 and $18,282,000 as of December 31, 2024 and 2023, respectively. The deferred compensation payable, included in accrued expenses and other liabilities on the statements of financial condition, was $1,929,000 and $1,459,000 as of December 31, 2024 and 2023, respectively. Deferred compensation expense was $401,000 and $215,000 for the years ended December 31, 2024 and 2023, respectively.

Secured split-dollar program – The Credit Union has established a post-retirement benefit plan for executive officers known as a secured split-dollar program and funded the plan through multiple promissory notes.

The proceeds from the loans were used by the executive officers to purchase life insurance policies, which are known as the repayment policies, the sole purpose of which is the repayment of the loans with interest upon the death of the executive officer. The repayment policies are pledged as collateral against the loans, with the Credit Union named as the beneficiary. The Credit Union has no obligation to the executive officer under this secured split-dollar program other than granting the loans originated to purchase the life insurance policies. The loans to the executive officers are included in other assets on the statements of financial condition and have an outstanding balance, including accrued interest, of approximately $23,576,000 and $8,254,000 as of December 31, 2024 and 2023, respectively.

Note 17 – Fair Value

Determination of fair value – The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurements are to focus on an exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value hierarchy – The Credit Union groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgments or estimation.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value estimation.

The Credit Union used the following methods and assumptions in estimating fair value disclosures for financial instruments:

Available-for-sale securities – The fair value of investment securities is the fair market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based on externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Interest rate swaps – The Credit Union enters into interest rate swap contracts with a financial institution to allow the Credit Union to convert fixed-rate loans to variable-rate loans as part of the Credit Union's asset and liability management strategy with the overall goal of minimizing the impact of interest rate volatility. The Credit Union measures the fair value of the interest rate swap based on the overnight index swap (OIS) discount curve, which is considered a Level 2 input for the purpose of determining fair value.

Assets and liabilities measured at fair value on a recurring basis – Assets and liabilities measured at fair value on a recurring basis at December 31 are summarized as follows (dollars in thousands):

	Fair Value Measurements at Reporting Date Using			
2024	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
U.S. government and federal agency securities	$ -	$ 67,482	$ -	$ 67,482
Federal agency mortgage-backed securities	-	140,844	-	140,844
Federal agency collateralized mortgage obligations	-	90,588	-	90,588

	Fair Value Measurements at Reporting Date Using			
2023	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
U.S. government and federal agency securities	$ -	$ 73,661	$ -	$ 73,661
Federal agency mortgage-backed securities	-	160,717	-	160,717
Federal agency collateralized mortgage obligations	-	102,315	-	102,315
Interest rate swap agreement	-	486	-	486

Assets and liabilities measured at fair value on a nonrecurring basis – Under certain circumstances, the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the statements of financial condition by caption and by level in the fair value hierarchy at December 31 for which a nonrecurring change in fair value has been recorded (dollars in thousands):

	Fair Value Measurements at Reporting Date Using		
2024	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage servicing rights, net	$ -	$ -	$ 3,436
2023			
Mortgage servicing rights, net	$ -	$ -	$ 3,914

Qualitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ended December 31, along with the valuation techniques used, are shown in the following table (dollars in thousands):

	Recorded Amount at December 31, 2024	Valuation Technique	Unobservable Input	Average Rate
Mortgage servicing rights	$ 3,436	Discounted cash flow	Prepayment speed	109%
			Discount rate	8.88%

	Recorded Amount at December 31, 2023	Valuation Technique	Unobservable Input	Average Rate
Mortgage servicing rights	$ 3,914	Discounted cash flow	Prepayment speed	105%
			Discount rate	9.00%

* Discount to appraisal value. Amounts are estimated and carrying amount is generally lower than estimated fair value.

Note 18 – 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 noninterest income. The following table presents the Credit Union's sources of noninterest income for the years ended December 31:

	Years Ended December 31, 2024	2023
NONINTEREST INCOME		
In scope of Topic 606		
Fees and charges on deposit and transaction accounts	$ 5,925	$ 5,477
Interchange income	10,806	10,450
Other noninterest income [a]	5,726	4,792
	22,457	20,719
Not in scope of Topic 606		
Fees and charges on loan accounts	581	547
Gain on sales of loans held for sale	246	280
Other noninterest income [b]	1,933	1,518
Total noninterest income	$ 25,217	$ 23,064

[a] Includes Automated Teller Machine (ATM) fees, insurance commissions, and investment services income.

[b] Includes net loan servicing income, gain on mortgage loan derivatives, and income on life insurance policies.

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, generally at the 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 nonmembers through ATM transactions, including point of sale and surcharges. ATM fees are reported as other noninterest income in the 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 is reported as other noninterest income in the statements of income.

Principal versus agent considerations – When more than one party is involved in providing goods or services to a customer, Topic 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.

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 Subsection 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; therefore, the Credit Union does not have material contract assets or liabilities at period end.

MOSSADAMS