

• **Financial Statements**

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• **Primary Financial**
• **Company LLC**

• December 31, 2022 and 2021



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To the Board of Directors
Primary Financial Company LLC
Dublin, Ohio

Independent Auditor's Report

Opinion

We have audited the financial statements of Primary Financial Company LLC, which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, changes in stockholders' 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 Primary Financial Company LLC 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.

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 Primary Financial Company 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.

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 controls 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 Primary Financial Company LLC's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. 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 controls 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 Primary Financial Company LLC's internal controls. 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 Primary Financial Company 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.

GBQ Partners LLC

Columbus, Ohio
February 2, 2023

PRIMARY FINANCIAL COMPANY LLC

Statements of Financial Condition

December 31, 2022 and 2021



	2022	2021
ASSETS		
Assets		
Cash and cash equivalents	\$ 13,509,310	\$ 16,602,800
Investments - held-to maturity	496,000	248,000
Investments - other	1,240,000	1,984,000
Gross spreads receivable	11,768,301	9,648,380
Net fixed assets	1,872,572	2,062,706
Goodwill	5,430,543	5,430,543
Deferred issuer incentive expense	871,808	630,475
Operating lease right-of-use (ROU) asset	196,987	-
Other assets	94,386	573,860
TOTAL ASSETS	\$ 35,479,907	\$ 37,180,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deferred spreads	\$ 5,775,154	\$ 5,107,144
Co-broker spreads payable	8,805,295	7,561,980
Distributions payable	-	5,250,000
Amounts due to customers	3,457,731	2,090,576
Operating lease liability	197,502	-
Accounts payable and accrued expenses	648,150	724,917
Total liabilities	18,883,832	20,734,617
Stockholders' Equity	16,596,075	16,446,147
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 35,479,907	\$ 37,180,764

The accompanying notes are an integral part of the Financial Statements.

PRIMARY FINANCIAL COMPANY LLC

Statements of Income December 31, 2022 and 2021

	2022	2021
Revenue		
Spread income:		
Gross spread income	\$ 10,536,056	\$ 11,190,872
Co-broker spread and incentives	(7,495,942)	(8,313,618)
Net spread income	3,040,114	2,877,254
Interest and other income	243,769	45,975
Total Revenue	3,283,883	2,923,229
Expenses		
Salaries and benefits	2,036,100	1,709,973
Office operations and occupancy	468,656	520,680
Settlement processing	99,770	110,795
Professional and other outside services	129,800	134,982
Advertising and promotion	337,500	144,000
Other	62,129	20,479
Total Expenses	3,133,955	2,640,909
Net Income	\$ 149,928	\$ 282,320

The accompanying notes are an integral part of the Financial Statements.

PRIMARY FINANCIAL COMPANY LLC
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2022 and 2021

	Units Outstanding	Total Stockholders' Equity
Balance at December 31, 2020	75	\$ 21,413,827
Net income		282,320
Distributions declared to stockholders (\$70,000 per unit)		<u>(5,250,000)</u>
Balance at December 31, 2021	75	16,446,147
Net income		149,928
Balance at December 31, 2022	75	\$ 16,596,075

The accompanying notes are an integral part of the Financial Statements.

PRIMARY FINANCIAL COMPANY LLC

Statements of Cash Flows December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 149,928	\$ 282,320
Adjustments to reconcile net income to net cash and cash equivalents used in operating activities:		
Depreciation	211,359	188,175
Net change in:		
Gross spreads receivable	(2,119,921)	2,047,499
Deferred spreads	668,010	(261,227)
Co-broker spreads payable	1,243,315	(1,699,596)
Amounts due to customers	1,367,155	(1,283,025)
Deferred issuer incentive expense	(241,333)	199,444
Operating lease assets and liabilities, net	515	-
Accounts payable and accrued expenses	(76,767)	30,062
Other assets	479,474	(498,972)
Net cash and cash equivalents provided by (used in) operating activities	1,681,735	(995,320)
Cash Flows from Investing Activities		
Purchase of investments - other	(248,000)	(496,000)
Maturity of investments - other	744,000	1,092,000
Purchase of property and equipment	(21,225)	(7,257)
Net cash and cash equivalents provided by investing activities	474,775	588,743
Cash Flows from Financing Activities:		
Distributions to stockholders	(5,250,000)	-
Net decrease in cash and cash equivalents	(3,093,490)	(406,577)
Cash at Beginning of Year	16,602,800	17,009,377
Cash at End of Year	\$ 13,509,310	\$ 16,602,800

The accompanying notes are an integral part of the Financial Statements.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements December 31, 2022 and 2021



Nature and Scope of Business

Primary Financial Company LLC (the Company) is a multiple-member limited liability company and is a corporate credit union service organization (CUSO) owned by its 10 corporate credit union members. The Company was established in accordance with the regulations of the National Credit Union Administration (NCUA) and the Ohio Revised Code. Because of its structure, the Company is not subject to federal or state income tax.

The Company is registered with the State of Ohio as a licensed securities dealer. The Company brokers certificates of deposit through a turnkey program called SimpliCD, which enables its customers to invest in federally insured certificates of deposit. As part of this service, the Company places certificates and collects principal and interest on behalf of its customers. The Company earns a spread over the term of the certificates for performing the services of the SimpliCD program.

The Company sells SimpliCD via its co-broker network. The co-brokers, most of which are the corporate credit unions that are also the owners, earn a portion of the spread for certificates of deposit they sell. Certain co-brokers also earn an incentive for referring institutions that issue certificates through the SimpliCD program. These incentives are recognized over the respective term of the certificate as a part of the co-broker spread and incentives as an adjustment to the spread.

Summary of Significant Accounting Policies

Use of Estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with Corporate One Federal Credit Union (Corporate One) and other financial institutions and short-term certificates of deposit, which may at times exceed federally insured limits of \$250,000 per depositor at each financial institution. The balance of cash and cash equivalents in excess of federally insured limits was approximately \$13.2 million and \$16.3 million, at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, deposits held in interest bearing accounts at Corporate One totaled approximately \$13.5 million and \$16.6 million, respectively.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements December 31, 2022 and 2021

Summary of Significant Accounting Policies (continued)

Investments

The Company's investments are classified and accounted for as follows:

Held-to-Maturity: Negotiable certificates of deposit are classified held-to-maturity when the Company has the positive intent and the ability to hold to maturity, are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Other: Non-negotiable certificates are carried at cost.

Management evaluates investments for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of investments are recorded on the trade date and the costs of investments sold are determined using the specific identification method.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of investments and the possibility of temporary unrealized losses.

Gross Spreads Receivable and Deferred Spreads

Gross spreads receivable represents the total amount of spread the Company expects to receive from the placement of certificates of deposit over the term of the certificates, less the amount of spread received. This receivable is recorded upon placement of the certificates, along with the corresponding deferred spreads and co-broker spreads payable and the receivable is reduced as the spreads are received. Deferred spreads are recognized as revenue over the term of the certificates. Outstanding certificates of deposit placed by the Company on behalf of customers totaled \$9,518,406,443 and \$7,206,854,700 at December 31, 2022 and 2021, respectively.

Advances to Customers

The Company generally receives the proceeds of its customers' maturing certificates of deposit from the certificate issuer and remits the proceeds to the customer on the maturity date. Occasionally, there is a slight delay in the receipt of principal from the issuer. In those instances, as a service to its customers, the Company advances the principal to its customers on the maturity date and reports these as Other Assets. There were no advances as of December 31, 2022. There were \$496,000 in advances due from issuers as of December 31, 2021.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements

December 31, 2022 and 2021

Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Equipment under construction is capitalized, however depreciation does not begin until the asset is placed in service. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. The lives of assets range from three to twenty years.

Goodwill

Goodwill relates to the 2003 purchase of the Company from Corporate One. Management has elected to not amortize Goodwill, but instead complete a qualitative evaluation for impairment of goodwill. If this evaluation determines that goodwill is more likely than not impaired, then a quantitative impairment test is performed. This test, if necessary, involves comparing the fair value of the Company to its carrying amount. If the fair value exceeds the carrying amount, goodwill is considered not to be impaired. The fair value of the Company is an estimate, as no ready market exists for the ownership interests of the Company. Such estimate of fair value is calculated based upon the present value of estimated future cash flows. No such impairment loss was recorded during the years ended December 31, 2022 and 2021.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. During the years ended December 31, 2022 and 2021, management determined there was no impairment to the assets.

Leases

Pursuant to GAAP, a contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities within the Company's accompanying statements of financial condition.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements December 31, 2022 and 2021

Summary of Significant Accounting Policies (continued)

Leases (continued)

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses the implicit rate when it is readily determinable. If the Company's leases do not provide an implicit rate, the Company elected the practical expedient to utilize the risk-free rate to determine the present value of lease payments. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. The non-lease components consist of common area maintenance and real estate taxes.

Other Assets

Included in other assets are advances due to customers, accounts receivable and prepaid accounts.

Co-broker Spreads Payable

Co-broker spreads payable represents the amount of spread, including issuer referral incentives, the Company expects the co-brokers will earn over the life of the certificates.

Amounts Due to Customers

Amounts due to customers represents interest that the Company has received on behalf of its customers, but has not yet remitted to its customers.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there currently are such matters that will have a material effect on the financial statements.

New Accounting Pronouncement

Effective January 1, 2022, the Company adopted the provisions and disclosure requirements described in Accounting Standards Codification Topic 842, *Leases* (ASC 842). ASC 842 requires the recognition of lease assets and lease liabilities by lessees for most leases, unless the lease has a term of 12 months or less. ASC 842 also changed certain guidance of lessee accounting, lessor accounting, leveraged leases, sale and leaseback transactions and required disclosures.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements

December 31, 2022 and 2021

Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement (continued)

The Company adopted the standard using the modified retrospective method. Accordingly, the results reporting periods beginning after January 1, 2022 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect during those periods.

In connection with the adoption of ASC 842, the Company elected transition-related practical expedients as accounting policies which allowed it to not reassess, as of the adoption date, (1) whether any expired or existing contracts are or contain leases, (2) the classification of any expired or existing leases and (3) if previously capitalized initial direct costs qualify for capitalization under ASC 842.

Investments

The amortized cost of investments at December 31, were:

Held to Maturity Investments	Weighted Average Yield at 12/31/2022	2022	Weighted Average Yield at 12/31/2021	2021
		Amortized Cost		Amortized Cost
Certificates of deposits - negotiable	1.18%	\$ 496,000	0.40%	\$ 248,000
Other Investments	Weighted Average Yield at 12/31/2022	2022	Weighted Average Yield at 12/31/2021	2021
		Amortized Cost		Amortized Cost
Certificates of deposits - non-negotiable	1.57%	\$ 1,240,000	1.17%	\$ 1,984,000

The amortized cost of investment securities at December 31, 2022 by expected maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to Maturity Amortized Cost	Other Investments Amortized Cost
Due in 2023	\$ -	\$ 1,240,000
Due between 2024 and 2027	496,000	-
Total	\$ 496,000	\$ 1,240,000

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements December 31, 2022 and 2021

Fixed Assets

Fixed assets at December 31 consisted of the following:

	2022	2021
Under construction	\$ 77,843	\$ 68,500
Computer equipment	4,424,422	4,412,540
Furniture, fixtures, other	344,794	344,794
Total cost	<u>4,847,059</u>	<u>4,825,834</u>
Less: accumulated depreciation	<u>(2,974,487)</u>	<u>(2,763,128)</u>
Net fixed assets	<u>\$ 1,872,572</u>	<u>\$ 2,062,706</u>

Leases

The Company has an operating lease for its main office location in Dublin, Ohio. The Company's lease has a remaining lease term of approximately 5 years.

The following summarizes the line items in the accompanying statements of financial condition which include amounts for the operating lease as of December 31, 2022:

Operating lease:	
Right-of-use asset - operating lease	\$ 196,987
Short term operating lease liability	44,543
Long-term operating lease liability	152,959
Total operating lease liability	<u>\$ 197,502</u>

The maturity of the lease liability as of December 31, 2022 was as follows:

	Operating Leases
2023	\$ 46,916
2024	46,916
2025	46,916
2026	46,916
2027	15,639
Total undiscounted cash flows	203,303
Less: present value discount	<u>(5,801)</u>
Total lease liabilities	<u>\$ 197,502</u>

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements

December 31, 2022 and 2021

Leases (continued)

The following summarizes the components of lease expense for the year ended December 31, 2022:

Operating lease expense	\$	46,797
Variable lease expense		31,668
Total lease expense	\$	78,465

The following summarizes additional information related to the lease for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	46,282
ROU assets obtained in exchange for new operating lease liabilities		240,806
Weighted-average remaining lease term in years for operating leases		4.33
Weighted-average discount rate for operating leases		1.37%

Related Party Transactions

The Company maintains deposit accounts and conducts cash management activities through one of its owners, Corporate One. Expenses related to cash management activities totaled \$50,430 and \$45,574 for 2022 and 2021, respectively. The Company also maintains a line of credit with Corporate One. There were no expenses related to the line of credit in 2022 or 2021.

Commitments and Contingencies

The Company and Corporate One have an agreement whereby Corporate One has extended an \$8 million line of credit to the Company to be used to facilitate the settlement of customer transactions. The credit line is secured by the assets of the Company. The interest rate on the credit line is equal to the rate Corporate One charges other borrowers under similar lending agreements. At December 31, 2022 and 2021, no advances were outstanding on the credit line.

Net Capital Requirements

The Company, as a licensed securities dealer with the State of Ohio, is required to maintain net capital, as defined, of at least \$25,000. The Company was in compliance with this requirement at December 31, 2022 and 2021.

PRIMARY FINANCIAL COMPANY LLC

Notes to Financial Statements

December 31, 2022 and 2021



Retirement Plans

The Company's employees participate in a defined contribution plan in which the Company contributed a total of 11.5 percent of the participant's eligible compensation to the participant's account in the plan. Employees can also contribute a portion of their compensation on a pre- or post-tax basis. Retirement expense was \$145,315 in 2022 and \$128,809 in 2021.

The Company has non-qualified deferred compensation agreements with certain employees. Under such agreements the Company pays the premiums on life insurance policies that are owned by the employees. Under the terms of the agreements, though the employees own the policies, they are not fully vested in the cash value of such policies until 2023 to 2034, and the unvested cash value is pledged to the Company under a collateral assignment. Expenses associated with these agreements were \$127,264 in 2022 and \$93,702 in 2021.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditor's Report, the date on which the financial statements were available to be issued.