



Report of Independent Auditors and
Financial Statements

CU Business Group, LLC

December 31, 2023 and 2022

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Report of Independent Auditors

To the Partners of
CU Business Group, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CU Business Group, LLC (the Company), which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CU Business Group, LLC as of December 31, 2023 and 2022, 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 CU Business Group, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023, the Company adopted new accounting guidance Accounting Standards Codification Topic 326, *Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 CU Business Group, LLC's ability to continue as a going concern within one year after the date that the financial statements are 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 CU Business Group, LLC'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 CU Business Group, LLC'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.



Portland, Oregon
June 28, 2024

Financial Statements

CU Business Group, LLC
Statements of Financial Condition
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 3,562,750	\$ 3,928,500
Credit union fees receivable	797,001	674,240
Property and equipment, net	86,631	139,613
Right-of-use assets, net	269,969	644,578
Prepaid expenses and other assets	537,979	451,972
Goodwill, net	<u>195,542</u>	<u>222,827</u>
Total assets	<u><u>\$ 5,449,872</u></u>	<u><u>\$ 6,061,730</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 614,286	\$ 865,290
Lease liabilities	307,594	705,887
Deferred member fee revenue	<u>760,566</u>	<u>728,809</u>
Total liabilities	<u>1,682,446</u>	<u>2,299,986</u>
COMMITMENTS AND CONTINGENCIES (Notes 3 and 7)		
MEMBERS' EQUITY		
	<u>3,767,426</u>	<u>3,761,744</u>
Total liabilities and members' equity	<u><u>\$ 5,449,872</u></u>	<u><u>\$ 6,061,730</u></u>

See accompanying notes.

CU Business Group, LLC
Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING INCOME		
Participation and whole loan servicing	\$ 2,515,878	\$ 2,149,489
Member fees	1,474,231	1,260,811
Underwriting fees	904,853	1,375,924
Consulting fees	869,938	740,520
Documentation fees	665,316	1,022,311
SBA loan servicing and fees	661,511	839,816
Education fees	508,696	399,546
Risk monitoring fees	596,986	694,709
Appraisal review fees	449,525	638,295
Affiliate fees	155,165	320,359
Other revenue	101,552	141,195
	8,903,651	9,582,975
OPERATING EXPENSES		
Compensation and benefits	7,234,953	7,446,752
Professional services	557,170	530,443
Rent	396,268	398,959
Software expense	393,207	360,635
Depreciation and amortization	123,013	145,286
Insurance	97,596	96,450
Travel expenses	94,006	95,268
Telephone	47,114	33,289
Equipment maintenance	19,937	27,492
Marketing and promotion	7,450	7,975
Supplies	2,160	6,358
Other expenses	74,336	163,671
	9,047,210	9,312,578
NET OPERATING (LOSS) INCOME	(143,559)	270,397
OTHER INCOME		
Investment income	149,241	66,384
NET INCOME	\$ 5,682	\$ 336,781

See accompanying notes.

CU Business Group, LLC
Statements of Changes in Members' Equity
Years Ended December 31, 2023 and 2022

BALANCE, December 31, 2021	\$ 3,424,963
Member distributions	-
Net income	<u>336,781</u>
BALANCE, December 31, 2022	3,761,744
Member distributions	-
Net income	<u>5,682</u>
BALANCE, December 31, 2023	<u><u>\$ 3,767,426</u></u>

See accompanying notes.

CU Business Group, LLC
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 5,682	\$ 336,781
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	123,013	145,286
Amortization of right-of-use assets	374,609	369,550
(Gain) loss on sale of property and equipment	(11,243)	20,765
Changes in operating assets and liabilities		
Credit union fees receivable	(122,761)	75,581
Prepaid expenses and other assets	(86,007)	1,950
Repayment of lease liabilities	(398,293)	(381,163)
Accounts payable and accrued liabilities	(251,004)	256,462
Deferred member fee revenue	31,757	47,200
	<u>(334,247)</u>	<u>872,412</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	39,167
Purchases of property and equipment	(31,503)	(75,428)
	<u>(31,503)</u>	<u>(36,261)</u>
Net cash used in investing activities		
	<u>(31,503)</u>	<u>(36,261)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(365,750)	836,151
CASH AND CASH EQUIVALENTS, beginning of year	3,928,500	3,092,349
CASH AND CASH EQUIVALENTS, end of year	\$ 3,562,750	\$ 3,928,500
Establishment of right-of-use assets	\$ -	\$ 1,014,128
Establishment of lease liabilities	\$ -	\$ (1,087,050)

See accompanying notes.

CU Business Group, LLC

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – CU Business Group LLC (the Company) is a limited liability company established in Oregon on August 1, 2002. The Company is engaged primarily in providing business program consulting, education, loan underwriting, loan servicing, documentation services, and business deposit services to credit unions throughout the United States. The accounting records are maintained, and the accompanying financial statements have been prepared on the accrual basis of accounting.

Use of estimates – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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. Significant estimates considered in the preparation of the Company's financial statements relate to the allowance for credit losses, goodwill impairment, and the term over which depreciation and amortization is recognized.

Adoption of new accounting standards – The Company adopted Accounting Standards Update (ASU) 2016-13 *Credit Losses*, and all subsequent amendments to the ASU (collectively, ASC 326). The primary effects of the amendments are to estimate the expected credit loss and the measurement of expected credit losses should be based on historical experience, current conditions, and reasonable forecast that affect the collectability of accounts receivable. The Company adopted ASC 326 as of January 1, 2023, using the modified retrospective approach. The new standard was not significant to the Company's financial statements.

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

Cash and cash equivalents – The Company considers cash on hand and demand deposits in federally insured institutions to be cash and cash equivalents. Cash equivalents include highly liquid investments with maturity of three months or less at the time of purchase. Cash and cash equivalents are reported at cost, which approximates fair value. At December 31, 2023 and 2022, cash and cash equivalents consisted of deposits in a corporate and natural person credit union. Deposits in federally insured institutions are insured up to \$250,000 by an agency of the federal government.

Property and equipment – Leasehold improvements, furniture and equipment are reported at cost less accumulated amortization and depreciation. Furniture and equipment are depreciated using the straight-line method over their estimated useful lives of one to five years. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements, whichever is less.

CU Business Group, LLC

Notes to Financial Statement

Leases – The Company enters into leases in the normal course of business. Operating lease right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The Company uses corporate credit union advance rates, adjusted for the lease term and other factors, at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

Goodwill – Goodwill is an intangible asset acquired in business combinations. The Company has made the policy election to amortize goodwill over its estimated useful life, not to exceed 10 years, as well as monitor for potential impairment. The Company evaluates goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of an asset is below the fair value. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Amortization of goodwill is included within depreciation and amortization in the statements of income.

Income taxes – The Company is considered to be a flow-through entity for federal income tax purposes. Consequently, federal income taxes are not payable, or provided for, by the Company. Members are taxed individually on their share of the Company's earnings and losses.

The Company has adopted accounting principles relating to uncertain tax positions. These prescribe a recognition threshold and measurement process in accounting for uncertain tax positions and also provide guidance on various related matters such as derecognition, interest, penalties, and financial statement disclosure requirements. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the State of Oregon. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

Receivables – Member and other fee receivables are recorded when invoices are issued and are charged off when they are determined by management to be uncollectible. The allowance for credit losses is estimated based on the Company's historical losses, review of specific problem accounts, existing economic conditions, and financial stability of member credit unions. Generally, the Company considers receivables to be past due after 30 days and all receivables are unsecured. During the years ended December 31, 2023 and 2022, there were no losses arising from uncollectible accounts, and the Company has deemed all receivables collectible; thus, no allowance for credit losses has been established.

Revenue from contracts with customers – The Company accounts for revenue with customers in accordance with Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)".

To determine revenue recognition for contracts with customers, the Company performs the following five steps:

- Identify the contract with the customer
- Identify the performance obligations in the contract

CU Business Group, LLC

Notes to Financial Statement

- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the Company satisfies a performance obligation

For membership fees, member credit unions pay an annual member fee in order to obtain reduced fees for future potential services, and to be able to obtain access to Company personnel for questions and advice at generally no charge. Affiliate credit unions pay a lower monthly fee to have access to potential services, yet pay higher pricing for services actually used and are charged for general inquiries to Company personnel. In both types of memberships, fees are not refundable even if no services are used. The performance obligation is satisfied, and fees are recognized evenly through the membership period while the Company is available to fulfill needed services. Unearned fees are recorded as deferred member fee revenues in the liabilities section of the statements of financial condition.

For the remainder of primary revenue streams, the Company's contracts generally do not contain terms that necessitate significant judgment to determine the amount, or timing, of revenue to recognize. The Company recognizes the expected amount of consideration as revenue when the performance obligations related to the services under the terms of a contract are satisfied.

Events subsequent to year-end – Subsequent events are events or transactions that occur after the date of the statements of financial condition but before the financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial condition, including the estimates inherent in the process of preparing the financial statements.

The Company has evaluated subsequent events through June 28, 2024, which is the date the financial statements became available for issuance.

Note 2 – Property and Equipment, Net

Property and equipment at December 31, are as follows:

	2023	2022
Furniture and equipment	\$ 97,469	\$ 97,469
Automobiles	32,302	49,642
Computer hardware	207,435	199,336
Computer software	113,515	121,633
	450,721	468,080
Less accumulated depreciation and amortization	(364,090)	(328,467)
	\$ 86,631	\$ 139,613

Depreciation and amortization expense, excluding goodwill amortization, was approximately \$96,000 and \$118,000 for the years ended December 31, 2023 and 2022, respectively.

CU Business Group, LLC

Notes to Financial Statement

Note 3 – Leases

Minimum rental payments under operating leases at December 31, 2023, are as follows:

Years ending December 31, 2024	<u>\$ 309,513</u>
Less imputed interest	<u>(1,919)</u>
Net lease liabilities	<u><u>\$ 307,594</u></u>

The Company, as a lessor, has a lease agreement with a tenant who prepaid all amounts due under the contract. The Company recognizes revenue on a straight-line basis over the lease term. Future revenue is expected to be recorded as follows:

Year ending December 31, 2024	<u><u>\$ 169,526</u></u>
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Total lease expense was approximately \$396,000 and \$399,000 for the years ended December 31, 2023 and 2022, respectively.

Supplemental lease information – Cash paid for amounts included in the measurement of lease liabilities approximated gross operating lease costs for the years ended December 31, 2023 and 2022. The weighted average remaining lease term for operating leases at December 31, 2023 and 2022, was approximately 0.8 years and 1.8 years, respectively. In addition, the weighted average discount rate at December 31, 2023 and 2022, was approximately 1.3%.

Note 4 – Allocation of Income and Loss

Under the Company's operating agreement with its members, net income and loss are generally allocated in accordance with each member's percentage of ownership measured annually on a pro-rata basis, which is the number of units owned by each member expressed as a percentage of the total number of units owned by all members. At December 31, 2023 and 2022, there were six members with ownership interest in the Company, two of whom own 36.8% each, one who owns 13.2%, and three who own 4.4% each.

Note 5 – Related-Party Events and Transactions

At December 31, 2023 and 2022, the Company had approximately \$3,485,000 and \$3,865,000 of cash and overnight investments, respectively, held at one of its member corporate credit unions.

The Company's operating agreement with its members allows for volume-based incentives, otherwise known as a marketing bonus, to be paid to its members upon the approval of the Board of Managers. These discretionary bonuses are calculated based on relationships brought to the Company by its members and expensed during the year in which the revenue is generated. There were no discretionary bonuses for the years ended December 31, 2023 and 2022.

CU Business Group, LLC

Notes to Financial Statement

Note 6 – Line of Credit

The Company utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all assets as security for any and all advances taken by the Company under this agreement. The agreement provides for a credit limit of \$500,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2023 and 2022, there were no borrowings under this agreement.

The Company has a \$99,000 unsecured line of credit with a community credit union. The line bears interest at 12.24%, unless balances are paid off at the end of each month, and requires monthly payments of principal and interest. At December 31, 2023 and 2022, there were no borrowings under this agreement.

Note 7 – Employee Benefits

The Company has a defined contribution plan covering substantially all of its full-time employees. Employees can contribute pre-tax annual compensation, subject to annual individual deferral limitations under the Internal Revenue Code. Annually, the Company makes a non-elective 3% contribution to all eligible employees. An additional discretionary contribution is also made depending on the employee's level within the Company, which was 2% in 2023. The non-elective contribution is immediately vested. Employer discretionary contributions vest from two to five years based on service. The Company's total contributions were \$256,790 and \$231,431 for the years ended December 31, 2023 and 2022, respectively.

Note 8 – Legal Contingencies

In the ordinary course of business, the Company may become a defendant in certain claims and legal actions. The aggregate effect of current known or anticipated litigation, in management's current opinion, will not have a material adverse effect on the financial condition or results of operations of the Company.

