AUDIT REPORT

December 13, 2022

To the Supervisory Committee and Board of Directors of Patriot Federal Credit Union

Report on the Financial Statements

We have audited the financial statements of Patriot Federal Credit Union (the Credit Union), which comprise the statements of financial condition as of September 30, 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 September 30, 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) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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.

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 and *Government Auditing Standards* 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 and *Government Auditing Standards,* 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The FHA lenders with Title II authority adjusted net worth computation and financial data template shown on pages 47 and 48, respectively, are presented for purposes of additional analysis and is not a required part of the financial statements.

The FHA Lenders with Title II authority adjusted net worth computation and financial data template are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS.

In our opinion, the FHA Lenders with Title II authority adjusted net worth computation and financial data template are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report, dated December 13, 2022, on our consideration of the Credit Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Credit Union's internal control over financial reporting and compliance.

Doeren Mayhew

Doeren Mayhew
Miami, FL

SUPERVISORY COMMITTEE

The Supervisory Committee is established in accordance with the Federal Credit Union Act. It serves as a liaison between Patriot Federal Credit Union's members and the Credit Union's management. The Supervisory Committee is responsible for reviewing internal controls for the purpose of safeguarding credit assets. The Supervisory Committee is also responsible for ensuring the reliability of the credit union's financial records, promoting operational efficiency, and encouraging adherence to prescribed policies. It is the duty of the Supervisory Committee to oversee the annual audit and to ensure that a report of the audit is submitted to the Board of Directors.

The committee engaged the certified public accounting (CPA) firm of Doeren Mayhew to perform a certified audit as of September 30, 2022. In addition the Supervisory Committee engaged the firm of RKL, LLP who performs quarterly internal audits and reports their findings to the Supervisory Committee. Members can communicate directly to the committee verbally, or via letter to Patriot Federal Credit Union, Attention: Supervisory Committee, P.O. Box 778, Chambersburg, PA 17201.

The committee will strive to resolve any member concern.

NCUA

EQUAL HOUSING LENDER

2022 Annual Report

Patriot

FEDERAL CREDIT UNION

CEO's ANNUAL REPORT

On April 4, 2023, I started in my role as the CEO here at Patriot. During the first few months in this position, I have enjoyed meeting and speaking to members and others living, working, and doing business in our communities. I consider myself extremely fortunate to be working with a future-focused, supportive board of directors, engaging executive leadership team, and collaborative team of managers and staff at a credit union with strong financials and a vibrant geographic market area to serve.

Patriot is positioned for future growth and continues to focus on a mission of "People Helping People" through a strong culture of servant leadership with respect and professionalism. While the progress that Patriot made in the past year occurred prior to my joining the credit union, let me take a moment to recap the successes and challenges from 2022 before I provide my observations of the current and future perspective for the credit union.

Coming off the tail-end of the pandemic, 2022 was nearly unprecedented with the Federal Reserve increasing interest rates multiple times to a level that we hadn't seen since the millennium began. As a result, mortgage rates pushed past 6% after years in the 3-4% range causing fewer mortgage loans to refinance than we had experienced in quite some time. On the flip side, higher rates on IRAs and certificates were a welcomed sight to savers, many of whom had parked money in savings or money market accounts as they awaited an increase in dividend rates.

Some sectors, particularly the automotive industry, continued to deal with supply chain issues, in many cases related to a shortage of computer chips. Some financial institutions were impacted by the chip shortage getting in credit or debit card stock, something that Patriot avoided by securing ample supply to serve our members. But computer chips weren't the only item in short supply and high demand, other items like building materials drove up the cost of building or home renovations.

In addition to material shortages, many companies, particularly those in the service sector, experienced staffing shortages including Patriot. For more than half of the year, our Gateway branch lobby was closed and we transitioned the staff to the Waynesboro Financial Service Center from the Waynesboro West branch, where low activity and staffing challenges impacted the branch on North Grant Street.

Despite these supply challenges, our team pulled together and successfully opened a new branch location in Shippensburg in May as well as a new ATM location in Waynesboro to offer more convenience to our members. In addition, Patriot employed elevated initiatives on fraud detection and prevention, as well as enhanced digital services through our online and mobile banking platforms.

In particular, Business ACH origination was introduced to all business members to permit authorized staff to pay invoices electronically via ACH as well as to support payroll functions. Additionally, Patriot rolled out Business Mobile Deposit and Business Bulk Remote Deposit for added convenience. Our experienced team of business lenders - Eric Foreman, Mary Cordell, Brittany Leppert and Salma Sufi – have assisted many area businesses with borrowing solutions to meet their growth and operational initiatives.

Business services are just another way Patriot, as a community-chartered credit union, can serve the needs of the community. Your investments at Patriot remain local and support those who live, work, attend school, worship or do business in our area.

From a financial perspective, net income generated by the credit union in 2022 surpassed budget by almost $1 million. Patriot surpassed an industry milestone topping $1 Billion in assets, while loan growth was 10% and shares grew by 7%. As we moved into early 2023, the financial sector was hit with several large bank failures, however, Patriot continued on the path of stability, strength, and security. For over 120 consecutive quarters, 30 years and running, Patriot has been awarded a 5-Star rating from Bauer Financial for safety and soundness.

Coming out of the pandemic, the Federal Reserve has boosted interest rates 11 times to their highest level in 22 years during the past 18 months (since March 2022). Their desire is to pre-empt a recession, and it appears to be working despite the pains that it is causing on some households. As we entered 2023, we fully expected the beginning of a recessionary period with higher unemployment and diminished lending activity. While there are surely signs of an economic slowdown, it has been much milder than many economists expected.

Home loans have been slowed by higher interest rates, raising the monthly payment and decreasing affordability for some consumers, and by limited inventory of available homes resulting in higher prices and fast sales in many cases. Contributing to low inventory are current homeowners who either own their homes clear of any mortgage, or the 63% of mortgage owners with rates locked in at under 4%. Conversely, auto lending has remained strong throughout the year, as manufacturers have been able to meet inventory demand, some of which had been pent up due to limited availability in the past 18 months.

Unemployment remains low, enabling many consumers to continue to stay current with their loans and overall obligations. With a potential recession, we planned for delinquency through increased allowance for loan loss reserves. Nationwide, credit conditions have tightened and there remains concern over credit card and student loan debt. However, Patriot members have generally remained current on their loans – although consumer households on the lower end of the income spectrum are being impacted more significantly.

Savings and checking accounts, which were buoyed by stimulus money during 2020 and 2021, have taken a significant hit, thanks in part to inflation resulting in higher costs for goods and services. After a year in which consumers stocked away 3 years' worth of typical savings, most financial institutions including Patriot have seen the erosion of savings accounts to meet household expenses caused by inflation. And as interest rates moved up during the past year, individuals also saw the opportunity to move money previously parked in lower earning savings accounts into higher yielding share certificates. As a result, competitive pressure on deposit growth to fund the continued consumer and business borrowing needs has impacted nearly every financial institution in the first half of 2023.

We are anticipating that the recession we expected to occur in 2023 will most probably be delayed until the latter part of the year at the earliest and more than likely not until 2024 and is likely to be much less impactful than originally anticipated. Some economists are even suggesting that the risk of recession occurring has declined to a minimal level, as some of the economic data supports.

I'm excited about the future for our credit union, our team, our members, and our community. We at Patriot, believe strongly in community and member experience. As a credit union, we can typically offer lower fees, better loan rates, higher savings rates and a more personalized approach to service to our members, all while maintaining a strong focus on serving our local communities. Our staff are your neighbors and members of the community - - - it's where they shop to support local businesses, worship, volunteer, and raise their families.

In closing, I would like to take a moment to recognize my predecessor, Brad Warner, who retired after 43+ years in the financial services industry. Brad led the credit union from $524 million to over $1 billion in assets in his seven-year tenure as CEO, as the credit union grew to over 220 employees and ten branches. He was instrumental in positioning the credit union for the future.

Finally, I want to thank you for welcoming me to this community and I look forward to serving you. Please remember to recommend us to your family and friends when they are in need of financial services.

Sincerely,

Ron Celaschi

Ron Celaschi, CEO

FINANCIALS

SEPTEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 40,829,055	$ 63,282,550
Interest bearing deposits	996,000	2,486,000
Available-for-sale investments (Note 2)	88,576,696	83,982,500
Loans held for sale	961,343	3,182,754
Loans to members, net of allowance for loan losses (Note 3)	764,485,886	689,034,761
Accrued interest receivable	2,701,405	2,399,460
Prepaid and other assets	36,263,899	39,409,805
Property and equipment (Note 4)	29,192,949	25,134,533
National Credit Union Share Insurance Fund (NCUSIF) deposit	7,608,147	7,007,755
Total assets	$971,615,380	$915,920,118
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' shares and savings accounts (Note 5)	$868,747,568	$806,553,144
Accrued expenses and other liabilities	5,910,403	6,583,002
Total liabilities	874,657,971	813,136,146
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	–	6,387,154
Undivided earnings	115,265,298	97,542,932
Equity acquired in merger	1,345,792	1,345,792
Accumulated other comprehensive loss	(19,653,681)	(2,491,906)
Total members' equity	96,957,409	102,783,972
Total liabilities and members' equity	$971,615,380	$915,920,118
INTEREST INCOME:		
Loans to members	$ 31,543,175	$ 29,851,338
Investments and cash equivalents	1,819,376	1,289,005
Total interest income	33,362,551	31,140,343
INTEREST EXPENSE:		
Members' shares and savings accounts	4,763,236	4,747,867
Interest on borrowed funds	381	46,954
Total interest expense	4,763,617	4,794,821
Net interest income	28,598,934	26,345,522
Provision for loan losses (Note 3)	1,780,480	2,187,938
Net interest income after provision for loan losses	26,818,454	24,157,584
NON-INTEREST INCOME:		
Fees and charges	5,413,158	4,454,936
Interchange income	4,851,435	4,474,338
Other income	3,577,048	3,776,834
Gain on sale of loans	945,559	2,718,254
Gain on sale of investments	394,996	54,952
Total non-interest income	15,182,196	15,479,314
NON-INTEREST EXPENSES:		
Compensation and benefits	16,870,882	15,316,952
Office operations	4,611,607	3,973,034
Outside services	3,327,608	4,031,525
Office occupancy	2,167,620	1,991,467
Advertising	1,556,232	1,240,662
Loan servicing	1,345,853	1,353,664
Other expense	785,636	954,284
Total non-interest expenses	30,665,438	28,861,588
Net income	$11,335,212	$10,775,310
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Available-for-sale investments:		
Net unrealized holding losses on available-for-sale investments	(12,660,012)	(66,629)
Reclassification adjustment for investment gains included in net income	(394,996)	(54,952)
Net change in available-for-sale investments	(13,055,008)	(121,581)
Defined benefit pension plan:		
(Losses)/gains from changes in actuarial assumptions	(4,106,767)	2,631,407
Amortization of unrecognized net losses from changes in actuarial assumptions	–	18,329
Net change in defined benefit pension plan	(4,106,767)	2,649,736
Other comprehensive (loss)/income	(17,161,775)	2,528,155
Comprehensive (loss)/income	($5,826,563)	$ 13,303,465