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CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

MWA Financial Services, Inc.  
Year Ended December 31, 2022  
With Reports of Independent Registered Public  
Accounting Firm

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL REPORTS  
FORM X-17A-5  
PART III

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Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 01/01/2022 AND ENDING 12/31/2022  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: MWA Financial Services, Inc.

TYPE OF REGISTRANT (check all applicable boxes):

- ☒ Broker-dealer ☐ Security-based swap dealer ☐ Major security-based swap participant  
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

1701 1st Avenue

(No. and Street)

Rock Island

Illinois

61201

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Clint J. Pogemiller 309-558-3101

Clint.Pogemiller@modern-woodmen.org

(Name)

(Area Code – Telephone Number)

(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing\*

Crowe LLP

(Name – if individual, state last, first, and middle name)

485 Lexington Ave. Floor 11 New York

NY

10017

(Address)

(City)

(State)

(Zip Code)

September 27, 2003

173

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

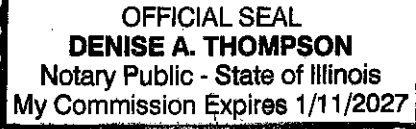
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\* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

## OATH OR AFFIRMATION

I, Clint J. Pogemiller, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of MWA Financial Services, Inc., as of 12/31, 2022, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.



Signature

Title:

President

Denise A. Thompson  
Notary Public

### This filing\*\* contains (check all applicable boxes):

- ☒ (a) Statement of financial condition.
- ☐ (b) Notes to consolidated statement of financial condition.
- ☒ (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- ☒ (d) Statement of cash flows.
- ☒ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☒ (g) Notes to consolidated financial statements.
- ☒ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☒ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☒ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☒ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ☒ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☒ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☒ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☒ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☒ (z) Other: Copy of the SIPC Supplemental Report

\*\*To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.

MWA Financial Services, Inc.  
Consolidated Financial Statements  
and Supplemental Information

Year Ended December 31, 2022

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Crowe LLP  
Independent Member Crowe Global

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and the Board of Directors  
MWA Financial Services, Inc.  
Rock Island, IL

### Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of MWA Financial Services, Inc. (the "Company") as of December 31, 2022, the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Supplemental Information

Schedules I, II, and III (collectively the "Supplemental Information") has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The Supplemental Information is the responsibility of the Company's management. Our audit procedures included determining whether the Supplemental Information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Supplemental Information. In forming our opinion on the Supplemental Information, we evaluated whether the Supplemental Information, including its form and content is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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(Continued)

*Crowe LLP*  
Crowe LLP

We have served as the Company's auditor since 2022.

New York, New York  
March 31, 2023

MWA Financial Services, Inc.

Consolidated Statement of Financial Condition

	<b>December 31 2022</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,287,112
Receivables from brokers, dealers, and others (net of allowance for credit losses of \$9,500)	949,453
Software (net of accumulated amortization of \$131,470)	197,990
Due from Modern Woodmen of America	104,245
Other assets	124,508
Total assets	<u><u>\$ 4,663,308</u></u>
<b>Liabilities and stockholder's equity</b>	
Liabilities:	
Accounts payable and accrued expenses	<u>\$ 1,964,705</u>
Total liabilities	1,964,705
Stockholder's equity:	
Common stock, \$1,000 per share stated value:	
Authorized shares – 10,000	
Issued and outstanding shares – 1,000	1,000,000
Additional paid-in capital	16,025,000
Accumulated deficit	<u>(14,326,397)</u>
Total stockholder's equity	<u>2,698,603</u>
Total liabilities and stockholder's equity	<u><u>\$ 4,663,308</u></u>

*See accompanying notes to consolidated financial statements.*

MWA Financial Services, Inc.

Consolidated Statement of Operations

	<b>Year Ended December 31 2022</b>
<b>Revenues</b>	
Concession income	\$ 29,061,448
Investment advisory fees	912,122
Variable product distribution fee income	330,000
Interest income	13,539
Field reimbursements	569,109
Other income	71,012
Total revenues	<u>30,957,230</u>
<b>Expenses</b>	
Commissions	24,715,467
Salaries and related expenses	4,098,177
Licenses and fees	695,965
Professional fees	90,334
Other operating expenses	1,522,492
Total expenses	<u>31,122,435</u>
Net loss	<u><u>\$ (165,205)</u></u>

*See accompanying notes to consolidated financial statements.*



MWA Financial Services, Inc.

Consolidated Statement of Changes in Stockholder's Equity

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Stated Value</u>	<u>Paid-In Capital</u>	<u>Deficit</u>	<u>Total</u>
Balance at January 1, 2022	1,000	1,000,000	16,025,000	(14,161,192)	2,863,808
Net loss	—	—	—	(165,205)	(165,205)
Balance at December 31, 2022	1,000	\$ 1,000,000	\$ 16,025,000	\$ (14,326,397)	\$ 2,698,603

*See accompanying notes to consolidated financial statements.*

MWA Financial Services, Inc.

Consolidated Statement of Cash Flows

	<b>Year Ended December 31 2022</b>
<b>Operating activities</b>	
Net loss	\$ (165,205)
Adjustments to reconcile net income to net cash used in operating activities:	
Amortization expense	58,781
Changes in operating assets and liabilities:	
Receivables from brokers, dealers, and others	222,767
Other assets	(9,289)
Due to/from Modern Woodmen of America	(814,758)
Accounts payable and accrued expenses	(52,764)
Net cash provided by (used in) operating activities	<u>(760,468)</u>
<b>Investing Activities</b>	
Purchases of software	(52,500)
Disposal of property and equipment	33,322
Net cash used in investing activities	<u>(19,178)</u>
Increase (decrease) in cash and cash equivalents	(779,646)
Cash and cash equivalents at beginning of year	4,066,758
Cash and cash equivalents at end of year	<u><u>\$ 3,287,112</u></u>

*See accompanying notes to consolidated financial statements.*

# MWA Financial Services, Inc.

## Notes to Consolidated Financial Statements

December 31, 2022

### **1. Summary of Significant Accounting Policies**

#### **Organization and Basis of Presentation**

MWA Financial Services, Inc. (the Company), a wholly owned subsidiary of Modern Woodmen of America, was incorporated on February 2, 2001, and began operating as a broker-dealer on October 10, 2001, upon its approval for membership in the Financial Industry Regulatory Authority (FINRA). The Company deals primarily in the sale of non-proprietary mutual fund shares and variable products. The Company clears its securities transactions on a fully disclosed basis through Pershing LLC (the clearing broker).

The consolidated financial statements (see Note 2) include the accounts of the Company and its wholly owned subsidiary, MWAGIA, Inc., which is involved in the sale of non-proprietary insurance products. All intercompany accounts and transactions have been eliminated.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. It is possible that actual experience could differ from the estimates and assumptions utilized.

#### **Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. From time to time, cash balances exceed federally insured limits at certain financial institutions. The Company has not incurred any losses to date regarding these excess balances.

#### **Software**

Capitalized software development costs represent the capitalization of certain costs incurred to develop new software or to enhance existing software which is utilized by the Company to process client transactions. Capitalized software development costs are amortized using the straight-line method over their estimated useful lives, generally three years and is stated at cost less accumulated amortization.

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Deferred Income Taxes

Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. The Company evaluates the deferred tax assets for recoverability and establishes a valuation allowance when it is determined that it is more likely than not that some portion or all of the deferred tax assets will not be realized.

##### Fair Value Measurements and Disclosures

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

Fair value is defined as the price that the Company would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market for the investment. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in ASC 820. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

The three-tier hierarchy of inputs is summarized below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

Cash and cash equivalents are reported at current value on a recurring basis and include money market instruments. Fair values of these cash and cash equivalents may be determined using public quotations, when available, which are reflected in Level 1. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values, which are reflected in Level 2. The Company used Level 1 valuation techniques to measure fair value of cash and cash equivalents of \$3,287,112 during the year ended December 31, 2022. The Company did not have any fair value Level 2 or Level 3 assets or liabilities at December 31, 2022.

Transfers between fair value hierarchy levels are recognized at the beginning of the reporting period. The Company did not have any transfers between levels during the years ended December 31, 2022.

#### **Current Expected Credit Losses (CECL)**

The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis and certain off-balance sheet credit exposures in accordance with FASB ASC 326-20, Financial Instruments – Credit Losses. FASB ASC 326-20 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

The Company records the estimate of expected credit losses as an allowance for credit losses. For financial assets measured at an amortized cost basis the allowance for credit losses is reported as a valuation account on the balance sheet that adjusts the asset's amortized cost basis. Changes in the allowance for credit losses are reported in Credit Loss expense.

*Receivables from broker-dealers and others.* The Company's receivables from broker-dealers and others include amounts receivable from unsettled trades, estimated 12b-1 payments and cash deposits. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties.

*Amount Due from Modern Woodmen of America.* The Company's receivables from Modern Woodmen of America represent expenses incurred by the Company on behalf of Modern

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

Woodmen of America. Generally, this is a liability for which the Company reimburses Modern Woodmen of America for expenses incurred on the Company's behalf and therefore no credit loss is estimated.

*Transactions with customers.* For transactions in which the Company, through the clearing broker, extends credit to customers, the Company seeks to control the risks associated with these activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company and the clearing broker monitor required margin levels daily and, pursuant to such guidelines, request customers to deposit additional collateral or reduce securities positions when necessary.

The Company has agreed to indemnify the clearing broker for any losses that it may sustain from the customer accounts introduced by the Company. At December 31, 2022, there were no amounts to be indemnified to the clearing broker for these customer accounts.

# MWA Financial Services, Inc.

## Notes to Consolidated Financial Statements (continued)

### 2. Revenues from Contracts with Customers

The following table provides a disaggregation of revenue from contracts with customers by revenue type and a reconciliation to total revenues in the consolidated statements of operations:

	<b>Year ended December 31 2022</b>
<b>Revenue</b>	
Concession Revenue	
Policy concessions	\$17,443,656
Mutual fund concessions	11,313,134
Brokerage equity commissions	304,658
Total Concession Revenue	29,061,448
Investment advisory fees	912,122
Field reimbursements	569,109
Variable product distribution fee	330,000
Total revenues from contracts with customers	30,872,679
Interest income	13,539
Other income	71,012
Revenues as included in the consolidated statements of operations	<u>\$30,957,230</u>

The following discussions describe the nature, timing and uncertainty of revenues and cash flows arising from the Company's contracts.

#### Policy concessions

The Company has entered into agreements with several organizations to sell variable and fixed annuities as well as medical, dental, long term care, disability, disability income, and accidental death insurance to its customers. The Company's performance obligations are for the initial sale of a policy and subsequent ongoing servicing of the policies. The Company receives consideration daily, weekly and monthly and recognizes revenue for these commissions when amounts are known and transaction price can be determined and allocated. The Company does

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Revenues from Contracts with Customers (continued)**

not recognize revenue for these fees until amounts are known as the revenue the Company will be entitled to is highly uncertain and susceptible to factors outside of the Company's control.

Such factors include length of time policies remain active and the amount of additional premiums paid by the policy holder.

Variable amounts are recorded as fund administrative fees (12b-1 fees), and are based on the average daily fund net asset balances and agreed upon contractual rate. 12b-1 fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods, but have been constrained until the current period because the fees are affected by changes in average daily fund balances and asset under administration.

#### **Mutual fund concessions**

The Company has entered into agreements with several organizations to sell mutual funds to its customers. The related performance obligation is the successful sale of the mutual fund assets. The Company believes that the performance obligation is satisfied on the trade date as that is when the underlying financial instrument or purchaser is identified, the pricing agreed upon and the risks and rewards of ownership have been transferred. The amount of revenue earned is determined by the value and type of each instrument sold based upon the contractual rate. The Company will recognize mutual fund sales commission revenues at the point in time the performance obligation has been satisfied, which is the trade date.

Variable amounts are recorded as fund administrative fees (12b-1 fees), and are based on the average daily fund net asset balances multiplied by the agreed upon contractual rate. 12b-1 fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods, but have been constrained until the current period because the fees are affected by changes in average daily fund balances and asset under administration.

#### **Brokerage equity commissions**

The Company has entered into agreements with its clearing broker to sell equity investments to its customers. The Company believes that the performance obligation is satisfied on the trade date as that is when the underlying financial instrument or purchaser is identified, the pricing agreed upon and the risks and rewards of ownership have been transferred. The amount of revenue earned is determined by the value and type of each instrument sold. The Company will



## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Revenues from Contracts with Customers (continued)**

recognize equity sales commission revenues at the point in time the performance obligation has been satisfied, which is the trade date.

##### **Investment advisory fees**

The Company has entered into agreements with several organizations to earn fees for servicing investment advisory accounts of its customers. The related performance obligation is the servicing of the assets, including processing purchases and sales. The Company receives asset based fees quarterly for satisfying the performance obligations, and are based on a percentage of the net assets maintained. The Company does not recognize revenue for these fees until amounts are known as the revenue the Company will be entitled to is highly uncertain and susceptible to factors outside of the Company's control. Such factors include market value of assets under management and the length of time investors hold their accounts.

Costs to fulfill the contracts with customer include commissions paid to agents for sales and servicing of the related assets and insurance products. These costs are related to performance obligations already satisfied and are expensed when incurred.

##### **Field reimbursements**

The Company has entered into agreements with the registered representatives that sell the Company's products. The Company charges those registered representatives fees to be properly licensed and registered with FINRA and any other states or regulatory authorities. The expenses incurred by the Company are recorded within licenses and fees and other expenses on the statement of operations. The Company will recognize field reimbursement revenues at the point in time the performance obligation has been satisfied, which is the date the fee is charged.

##### **Variable product distribution fee**

The Company has entered into agreements with Modern Woodmen of America to sell its variable annuity to its customers. The related performance obligation is the successful sale, subsequent ongoing servicing and monitoring of the variable annuity assets. As part of the subsequent ongoing servicing and monitoring of the variable annuity assets, the Company receives an agreed upon monthly fee. The Company will recognize variable product distribution fee revenues at the point in time the performance obligation has been satisfied, which is monthly.

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **3. Income Taxes**

The Company and its subsidiary file consolidated income tax returns, including only their own operations, since the ultimate parent company, Modern Woodmen of America, is a tax-exempt fraternal benefit society.

At December 31, 2022, the Company had a tax net operating loss carryover of \$13,324,677. The tax net operating losses carryover of \$13,072,923 arising in 2003 through 2017 may be carried forward until 2023 through 2037. The tax net operating loss arising in 2018 and later of \$251,754 does not have an expiration date. The net operating loss carryover represents the only significant temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes at December 31, 2022. Management has established a valuation allowance for the full amount of the related net deferred tax assets of \$2,798,182 at December 31, 2022, because of the uncertainty of future income necessary for its ultimate realization.

The Company has analyzed all material tax provisions under the guidance of ASC 740, *Income Taxes Related to the Accounting for Uncertainty in Income Tax*, and has determined that there are no tax benefits that should not be recognized as of December 31, 2022. There are no unrecognized tax benefits that would affect the effective tax rates.

The Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, has not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2019 through 2022 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

#### **4. Net Capital Requirements**

The Company is subject to the uniform net capital requirements of the SEC under Rule 15c3-1. The SEC's requirements provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met, and that the ratio of aggregate indebtedness to net capital as defined therein shall not exceed 15 to 1. At December 31, 2022, the Company had net defined capital of \$1,657,514, which was \$1,553,302 in excess of the required net capital of \$104,212 at that date. At December 31, 2022, the Company's ratio of aggregate indebtedness to net capital was 0.94 to 1. Various other regulatory agencies may impose additional capital requirements.

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **4. Net Capital Requirements (continued)**

Under the clearing arrangement with the clearing broker, the Company is also required to maintain certain minimum levels of net capital and comply with other financial ratio requirements. At December 31, 2022, the Company was in compliance with all such requirements.

The Company is exempt from maintaining a special reserve bank account under Rule 15c3-3(k)(2)(ii) in that the Company introduces customers to its clearing broker on a fully disclosed basis.

#### **5. Related-Party Transactions**

The Company's variable product distribution fee income relates to services performed in connection with the distribution of the variable annuity of Modern Woodmen of America, its parent. Modern Woodmen of America compensated the Company at the rate of \$27,500 per month under a distribution agreement that commenced in June 2001 and was amended in 2010 and 2017. Concessions income derived from proprietary variable product transactions, which were substantially distributed in commissions to representatives selling those products, totaled \$10,982,102 in 2022. Commissions paid to representatives totaled \$9,967,871 in 2022. Substantially all of the Company's operating expenses represent allocations from, or payments by, Modern Woodmen of America, which are then reimbursed by the Company. During 2022, total net expenses reimbursed to Modern Woodmen of America were \$4,473,436. This includes the cost of the Company's employees and the allocated costs of their participation in various qualified employee benefit plans covering substantially all employees and sponsored by Modern Woodmen of America. Separate plan information disaggregated by the subsidiary company is not available on the components of pension cost or on the funded status of the defined-benefit pension plan.

From time-to-time Modern Woodmen of America contributes capital to the Company. During 2022, no capital contributions were made.

## MWA Financial Services, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Allowance for Credit Losses

The Company records an allowance for credit losses. Management evaluated current market conditions warranted using historical losses as well as rating agency provided forecasted default rates to estimate the current year provision for expected credit losses. A roll forward of the allowance for credit losses is as follows:

Balance at January 1, 2022	\$	9,800
Provision for expected credit losses		<u>(300)</u>
Balance at December 31, 2022	\$	<u>9,500</u>

There were no write-offs charged against the allowance or recoveries collected in 2022.

#### 7. Commitments and Contingencies

##### Regulatory Matters

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's Statement of Financial Condition. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

##### Indemnifications

In the normal course of business, the Company enters into contracts that contain a variety of representations which provide general indemnifications. The Company's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

## Supplemental Information

MWA Financial Services, Inc.

Schedule I – Computation of Net Capital Under SEC Rule 15c3-1

December 31, 2022

**Computation of Net Capital**

1. Total ownership equity			\$ 2,698,603
3. Total ownership equity qualified for net capital			<u>2,698,603</u>
5. Total capital and allowable subordinated liabilities			<u>2,698,603</u>
6. Deductions and/or charges:			
A. Total nonallowable assets			
1. Investment in subsidiary	408,445		
2. Prepaid expenses and other receivables	616,438	1,024,883	<u>1,024,883</u>
8. Net capital before haircuts on securities positions			<u>1,673,720</u>
9. Haircuts on securities [computed, where applicable, pursuant to 15c3-1(f)]:			
C. Trading and investment securities:			
1. Exempted securities		16,206	<u>16,206</u>
10. Net capital			<u>\$1,657,514</u>

**Computation of Basic Net Capital Requirement**

**Part A**

11. Minimum net capital required (6-2/3% of line 19)	\$ 104,212
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries	<u>50,000</u>
13. Net capital requirement (greater of line 11 or 12)	<u>104,212</u>
14. Excess net capital (line 10 less 13)	<u>1,553,302</u>
15. Net capital less greater of 10% of line 19 or 120% of line 12	<u>1,501,197</u>

**Computation of Aggregate Indebtedness**

16. Total A.I. liabilities from Statement of Financial Condition:		
• Accounts payable and accrued expenses	\$ 1,563,175	1,563,175
19. Total aggregate indebtedness		<u>1,563,175</u>
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)		<u>94.31%</u>

**Notes**

There were no differences between the computation of net capital under Rule 15(c)3-1 included in this audited report and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filing submitted to the FINRA on January 26, 2023.

MWA Financial Services, Inc.

Schedule II – Computation for Determination of Reserve  
Requirements Pursuant to Exhibit A of SEC Rule 15c3-3

Schedule III – Information Relating to the Possession  
or Control Requirements under SEC Rule 15c3-3

December 31, 2022

Exemptive Provision		
22. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only):		
A. (k)(1) – Limited business (mutual funds and/or variable annuities only)		
B. (k)(2)(i) – “Special Account for the Exclusive Benefit of Customers” maintained		
C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm: Pershing LLC		X
D. (k)(3) – Exempted by order of the Commission		