REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

CU BUSINESS GROUP LLC

December 31, 2019 and 2018

MOSSADAMS

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Report of Independent Auditors

To the Partners of
CU Business Group LLC

Report on Financial Statements

We have audited the accompanying statements of financial condition of CU Business Group LLC (the Company) as of December 31, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CU Business Group LLC as of December 31, 2019 and 2018 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.

Moss Adams LLP

Portland, Oregon
June 16, 2020

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 3,237,066	$ 2,765,061
Mutual fund investments	233,642	175,305
Credit union fees receivable	344,321	401,679
Prepaid expenses and other assets	232,326	173,942
Property and equipment, net	82,362	89,486
Total assets	$ 4,129,717	$ 3,605,473
LIABILITIES		
Accounts payable and accrued liabilities	$ 609,564	$ 395,704
Deferred member fee revenue	625,244	616,953
Total liabilities	1,234,808	1,012,657
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
MEMBERS' EQUITY	2,894,909	2,592,816
Total liabilities and members' equity	$ 4,129,717	$ 3,605,473

CU Business Group LLC
Statements of Income

	Years Ended December 31, 2019	2018
OPERATING INCOME		
Member fees	$ 987,747	$ 995,883
Participation and whole loan servicing fees	868,502	935,162
Consulting fees	707,211	725,495
Underwriting fees	614,200	640,967
Documentation fees	598,944	647,706
Risk monitoring fees	447,014	526,929
Appraisal review fees	385,750	343,975
Education fees	217,126	171,600
Other revenue	119,670	103,261
Affiliate fees	107,999	105,016
SBA fees	24,536	31,885
Total operating income	5,078,699	5,227,879
OPERATING EXPENSES		
Compensation and benefits	3,966,405	4,168,026
Professional services	247,022	204,119
Rent	185,439	204,802
Software expense	111,967	112,431
Travel expenses	101,666	100,789
Insurance	70,188	68,124
Other expenses	50,416	36,302
Depreciation and amortization	40,356	55,173
Telephone	28,166	28,306
Equipment maintenance	24,508	20,315
Marketing and promotion	17,829	37,919
Supplies	8,750	13,030
Total operating expenses	4,852,712	5,049,336
NET OPERATING INCOME	225,987	178,543
OTHER INCOME		
Investment income	76,106	22,309
NET INCOME	$ 302,093	$ 200,852

See accompanying notes.

BALANCE, December 31, 2017	$ 2,391,964
Member distributions	-
Net income	200,852
BALANCE, December 31, 2018	2,592,816
Member distributions	-
Net income	302,093
BALANCE, December 31, 2019	$ 2,894,909

See accompanying notes.

CU Business Group LLC
Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 302,093	$ 200,852
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	50,416	55,173
Unrealized (gain) loss on mutual fund investments	(29,766)	4,102
Changes in operating assets and liabilities		
Credit union fees receivable	57,358	62,377
Prepaid expenses and other assets	(58,384)	(5,355)
Accounts payable and accrued liabilities	213,860	(470,693)
Deferred member fee revenue	8,291	49,094
Net cash from (used in) operating activities	543,868	(104,450)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of mutual fund investments	(28,571)	(20,000)
Purchases of furniture and equipment	(43,292)	(61,810)
Net cash from investing activities	(71,863)	(81,810)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	472,005	(186,260)
CASH AND CASH EQUIVALENTS, beginning of year	2,765,061	2,951,321
CASH AND CASH EQUIVALENTS, end of year	$ 3,237,066	$ 2,765,061

See accompanying notes.

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, 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.

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, 2019 and 2018, 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.

Mutual fund investments – Mutual fund investments are reported at fair value. Realized and unrealized gains or losses on these assets are reported in the statements of income.

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.

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.

Revenue recognition – Revenue is recognized when the earnings process is complete (generally upon the performance of services) and when collectability is reasonably assured. Member credit unions pay an annual member fee and pay reduced fees for loan underwriting and other transaction services. Affiliate credit unions pay a minimal annual fee and pay standard underwriting and transaction fees. Annual member fees entitle the member to consulting services, which may include business lending strategies, policy and procedures templates, deposit consulting services, and ongoing access to lending expertise. Member fees are paid annually in advance of the membership period and recognized on a straight-line basis over the life of the membership. Unearned fees are recorded as deferred member fee revenues in the liabilities section of the statement of financial condition.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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 doubtful accounts 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, 2019 and 2018, there were no losses arising from uncollectible accounts and the Company has deemed all receivables collectible, thus no allowance for doubtful accounts has been established.

Fair value measurements – Fair value is defined as 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. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The Company's mutual fund investments are the only financial instruments carried and measured at fair value on a recurring basis. For these securities, the Company obtains fair value measurements from an independent pricing service using active trading levels. The Company believes the fair value of mutual fund investments, as shown on the statement of financial condition, is derived from level 1 inputs.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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 doubtful accounts, deferred compensation plan liabilities, and the term over which depreciation and amortization is recognized.

Events subsequent to year-end – Subsequent events are events or transactions that occur after the date of the statement 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 statement of financial condition, including the estimates inherent in the process of preparing the financial statements.

The Company has evaluated subsequent events through June 16, 2020, 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:

	2019	2018
Furniture and equipment	$ 107,665	$ 111,301
Automobiles	98,742	107,023
Computer hardware	82,583	76,223
Computer software	16,737	16,737
Leasehold improvements	21,180	21,180
	326,907	332,464
Less accumulated depreciation and amortization	(244,545)	(242,978)
	$ 82,362	$ 89,486

Depreciation and amortization expense totaled $50,416 and $55,173 for the years ended December 31, 2019 and 2018, respectively.

Note 3 – 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, 2019 and 2018, there were six members with ownership interest in the Company, two of which owned 36.8% each, one owned 13.2%, and three owned 4.4% each.

Note 4 – Related-Party Events and Transactions

At December 31, 2019 and 2018, the Company had $137,025 and $160,769 of cash, 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, 2019 and 2018.

Note 5 – 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 $49,000 with interest charged at a rate determined by the lender on a periodic basis. At December 31, 2019 and 2018, 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 11.99%, unless balances are paid off at the end of each month, and requires monthly payments of principal and interest. At December 31, 2019 and 2018, there were no borrowings under this agreement.

Note 6 – 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 2019. 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 $129,523 and $234,026 for the years ended December 31, 2019 and 2018, respectively.

Note 6 – Employee Benefits (continued)

The Company has executive deferred compensation plans. The plans are funded by Company contributions and the balances include gains and losses realized on plan investments. Future contributions required by the Company under the terms of the plans were approximately $28,000 each year for the remaining years through January 2019, in which the final contribution was made. Under the terms of the agreements, full vesting occurs as long as continuous employment targets are achieved. Earlier vesting provisions exist, including upon the occurrence of death, disability or a change in control of the Company.

The executive deferred compensation plans provide for benefit payouts if vesting criteria is met. The liabilities associated with the plans vary and are based upon the value of the investments and the service periods which have elapsed. All assets of the plans are Company assets and are included among cash and cash equivalents and mutual fund investments on the statement of financial condition. The Company recognized expenses of $84,819 and $57,907, respectively, during the years ended December 31, 2019 and 2018, related to its obligations under the plan. Included within accrued expenses and other liabilities at December 31, 2019 and 2018, are $233,606 and $140,734, respectively, relating to the Company's obligations under these plans.

Note 7 – Leases

The Company has an operating lease agreement related to its headquarters facility. Future minimum lease payments for years ending December 31 are as follows:

2020	$ 122,715
2021	188,102
2022	193,745
2023	199,557
2024	205,544
Thereafter	123,283
	$ 1,032,946

Rental expense under all operating leases was $185,439 and $204,802, respectively, for 2019 and 2018.

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.

Note 9 – Subsequent Events

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. Given the dynamic nature of these circumstances and business disruption, the Company anticipates a significant short-term impact as public gatherings and travel remain restricted. The duration and intensity of the impact of the coronavirus and resulting disruption to the Company's operations is uncertain. The Company will continue to monitor the situation closely, but given the uncertainty about the situation, we can't estimate the impact to our future financial statements.

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