

USSCO JOHNSTOWN FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021
(With Independent Auditor's Report Thereon)

USSCO JOHNSTOWN FEDERAL CREDIT UNION

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Independent Auditor's Report

July 20, 2023

To the Supervisory Committee and Board of Directors
of USSCO Johnstown Federal Credit Union

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of USSCO Johnstown Federal Credit Union (the Credit Union), which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, comprehensive operations, 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 the Credit Union as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Audits of the Financial Statements section of our report. We are required to be independent of the 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 GAAP, 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 the Credit Union's ability to continue as a going concern for one year after the date that the financial statements are issued.

Report on the Audits of the Financial Statements (Continued)

Auditor's Responsibilities for the Audits 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 audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 the 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 the 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Doeren Mayhew

Doeren Mayhew
Miami, FL

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2022 AND 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$8,065,733	\$4,580,808
Available-for-sale investments (Note 2)	67,915,895	86,614,526
Loans to members, net of allowance for loan losses (Note 3)	81,270,551	68,809,283
Accrued interest receivable	338,071	328,347
Prepaid and other assets	1,412,296	1,472,999
Property and equipment, net (Note 4)	2,588,535	1,863,646
National Credit Union Share Insurance Fund (NCUSIF) deposit	1,463,014	1,386,432
Total assets	<u>\$163,054,095</u>	<u>\$165,056,041</u>
 <u>Liabilities and Members' Equity</u> 		
Liabilities:		
Members' shares and savings accounts (Note 5)	\$155,475,647	\$147,816,144
Accrued expenses and other liabilities	1,200,257	477,220
Total liabilities	<u>156,675,904</u>	<u>148,293,364</u>
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	—	1,477,420
Undivided earnings	15,823,299	13,628,413
Equity acquired through merger	2,518,597	2,518,597
Accumulated other comprehensive loss	(11,963,705)	(861,753)
Total members' equity	<u>6,378,191</u>	<u>16,762,677</u>
Total liabilities and members' equity	<u>\$163,054,095</u>	<u>\$165,056,041</u>

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Interest income:		
Loans to members	\$2,666,788	\$2,661,685
Investment securities	1,262,358	1,001,751
Total interest income	3,929,146	3,663,436
Interest expense:		
Members' shares and savings accounts	368,908	381,600
Net interest income	3,560,238	3,281,836
Provision/(reversal) for loan losses	106,669	(49,336)
Net interest income after provision for loan losses	3,453,569	3,331,172
Non-interest income:		
Interchange income	608,247	636,071
Fees and charges	564,214	450,540
Corporate credit union recovery payment	73,577	125,279
Other income	119,656	200,631
Total non-interest income	1,365,694	1,412,521
Non-interest expenses:		
Compensation and benefits	1,771,588	1,786,933
Professional and outside services	1,226,778	1,155,261
Office operations	455,839	425,118
Office occupancy	280,042	272,861
Other expenses	367,550	320,900
Total non-interest expenses	4,101,797	3,961,073
Net income	\$717,466	\$782,620

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE OPERATIONS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Net income	\$717,466	\$782,620
Other comprehensive loss:		
Available-for-sale investments:		
Net unrealized holding losses on available-for-sale investments	(11,101,952)	(2,011,394)
Other comprehensive loss	(11,101,952)	(2,011,394)
Comprehensive loss	<u>(\$10,384,486)</u>	<u>(\$1,228,774)</u>

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY YEARS ENDED DECEMBER 31, 2022 AND 2021

	Regular Reserve	Undivided Earnings	Equity Acquired Through Merger	Accumulated Other Comprehensive Income/(Loss)	Total
Balance,					
December 31, 2020	\$1,477,420	\$12,845,793	\$2,518,597	\$1,149,641	\$17,991,451
Net income	—	782,620	—	—	782,620
Other comprehensive loss	—	—	—	(2,011,394)	(2,011,394)
Balance,					
December 31, 2021	1,477,420	13,628,413	2,518,597	(861,753)	16,762,677
Net income	—	717,466	—	—	717,466
Other comprehensive loss	—	—	—	(11,101,952)	(11,101,952)
Transfer (Note 1)	(1,477,420)	1,477,420	—	—	—
Balance,					
December 31, 2022	\$—	\$15,823,299	\$2,518,597	(\$11,963,705)	\$6,378,191

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income	\$717,466	\$782,620
Adjustments to net cash provided from operating activities:		
Provision/(reversal) for loan losses	106,669	(49,336)
Depreciation and amortization	217,705	203,075
(Increase)/decrease in:		
Accrued interest receivable	(9,724)	16,537
Prepaid and other assets	60,703	83,531
Increase/(decrease) in:		
Accrued expenses and other liabilities	723,037	(33,794)
Total adjustments	<u>1,098,390</u>	<u>220,013</u>
Net cash provided from operating activities	<u>1,815,856</u>	<u>1,002,633</u>

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

Cash Flows (Continued)

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities:		
Maturities of interest-bearing deposits	—	4,181,000
Proceeds from the sales, calls, maturities, and repayments of available-for-sale investments	16,805,710	19,639,145
Purchase of available-for-sale investments	(9,209,031)	(46,280,632)
Net change in loans to members	(12,567,937)	215,554
Purchase of property and equipment	(942,594)	(201,830)
Increase in NCUSIF deposit	(76,582)	(190,396)
Net cash used in investing activities	<u>(5,990,434)</u>	<u>(22,637,159)</u>
Cash flows from financing activities:		
Net change in members' shares and savings accounts	<u>7,659,503</u>	<u>19,361,418</u>
Net cash provided from financing activities	<u>7,659,503</u>	<u>19,361,418</u>
Net change in cash and cash equivalents	3,484,925	(2,273,108)
Cash and cash equivalents - beginning	<u>4,580,808</u>	<u>6,853,916</u>
Cash and cash equivalents - ending	<u>\$8,065,733</u>	<u>\$4,580,808</u>
<u>Supplemental Information</u>		
Interest paid	<u>\$385,677</u>	<u>\$381,655</u>

See accompanying notes to the financial statements.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies

Organization

USSCO Johnstown Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the fair value of available-for-sale investments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work for or reside in Cambria and Somerset Counties in central Pennsylvania. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers work and reside.

Comprehensive (Loss)/Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive (loss)/income. Other comprehensive (loss)/income is limited to the changes in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in the statements of income.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from corporate credit unions (including cash items in the process of clearing) and interest-bearing deposits with corporate credit unions with an original maturity of 90 days or less including overnight deposits. Amounts due from corporate credit unions may, at times, exceed federally insured limits.

Available-for-Sale Investments:

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

Unrealized gains and losses on available-for-sale investments are recognized as direct increases or decreases in other comprehensive (loss)/income. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the estimated fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (1) the length of time and the extent which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent. Interest income on non-accrual loans is recognized only to the extent cash payments are received. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan origination fees and costs are deferred and amortized over the estimated life of the related loans. Deferred fees and costs are recognized as an adjustment to interest income on loans.

Allowance for Loan Losses (Allowance)

The allowance is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management has an established methodology to determine the adequacy of the allowance that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: real estate, consumer and commercial. The Credit Union further disaggregates real estate, consumer and commercial segments into classes based on the associated risks within those segments. Real estate loans are divided into two classes: first mortgage and home equity. Consumer loans are divided into four classes: automobile, share secured, unsecured and education. Commercial loans are divided into two classes: real estate and other.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance (Continued)

The allowance consists of specific and general components. The specific component covers impaired loans and specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Real Estate and Consumer Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors, credit quality of the assets comprising the portfolio and the ongoing evaluation process based on the risks present for each portfolio segment or class of loans. As of December 31, 2022 and 2021, the historical loss time frame for each class was the previous two years.

Commercial Segment Allowance Methodology

For commercial loans not identified as impaired or otherwise individually evaluated, the Credit Union determines the allowance on a collective basis utilizing peer group historical losses to represent the best estimate of inherent losses at the measurement date. Based on historical losses and management's credit risk assessment and analysis of leading predictors of losses existing as of the measurement date, loan losses are estimated. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data, or other risks identified from current economic conditions and credit quality trends.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance (Continued)

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual real estate and consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings (TDRs)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a TDR if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR activity was insignificant for disclosure for the years ended December 31, 2022 and 2021.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance (Continued)

Real Estate and Consumer Credit Quality Indicators

The majority of the Credit Union's real estate and consumer loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the real estate and consumer loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire real estate and consumer loan portfolio is measured by the periodic delinquency rate, non-accrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the real estate and consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, non-accrual loans and loans modified under TDRs that are past due in accordance with the loans' original contractual terms are considered to be in non-performing status for purposes of credit quality evaluation.

Commercial Credit Quality Indicators

The Credit Union assigns a risk rating to all loans, except pools of homogeneous loans, and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into eight major categories based on loan quality. Risk ratings range from 1 or excellent, representing the highest loan quality, to 8, or loss, representing the lowest loan quality. Commercial loans with an original balance less than \$50,000 are not individually risk-rated as permitted by regulation.

Loan Charge-off Policies

Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Loans are typically charged off no later than 180 days past due, unless they are in foreclosure. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment

Land is carried at cost. Buildings and improvements and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

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 one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Vizo Financial Corporate Credit Union (VFCCU). The Credit Union maintained approximately \$690,000 in PCC at VFCCU as of December 31, 2022 and 2021. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. PCC is uninsured and cannot be withdrawn; however, it is required to be a member of VFCCU. PCC can be used by VFCCU to absorb any operating losses that exceed the balance of retained earnings. The PCC is included with prepaid and other assets in the statements of financial condition.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Regular Reserve

As of December 31, 2021, the Credit Union was required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and was not available for the payment of interest. Effective January 1, 2022, the regular reserve requirement was eliminated which is reflected as a transfer to undivided earnings in the statements of members' equity.

Equity Acquired in Merger

Equity acquired in a merger represents equity accounted for in accordance with the acquisition method of accounting. Under this method, undivided earnings of the acquired credit union is combined on the acquirer's statements of financial condition as a separate component of equity. This component of equity is considered part of net worth as defined by the regulations established by the NCUA.

Fees and Charges

Service Charges on Deposit Accounts

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

Interchange Income

The Credit Union earns interchange fees from cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily as the performance obligations are satisfied.

Income Taxes

The Credit Union is exempt, by the Internal Revenue Code Section 501(c)(1)(a)(i), from federal and state income taxes.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Accounting for Financial Instruments – Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses*. The ASU introduces a new accounting model, the Current Expected Credit Losses (CECL) model, which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2023. The Credit Union is currently finalizing its review of key assumptions. Based on preliminary evaluation, the allowance is expected to increase by approximately \$208,000 at adoption, resulting in approximately a 11 basis point decrease in the net worth ratio.

Reclassification

Certain amounts reported in the 2021 financial statements have been reclassified to conform to the 2022 presentation. Reclassification adjustments did not affect total members' equity or net income.

Subsequent Events

Management has evaluated subsequent events through July 20, 2023, the date the financial statements were available to be issued. No significant such events or transactions were identified.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 2 - Available-for-Sale Investments

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	\$41,464,812	\$—	(\$6,088,538)	\$35,376,274
Collateralized mortgage obligations (CMOs)	11,179,497	—	(2,227,983)	8,951,514
Negotiable certificates of deposit	11,435,000	—	(1,194,838)	10,240,162
Federal agency securities	15,517,351	—	(2,436,778)	13,080,573
SBA securities	282,940	—	(15,568)	267,372
Total	\$79,879,600	\$—	(\$11,963,705)	\$67,915,895

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	\$43,758,468	\$207,680	(\$491,367)	\$43,474,781
CMOs	15,175,717	25,597	(357,453)	14,843,861
Negotiable certificates of deposit	12,834,000	155,442	(163,764)	12,825,678
Federal agency securities	14,529,423	—	(241,864)	14,287,559
SBA securities	681,313	706	(2,081)	679,938
Corporate bonds	497,358	5,351	—	502,709
Total	\$87,476,279	\$394,776	(\$1,256,529)	\$86,614,526

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 2 - Available-for-Sale Investments (Continued)

The amortized cost and estimated fair value of debt securities as of December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<i>Available-for-sale</i>	
	Amortized Cost	Fair Value
1 to 5 years	\$14,666,538	\$13,178,331
5 to 10 years	12,285,813	10,142,404
Mortgage-backed securities	41,464,812	35,376,274
CMOs	11,179,497	8,951,514
SBA securities	282,940	267,372
Total	\$79,879,600	\$67,915,895

Information pertaining to investments with gross unrealized losses as of December 31, 2022, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	\$11,052,828	(\$1,260,318)	\$24,323,446	(\$4,828,220)	\$35,376,274	(\$6,088,538)
CMOs	1,237,797	(111,266)	7,713,717	(2,116,717)	8,951,514	(2,227,983)
Negotiable certificates of deposit	4,802,718	(415,282)	5,437,444	(779,556)	10,240,162	(1,194,838)
Federal agency securities	904,501	(76,499)	12,176,072	(2,360,279)	13,080,573	(2,436,778)
SBA securities	—	—	267,372	(15,568)	267,372	(15,568)
Total	\$17,997,844	(\$1,863,365)	\$49,918,051	(\$10,100,340)	\$67,915,895	(\$11,963,705)

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 2 - Available-for-Sale Investments (Continued)

Information pertaining to investments with gross unrealized losses as of December 31, 2021, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	\$28,828,198	(\$404,172)	\$3,643,648	(\$87,195)	\$32,471,846	(\$491,367)
CMOs	9,160,119	(244,054)	1,810,697	(113,399)	10,970,816	(357,453)
Negotiable certificates of deposit	5,578,737	(140,263)	474,499	(23,501)	6,053,236	(163,764)
Federal agency securities	14,287,559	(241,864)	—	—	14,287,559	(241,864)
SBA securities	496,018	(2,081)	—	—	496,018	(2,081)
Total	\$58,350,631	(\$1,032,434)	\$5,928,844	(\$224,095)	\$64,279,475	(\$1,256,529)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Unrealized losses on negotiable certificates of deposit have not been recognized into income because they are all 100% insured as no deposit to one individual institution exceeds \$250,000.

Proceeds from the sales of investments classified as available-for-sale approximated \$6,241,000 and \$1,945,000 during the years ended December 31, 2022 and 2021, respectively. Gross losses of approximately \$56,000 and gross gains of approximately \$34,000 were realized from these sales during the years ended December 31, 2022 and 2021, respectively.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Real Estate:		
First mortgage	\$1,058,325	\$1,438,524
Home equity	10,213,195	10,525,331
	<u>11,271,520</u>	<u>11,963,855</u>
Consumer:		
Automobile	63,072,588	48,283,052
Share secured	363,208	422,747
Unsecured	2,109,686	2,055,268
Education	244,310	258,076
	<u>65,789,792</u>	<u>51,019,143</u>
Commercial:		
Real estate	3,545,576	4,772,004
Other	1,118,630	1,447,355
	<u>4,664,206</u>	<u>6,219,359</u>
	81,725,518	69,202,357
Less: Allowance	<u>(454,967)</u>	<u>(393,074)</u>
Loans to members, net	<u>\$81,270,551</u>	<u>\$68,809,283</u>

As of December 31, 2022 and 2021, the net deferred loan origination fees and costs, included in the principal balances of loans above, approximated \$2,103,000 and \$1,537,000, respectively.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Allowance

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2022:

	<u>Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
Allowance:				
Beginning allowance	\$109,982	\$253,406	\$29,686	\$393,074
Charge-offs	—	(153,957)	—	(153,957)
Recoveries	—	109,181	—	109,181
Provision for loan losses (reversal)	(55,337)	168,371	(6,365)	106,669
Ending allowance	<u>\$54,645</u>	<u>\$377,001</u>	<u>\$23,321</u>	<u>\$454,967</u>
Ending balance, individually evaluated for impairment	\$—	\$—	\$—	\$—
Ending balance, collectively evaluated for impairment	<u>54,645</u>	<u>377,001</u>	<u>23,321</u>	<u>454,967</u>
Ending allowance	<u>\$54,645</u>	<u>\$377,001</u>	<u>\$23,321</u>	<u>\$454,967</u>

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2022:

	<u>Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
Loans:				
Ending balance, individually evaluated for impairment	\$—	\$—	\$—	\$—
Ending balance, collectively evaluated for impairment	<u>11,271,520</u>	<u>65,789,792</u>	<u>4,664,206</u>	<u>81,725,518</u>
Total loans	<u>\$11,271,520</u>	<u>\$65,789,792</u>	<u>\$4,664,206</u>	<u>\$81,725,518</u>

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Allowance (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2021:

	<u>Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
Allowance:				
Beginning allowance	\$105,015	\$333,705	\$29,686	\$468,406
Charge-offs	—	(79,119)	—	(79,119)
Recoveries	12,727	40,396	—	53,123
Provision for loan losses (reversal)	(7,760)	(41,576)	—	(49,336)
Ending allowance	<u>\$109,982</u>	<u>\$253,406</u>	<u>\$29,686</u>	<u>\$393,074</u>
Ending balance, individually evaluated for impairment	\$—	\$—	\$—	\$—
Ending balance, collectively evaluated for impairment	<u>109,982</u>	<u>253,406</u>	<u>29,686</u>	<u>393,074</u>
Ending allowance	<u>\$109,982</u>	<u>\$253,406</u>	<u>\$29,686</u>	<u>\$393,074</u>

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2021:

	<u>Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
Loans:				
Ending balance, individually evaluated for impairment	\$—	\$—	\$—	\$—
Ending balance, collectively evaluated for impairment	<u>11,963,855</u>	<u>51,019,143</u>	<u>6,219,359</u>	<u>69,202,357</u>
Total loans	<u>\$11,963,855</u>	<u>\$51,019,143</u>	<u>\$6,219,359</u>	<u>\$69,202,357</u>

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	\$182,721	\$—	\$—	\$182,721	\$875,604	\$1,058,325
Home equity	46,312	—	19,168	65,480	10,147,715	10,213,195
	<u>229,033</u>	<u>—</u>	<u>19,168</u>	<u>248,201</u>	<u>11,023,319</u>	<u>11,271,520</u>
Consumer:						
Automobile	558,200	65,116	84,468	707,784	62,364,804	63,072,588
Share secured	—	—	—	—	363,208	363,208
Unsecured	26,219	—	—	26,219	2,083,467	2,109,686
Education	—	—	—	—	244,310	244,310
	<u>584,419</u>	<u>65,116</u>	<u>84,468</u>	<u>734,003</u>	<u>65,055,789</u>	<u>65,789,792</u>
Commercial:						
Real estate	—	—	35,983	35,983	3,509,593	3,545,576
Other	13,205	—	—	13,205	1,105,425	1,118,630
	<u>13,205</u>	<u>—</u>	<u>35,983</u>	<u>49,188</u>	<u>4,615,018</u>	<u>4,664,206</u>
Total	<u><u>\$826,657</u></u>	<u><u>\$65,116</u></u>	<u><u>\$139,619</u></u>	<u><u>\$1,031,392</u></u>	<u><u>\$80,694,126</u></u>	<u><u>\$81,725,518</u></u>

Loans on which the accrual of interest has been discontinued or reduced approximated \$140,000 as of December 31, 2022. There were no loans 90 days or more past due and still accruing interest as of December 31, 2022.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	\$—	\$—	\$22,075	\$22,075	\$1,416,449	\$1,438,524
Home equity	294,426	—	32,924	327,350	10,197,981	10,525,331
	<u>294,426</u>	<u>—</u>	<u>54,999</u>	<u>349,425</u>	<u>11,614,430</u>	<u>11,963,855</u>
Consumer:						
Automobile	346,121	—	—	346,121	47,936,931	48,283,052
Share secured	—	—	—	—	422,747	422,747
Unsecured	1,523	393	—	1,916	2,053,352	2,055,268
Education	—	—	—	—	258,076	258,076
	<u>347,644</u>	<u>393</u>	<u>—</u>	<u>348,037</u>	<u>50,671,106</u>	<u>51,019,143</u>
Commercial:						
Real estate	—	—	—	—	4,772,004	4,772,004
Other	—	—	—	—	1,447,355	1,447,355
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,219,359</u>	<u>6,219,359</u>
Total	<u><u>\$642,070</u></u>	<u><u>\$393</u></u>	<u><u>\$54,999</u></u>	<u><u>\$697,462</u></u>	<u><u>\$68,504,895</u></u>	<u><u>\$69,202,357</u></u>

Loans on which the accrual of interest has been discontinued or reduced approximated \$55,000 as of December 31, 2021. There were no loans 90 days or more past due and still accruing interest as of December 31, 2021.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Real Estate and Consumer Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, non-accrual loans are considered to be in a non-performing status for purposes of credit quality evaluation.

The following tables present the recorded investment based on performance indication as of December 31, 2022 and 2021:

	As of December 31, 2022		As of December 31, 2021	
	Performing Loans	Non-performing Loans	Performing Loans	Non-performing Loans
Real Estate:				
First mortgage	\$1,058,325	\$—	\$1,416,449	\$22,075
Home equity	10,194,027	19,168	10,492,407	32,924
	11,252,352	19,168	11,908,856	54,999
Consumer:				
Automobile	62,988,120	84,468	48,283,052	—
Share secured	363,208	—	422,747	—
Unsecured	2,109,686	—	2,055,268	—
Education	244,310	—	258,076	—
	65,705,324	84,468	51,019,143	—
Total	\$76,957,676	\$103,636	\$62,927,999	\$54,999

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2022:

	Real Estate	Other	Total
Credit Grade:			
3 - Good	\$1,601,032	\$598,006	\$2,199,038
4 - Pass	1,058,728	365,227	1,423,955
5 - Watch	—	53,041	53,041
Not rated*	885,816	102,356	988,172
Total	\$3,545,576	\$1,118,630	\$4,664,206

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2021:

	Real Estate	Other	Total
Credit Grade:			
3 - Good	\$2,831,861	\$492,737	\$3,324,598
4 - Pass	623,169	509,678	1,132,847
5 - Watch	114,596	207,373	321,969
Not rated*	1,202,378	237,567	1,439,945
Total	\$4,772,004	\$1,447,355	\$6,219,359

* Loans that are not risk-rated represent Business Purpose Loans with exposure of less than \$50,000 and Member Business Loans which do not require a risk rating according to *Part 723 of NCUA Regulations*.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2022 and 2021 by major classification as follows:

	<u>2022</u>	<u>2021</u>
Land	\$1,234,565	\$350,262
Buildings and improvements	3,124,750	3,124,750
Furniture and equipment	1,196,653	1,199,044
Leasehold improvements	9,307	9,307
	<u>5,565,275</u>	<u>4,683,363</u>
Less accumulated depreciation and amortization	<u>(2,976,740)</u>	<u>(2,819,717)</u>
	<u>\$2,588,535</u>	<u>\$1,863,646</u>

Depreciation and amortization charged to office operations and office occupancy expense was approximately \$218,000 and \$203,000 for the years ended December 31, 2022 and 2021, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Share accounts	\$86,728,393	\$84,564,772
Share draft accounts	35,908,270	35,356,340
Share certificates	17,599,137	11,458,220
Money market	11,684,348	13,073,880
Individual retirement accounts (IRAs)	3,555,499	3,362,932
	<u>\$155,475,647</u>	<u>\$147,816,144</u>

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 5 - Members' Shares and Savings Accounts (Continued)

As of December 31, 2022, scheduled maturities of share certificates are as follows:

	<u>2022</u>
Within one year	\$12,274,827
1 to 2 years	1,969,649
2 to 3 years	2,400,660
3 to 4 years	524,942
4 to 5 years	429,059
	<u>\$17,599,137</u>

The aggregate amount of members' time deposit accounts in denominations of \$250,000 or more as of December 31, 2022 was approximately \$894,000.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union maintains a 401(k) plan covering substantially all employees. Each pay period, participants may make salary deferred contributions to the Plan. The Credit Union has the ability to make discretionary matching contributions based on approval by the board of directors. As of December 31, 2022 and 2021, the Credit Union matched 25% of the employee's contributions not to exceed 10% of the employee's compensation. Participants become fully vested in the Credit Union's contributions after five years of credited service. The related matching contributions approximated \$29,000 and \$20,000 for the years ended December 31, 2022 and 2021, respectively.

Note 7 - Borrowed Funds

Vizo Financial Corporate Credit Union (VFCCU)

The Credit Union has an open-ended revolving credit agreement with VFCCU with an approved credit limit of \$7,500,000 as of December 31, 2022 and 2021. In order to access the unused portion of the line of credit, the Credit Union has granted VFCCU a first priority security interest in the Credit Union's loan portfolio, in accordance with the terms of the agreement. There was no balance outstanding under this line-of-credit agreement or pledged assets as of December 31, 2022 or 2021.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 8 - Commitments and Contingent Liabilities

Off-Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk more than the amount recognized in the statements of financial condition. Commitments to extend credit are agreements to lend to a member if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2022, the total unfunded commitments under such lines of credit was approximately \$7,481,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's 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 generally accepted accounting practices. 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.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 9 - Regulatory Capital (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in NCUA Regulations) to total assets (as defined in NCUA Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNWR as of December 31, 2021 was 7.62%. Effective January 1, 2022, credit unions under \$500,000,000 in total assets were not considered complex and were no longer required to calculate a risk-based net worth ratio.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union’s category.

The Credit Union’s actual and required net worth amounts and ratios are as follows:

	As of December 31, 2022		As of December 31, 2021	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	\$18,341,896	11.25%	\$17,624,430	10.68%
Amount needed to be classified as "adequately capitalized"	\$9,783,246	6.00%	\$9,903,362	6.00%
Amount needed to be classified as "well capitalized"	\$11,413,787	7.00%	\$11,553,923	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation. Management believes, as of December 31, 2022 and 2021, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 10 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 10 - Fair Value Measurements (Continued)

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market 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 generated from model-based techniques that use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Mortgage-backed securities	\$—	\$35,376,274	\$—	\$35,376,274
CMOs	—	8,951,514	—	8,951,514
Negotiable certificates of deposit	—	10,240,162	—	10,240,162
Federal agency securities	—	13,080,573	—	13,080,573
SBA securities	—	267,372	—	267,372
Total	\$—	\$67,915,895	\$—	\$67,915,895

USSCO JOHNSTOWN FEDERAL CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Note 10 - Fair Value Measurements (Continued)

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Mortgage-backed securities	\$—	\$43,474,781	\$—	\$43,474,781
CMOs	—	14,843,861	—	14,843,861
Negotiable certificates of deposit	—	12,825,678	—	12,825,678
Federal agency securities	—	14,287,559	—	14,287,559
SBA securities	—	679,938	—	679,938
Corporate bonds	—	502,709	—	502,709
Total	\$—	\$86,614,526	\$—	\$86,614,526

Note 11 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to directors and executive officers. Such loans aggregated approximately \$1,111,000 and \$719,000 as of December 31, 2022 and 2021, respectively.

Deposits

The aggregate deposits of the Credit Union directors and executive offers were approximately \$1,292,000 and \$1,065,000 as of December 31, 2022 and 2021, respectively.

* * * End of Notes * * *