Report of Independent Auditors
and Consolidated Financial Statements

Redstone Federal Credit Union and Subsidiary

June 30, 2023 and 2022

MOSSADAMS

This credit union is federally insured by the National Credit Union Administration

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Report of Independent Auditors

The Board of Directors and Supervisory Committee
Redstone Federal Credit Union and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Redstone Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of June 30, 2023 and 2022, and the related consolidated statements of income, comprehensive loss, member equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Redstone Federal Credit Union and Subsidiary as of June 30, 2023 and 2022, and the results of their operations and their 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 Redstone Federal Credit Union and Subsidiary 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Redstone Federal Credit Union and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Redstone Federal Credit Union and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Redstone Federal Credit Union and Subsidiary'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.

Moss Adams LLP

Spokane, Washington
September 29, 2023

Consolidated Financial Statements

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Financial Condition
June 30, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 283,390	$ 484,822
Investments in available for sale debt securities	2,990,364	3,548,056
Equity securities	55,981	53,934
Loans held for sale	133,621	7,414
Loans, net	3,607,679	3,228,699
Accrued interest receivable	17,241	13,611
Property and equipment, net	180,113	154,928
National Credit Union Share Insurance Fund (NCUSIF) deposit	64,039	62,364
Other investments	4,182	9,376
Net pension asset	37,506	30,526
Other assets	29,681	30,236
Total assets	$ 7,403,797	$ 7,623,966
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 6,805,613	$ 7,024,642
Accrued expenses and other liabilities	75,201	65,805
Total liabilities	6,880,814	7,090,447
Contingent liabilities (Note 10)		
Members' equity		
Retained earnings	873,673	786,800
Change to accumulated other comprehensive loss	(350,690)	(253,281)
Total members' equity	522,983	533,519
Total liabilities and members' equity	$ 7,403,797	$ 7,623,966

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Income
Years Ended June 30, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Interest income		
Interest on loans	$ 197,351	$ 148,380
Interest and dividends on investments and cash equivalents	96,312	56,484
Total interest income	293,663	204,864
Interest expense (income)		
Dividends on members' shares	43,111	16,993
Interest on borrowed funds	3,301	(1,858)
Total interest expense	46,412	15,135
Net interest income	247,251	189,729
Provision for loan losses	36,518	19,260
Net interest income after provision for loan losses	210,733	170,469
Noninterest income (loss)		
Loan late and over limit fees	6,954	5,911
Loan servicing	1,802	1,979
Mortgage banking revenue	2,308	4,788
Nonsufficient fund and overdraft fees	20,299	19,612
Debit card interchange	45,465	44,630
Credit card interchange	26,026	24,103
Insurance and investment commissions	14,078	11,057
Net gain on sale of securities	45	7,620
Unrealized gain (loss) on equity securities	42	(5,785)
Other noninterest income	22,376	17,774
Total noninterest income	139,395	131,689
Noninterest expenses		
Salaries and benefits	122,985	108,341
Occupancy	22,690	23,025
Data processing	18,077	16,397
Debit card processing	13,767	11,753
Credit card processing	8,312	8,087
Cash back rebate on credit and debit cards	21,545	13,920
Loan processing and servicing	4,423	5,480
Member education and promotion	10,193	5,828
Professional and outside services	12,436	11,046
Federal supervision and insurance	584	599
Uncollectible accounts	6,762	4,963
Other operating expense	21,481	21,430
Total noninterest expense	263,255	230,869
Net income	$ 86,873	$ 71,289

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Comprehensive (Loss) Income
Years Ended June 30, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
Net income	$ 86,873	$ 71,289
Other comprehensive (loss) income		
Net change in defined benefit plan obligations	7,630	5,919
Net change in postretirement benefit plan obligations	1,060	3,358
Net change in unrealized holding (losses) on investments in available for sale securities	(106,054)	(265,940)
Reclassification adjustment for net gain realized in income from sale of investments in available for sale securities	(45)	(7,620)
Other comprehensive loss	(97,409)	(264,283)
Change to comprehensive loss	$ (10,536)	$ (192,994)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Members' Equity
Years Ended June 30, 2023 and 2022
(Dollar amounts in thousands)

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, June 30, 2021	$ 24,833	$ 690,678	$ 715,511	$ 11,002
Net income	-	71,289	71,289	-
Other comprehensive loss	-	-	-	(264,283)
Balance, June 30, 2022	24,833	761,967	786,800	(253,281)
Net income	-	86,873	86,873	-
Other comprehensive loss	-	-	-	(97,409)
Balance, June 30, 2023	$ 24,833	$ 848,840	$ 873,673	$ (350,690)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 86,873	$ 71,289
Adjustments to reconcile net income to net cash from operating activities		
Capitalization of mortgage servicing rights	(635)	(789)
Amortization of mortgage servicing rights	531	864
Amortization of premiums and discounts on investments in securities, net	11,340	13,940
Recovery of mortgage servicing rights	-	(3)
Provision for loan losses	36,518	19,260
Depreciation and amortization of property and equipment	13,764	14,580
Lease right-of-use operating expense	2,202	983
Mortgage banking revenue	(1,672)	(4,788)
Proceeds from sales of loans held for sale	83,352	112,177
Origination of loans held for sale	(79,617)	(113,961)
Net gain on sale of securities	(46)	(7,620)
Net change in fair value of equity securities	(42)	5,785
Net gain on disposition of property and equipment	(23)	(111)
Net change in		
Accrued interest receivable	(3,630)	(245)
Defined benefit pension liability	650	667
Other assets	996	(2,224)
Accrued expenses and other liabilities	10,455	4,425
Net cash from operating activities	161,016	114,229
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments in available for sale securities	(206,184)	(2,184,902)
Proceeds from maturities of investments in securities	499,188	711,858
Proceeds from sales of investments in securities	146,672	1,214,278
Purchase of equity investments	(15,168)	(15,439)
Proceeds from sales of equity investments	13,797	14,337
Proceeds from maturities of other investments	5,461	-
Purchase of other investments	(267)	(793)
Net change in loans to members	(544,115)	(260,710)
Increase in the NCUSIF deposit	(1,675)	(7,942)
Proceeds from disposition of property and equipment	878	444
Purchases of property and equipment	(42,006)	(20,597)
Net cash from investing activities	(143,419)	(549,466)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(Dollar amounts in thousands)

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in members' shares	$ (219,029)	$ 762,791
Proceeds from borrowed funds	789,105	1,346,868
Repayment of borrowed funds	(789,105)	(1,346,868)
Net cash from financing activities	(219,029)	762,791
NET CHANGE IN CASH AND CASH EQUIVALENTS	(201,432)	327,554
CASH AND CASH EQUIVALENTS, beginning of year	484,822	157,268
CASH AND CASH EQUIVALENTS, end of year	$ 283,390	$ 484,822
SUPPLEMENTAL CASH FLOWS INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 39,809	$ 15,135
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans into other real estate owned	$ 347	$ 319

See accompanying notes.

Note 1 – Nature of Operations and Significant Accounting Policies

Principles of consolidation – The accompanying consolidated financial statements include the accounts of Redstone Federal Credit Union (Credit Union) and its wholly owned subsidiaries, Redstone Services Group, LLC (RSG), Redstone Consulting Group, LLC (RCG), Redstone Title Services, LLC (RTS), and Redstone Family Realty, LLC (RFR). In November 2021, RS Alliance Group, LLC (RSAG) was formed. In February 2022, all investments in subsidiaries were transferred and RSAG became the sole, wholly owned subsidiary of the Credit Union. Ascent Security Group, LLC (ASG) was formed in March 2022 with RSAG as the sole owner. RCG was dissolved effective June 29, 2023. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations – The Credit Union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

RSG is engaged primarily in selling insurance products to nonmember customers and servicing student loans. RCG specialized in the development and support of software technology products, process improvements, and best practices for other credit unions and community banks. RTS provides title insurance and settlement services to members and nonmember customers. RFR provides real estate brokerage services to members and nonmember customers. ASG provides security officer services to the Credit Union and nonmember customers. ASG also provides armored services to the Credit Union and has plans to extend these services to nonmembers in the future.

Significant accounting policies – The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations, and cash flows of the Credit Union. References to GAAP issued by the FASB in these footnotes are to The FASB Accounting Standards Codification™ commonly referred to as the Codification.

Revenue from contracts with customers – All of the Credit Union's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. A description of the revenue streams accounted for under ASC 606 follows:

Service charges – The Credit Union recognizes revenue for fees and charges at the point in time the member uses the selected service to execute a transaction (e.g., ACH or wire or paid item fee). Lending income for non-portfolio loans and servicing fees are recognized when earned either by closing or servicing the loan.

Card and ATM fees – Card and ATM fees include the combined amounts of credit card, debit card, and ATM related revenue. The majority of the fees are card interchange where the Credit Union earns a fee for remitting cardholder funds (or extending credit) via a third-party network to merchants. The Credit Union satisfies performance obligations for each transaction at the point in time the card is used and the funds are remitted. The network establishes interchange fees that the merchant remits to the Credit Union for each transaction, and the Credit Union incurs costs from the network for facilitating the interchange with the merchant. Due to its inability to establish prices and direct activities of the related processing network's service, the Credit Union is deemed the agent in this arrangement and records interchange revenues net of related costs.

Card and ATM fees also include ATM fee income generated from allowing a Credit Union cardholder to withdraw funds from a non-Credit Union ATM and from allowing a non-Credit Union cardholder to withdraw funds from a Credit Union ATM. The Credit Union satisfies performance obligations for each transaction at the point in time that the withdrawal is processed. The Credit Union does not direct activities of the related processing network's service and recognizes revenue on a net basis as the agent in each transaction.

Insurance – The Credit Union offers various insurance products to members and nonmembers through the CUSO including auto insurance and homeowners insurance. Insurance contracts have two distinct performance obligations. The first performance obligation is the selling of the policy as an agent for the carrier. This performance obligation is satisfied upon binding of the policy. The second performance obligation is the ongoing servicing of the policy which is satisfied over the life of the policy. Payments are typically received at, or in advance, of the policy period and revenue is recognized at that time. Servicing of the policy only occurs when a claim is made against the policy. Management's analysis of revenues from insurance sales indicated that substantially all revenues were from sources excluded from the scope of the standard. For those revenue sources within the scope of the standard, there was no material impact on revenues based upon the guidance.

Other income – Other income represents a variety of revenue streams such as real estate commissions, real estate title services, and computer software sales and service. The Credit Union recognizes revenue at the time the service is provided.

Use of estimates – The preparation of consolidated financial statements in accordance 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of investment securities, and the defined benefit pension plan obligation.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated statement of financial condition but before the consolidated financial statements are available to be issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements. The Credit Union's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the date of the consolidated statement of financial condition and before the consolidated financial statements are issued.

Management of the Credit Union has evaluated subsequent events through September 29, 2023, which is the date the consolidated financial statements were available to be issued.

Concentrations of credit risk – Historically, most of the Credit Union's business activity was with members who reside in the north Alabama and middle Tennessee areas. The Credit Union was exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in Alabama and Tennessee. However, the Rural King program has spread credit risk across fourteen additional states.

Cash and cash equivalents – For the purpose of the consolidated statements of financial condition and the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with original maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments – Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Equity securities with readily determinable fair values are recorded at fair value, with unrealized gains and losses included in earnings. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. Gains and losses on the sale of investment securities are recognized on the trade date and determined using the specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. 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 the amortized cost basis, (2) adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement), (3) the intent of the Credit Union to sell a security, and (4) whether it is more likely than not the Credit Union will have to sell the security before recovery of its cost basis.

If the Credit Union does not have the intent to sell a security prior to recovery and it is more likely than not that it will not have to sell the security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. If in this case there is a credit loss, the Credit Union will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Charitable donation account – The Credit Union holds investments in a segregated custodial charitable donation account. A charitable donation account is a hybrid charitable and investment vehicle that is funded as a means to provide charitable contributions to qualified charities. The value of the charitable donation account cannot exceed 5% of the Credit Union's net worth and the Credit Union is required to distribute a minimum of 51% of the total return on assets no less frequently than every five years or upon termination of the charitable donation account. The charitable donation account has no stated maturity date, is owned by the Credit Union, and may be terminated at the sole discretion of the Credit Union. Charitable donation account assets are measured at fair value on a recurring basis. In the accompanying consolidated statements of income for the years ended June 30, 2023 and 2022, gain of $104 and loss of $331, respectively, is included as a component of noninterest income and noninterest expense, and $1,155 and $850, respectively, is included as a component of interest and dividends on investments. Distributions to qualified charities recognized as charitable contribution expense for the years ended June 30, 2023 and 2022, were $375 and $633, respectively.

Employee benefit funding account – The Credit Union holds investments in a segregated benefit investment account for the Credit Union's medical employee benefit obligations. The Credit Union funds the investment account with amounts sufficient to result in actual investment returns not to exceed the respective underlying medical benefit obligations. The account has no stated maturity date and may be terminated at the sole discretion of the Credit Union. Benefits funding assets are measured at fair value on a recurring basis. In the accompanying consolidated statements of income for the years ended June 30, 2023 and 2022, gain of $467 and loss of $1,649, respectively, is included as a component of noninterest income and noninterest expense, and $5,045 and $4,175, respectively, is included as a component of interest and dividends on investments. The assets are owned by the Credit Union, and are revocable at any time at the discretion of the Credit Union.

Federal Home Loan Bank (FHLB) stock – The Credit Union is a member of the FHLB system. Members are required to own a certain amount of stock based on the Credit Union's total assets plus a percentage of outstanding advances, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB stock is reported on the consolidated statement of financial condition as a component of other investments.

Loans held for sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Most mortgage loans held for sale are sold with the mortgage service rights retained by the Credit Union. Gains or losses on sales of residential mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. All sales are made without recourse. At June 30, 2023, the Credit Union had $128,270 in credit card loans held for sale that were included in the total.

Loans, net – The Credit Union grants residential mortgage, business, and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions of the area.

Loans the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses, and net of certain direct loan origination fees and costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

The accrual of interest income on loans is discontinued at the time the loan is 91 days past due unless the credit is well secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Certain direct loan origination costs and related fees are deferred and are recognized as an adjustment to interest income using the interest method or the straight-line method over the contractual life of the loans.

Allowance for loan losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating, and the levels of nonperforming loans. A loan is considered impaired when, based on current information and events, it is probable the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement or when the loan is subject to a troubled debt restructuring. Specific allowances for loan losses are established for large impaired loans on an individual basis as required by the Codification. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics as described in the Codification. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

On July 1, 2023 the Credit Union adopted ASU 2016-13, *Financial Instruments – Credit Losses* (ASC 326): *Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss model with an expected loss model that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance. In addition, ASC 326 requires credit losses on available for sale debt securities to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell. The adoption of this standard did not have a material effect on the Credit Union's consolidated operating results or financial condition.

Transfers of financial assets – Transfers of an entire financial asset, a group of financial assets, or a participating interest in an entire financial asset, are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, the transferee obtains the right to pledge or exchange the transferred assets, and the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan servicing – Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or, alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is included in loan servicing expense.

Property and equipment – Land is carried at cost. Land improvements, buildings, building improvements, leasehold improvements, and furniture and equipment are carried at cost less accumulated depreciation and amortization. Land improvements, buildings and building improvements, and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 2 to 40 years. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases. Expected terms include lease option periods to the extent the exercise of such options is reasonably assured. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Leases – For all leases (with the exception of short-term leases), the Credit Union, as the lessee, recognizes the following at the commencement date; a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under Codification Topic 842 Leases, the Credit Union elected certain relief options for practical expedients: the option to not separate lease and nonlease components and instead to account for them as a single lease component, and the option to not recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e., lease terms of 12 months or less). As of June 30, 2023 and 2022, the Credit Union recorded a $705 and $501, respectively, right-of-use asset in property and equipment and a $704 and $451, respectively, lease liability on its consolidated statements of financial condition.

National Credit Union Share Insurance Fund (NCUSIF) deposit and insurance premium – The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which requires the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. The Credit Union is also required to pay an annual insurance premium as assessed by the NCUA Board.

Other real estate owned – Real estate and other property acquired in full or partial settlement of loan obligations is referred to as other real estate owned. Other real estate owned is originally recorded in the Credit Union's consolidated financial statements at fair value less any estimated costs to sell. When property is acquired through foreclosure or surrendered in lieu of foreclosure, the Credit Union measures the fair value of the property acquired against its recorded investment in the loan. If the fair value of the property at the time of acquisition is less than the recorded investment in the loan, the difference is charged to the allowance for loan losses. Any subsequent fluctuations in the fair value of other real estate owned are charged to noninterest expense. All related operating or maintenance costs are charged to noninterest expense as incurred. Any subsequent gains or losses on the sale of other real estate owned are recorded in other income or expense as incurred.

Members' shares – Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising costs – Advertising costs are expensed as incurred. Total advertising costs for the years ended June 30, 2023 and 2022, were $8,077 and $3,862, respectively.

Income taxes – The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union Service Organizations, RSAG, RSG, RCG, RTS, RFR, and ASG are limited liability corporations and are not subject to federal and state income taxes.

Defined benefit plans – The Credit Union has a qualified, noncontributory defined benefit pension plan and a postretirement benefit plan covering certain employees as more fully disclosed in Note 11. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act (ERISA).

Comprehensive income (loss) – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale debt securities and changes in the funded status of the pension and postretirement benefit plans, are reported as a separate component of the members' equity section of the consolidated statements of financial condition.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Collaborative arrangement – The Credit Union is party to a contract with RK Family, Inc., Rural King Holdings, LLP, and RK Finance, LLC (collectively referred to as Rural King) under which the Credit Union will provide financial services to Rural King customers. Rural King is a retail provider of farm equipment and other home products. The program includes loans for equipment purchases, credit cards, and in-store branches. Rural King customers who obtain a loan or credit card are required to become members of the Credit Union, thereby expanding and diversifying the Credit Union's membership. The Credit Union and Rural King share in all revenues and expenses of the loan and credit card programs. Revenues and expenses related to the in-store branch program belong entirely to the Credit Union.

This program is accounted for as a collaborative arrangement as outlined in ASC 808 – *Collaborative Arrangements*. Both the Credit Union and Rural King are active participants in the program and both are exposed to risk or reward depending on the success of the program activities. The Credit Union will originate and service loans, as well as provide limited branch services to Rural King customers. Loan origination will be provided through an online portal in store or on Rural King's website. Rural King will assist customers in the store with loan and credit card applications, as well as market the loan and credit card products within their stores and on their website. Rural King will provide dedicated space within selected stores for in-store branches operated by the Credit Union.

Revenue generated and costs incurred from transactions with members are recorded at their gross amount in the appropriate category in the consolidated statement of income. Any gain or loss resulting from these transactions will be shared with Rural King with the shared amount recorded in other noninterest income or other operating expense. All other program expenses from transactions with other third parties that are incurred by the Credit Union and Rural King will be combined and shared. The net amount of these expenses after payment to or from Rural King will be included by the Credit Union in the appropriate expense category on the consolidated statement of income.

For the years ended June 30, 2023 and 2022, the Credit Union incurred a net loss after reimbursement by Rural King of $1,091 and net loss of $2,084, respectively, from the program. Net loss is included in the consolidated statement of income. See Note 16 for additional financial information attributed to this collaborative arrangement.

Reclassifications – Certain account reclassifications have been made to the 2022 consolidated financial statements in order to be in accordance with classifications used in the current year with no impact on prior year reported net income or members' equity.

(Dollar amounts in thousands)

Note 2 – Investments

Investments classified as available for sale debt securities consist of the following at June 30:

	2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Operating investments				
Collateralized debt obligations	$ 31,430	$ -	$ (2,634)	$ 28,796
Residential mortgage-backed securities	1,091,326	4	(133,634)	957,696
Commercial mortgage-backed securities	2,060,083	24	(189,635)	1,870,472
Charitable donation account				
Fixed income bonds	27,426	49	(2,073)	25,402
Employee benefit funding account				
Fixed income bonds	117,763	165	(9,930)	107,998
	$ 3,328,028	$ 242	$ (337,906)	$ 2,990,364

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Operating investments				
Collateralized debt obligations	$ 44,216	$ -	$ (2,339)	$ 41,877
Residential mortgage-backed securities	1,242,269	108	(93,218)	1,149,159
Commercial mortgage-backed securities	2,356,091	778	(125,272)	2,231,597
Charitable donation account				
Fixed income bonds	25,576	37	(1,971)	23,642
Employee benefit funding account				
Fixed income bonds	111,469	57	(9,745)	101,781
	$ 3,779,621	$ 980	$ (232,545)	$ 3,548,056

Sales of investments in available for sale debt securities resulted in the following:

	2023			
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Residential mortgage backed securities	$ 140,260	$ 300	$ (784)	$ (484)
Charitable donation account	944	3	(14)	(11)
Employee benefit funding account	5,468	15	(108)	(93)
	$ 146,672	$ 318	$ (906)	$ (588)

	2022			
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Residential mortgage backed securities	$ 1,212,685	$ 3,815	$ -	$ 3,815
Charitable donation account	195	53	50	4
Employee benefit funding account	1,398	317	326	(9)
	$ 1,214,278	$ 4,185	$ 376	$ 3,810

(Dollar amounts in thousands)

Debt securities with fair value of $595,655 and $25,160 have been pledged as collateral to secure advances from the Federal Reserve Bank discount window as of June 30, 2023 and 2022, respectively, as more fully disclosed in Note 8. Securities with fair value of $5,962 and $7,362 have been pledged as collateral to secure advances from the Federal Home Loan Bank as of June 30, 2023 and 2022, respectively.

Investments in debt securities by contractual maturity as of June 30, 2023, are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Operating investments		
Collateralized debt obligations	$ 31,430	$ 28,796
Residential mortgage-backed securities	1,091,326	957,892
Commercial mortgage-backed securities	2,060,083	1,870,276
Charitable donation account		
Less than 1 year maturity	909	894
1-5 years maturity	16,297	15,178
5-10 years maturity	9,982	9,085
Greater than 10 year maturity	238	245
Employee benefit funding account		
Less than 1 year maturity	6,160	6,073
1-5 years maturity	68,817	63,667
5-10 years maturity	41,677	37,132
Greater than 10 year maturity	1,109	1,126
	$ 3,328,028	$ 2,990,364

Expected maturities of collateralized debt obligations and mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date.

(Dollar amounts in thousands)

Gross unrealized losses and fair value by length of time the individual debt securities have been in a continuous unrealized loss position at June 30 are as follows:

	2023				
	Fair Value Associated with Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Unrealized Losses
Available for sale					
Operating investments					
Collateralized debt obligations	$ -	$ 28,796	$ -	$ 2,634	$ 2,634
Residential mortgage-backed securities	50,633	911,140	2,298	131,336	133,634
Commercial mortgage-backed securities	213,478	1,639,248	2,648	186,987	189,635
Charitable donation account					
Fixed income bonds	6,254	16,292	176	1,897	2,073
Employee benefit funding account					
Fixed income bonds	20,913	77,574	596	9,334	9,930
	$ 291,278	$ 2,673,050	$ 5,718	$ 332,188	$ 337,906

	2022				
	Fair Value Associated with Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	Unrealized Losses
Available for sale					
Operating investments					
Collateralized debt obligations	$ 41,877	$ -	$ 2,339	$ -	$ 2,339
Residential mortgage-backed securities	1,085,872	50,445	83,842	9,376	93,218
Commercial mortgage-backed securities	1,585,714	421,539	70,308	54,964	125,272
Charitable donation account					
Fixed income bonds	21,161	90	1,952	19	1,971
Employee benefit funding account					
Fixed income bonds	86,914	10,513	8,193	1,552	9,745
	$ 2,821,538	$ 482,587	$ 166,634	$ 65,911	$ 232,545

At June 30, 2023 and 2022, the investment portfolio included 529 and 494 available for sale debt securities, respectively, with unrealized losses.

As of June 30, 2023, unrealized losses on the Credit Union’s investment portfolio were primarily attributable to market interest rate volatility, rather than to credit risk. Current characteristics of each security owned, such as delinquency rates, foreclosure levels, credit enhancements, and projected losses, are reviewed periodically by management. Accordingly, it is expected these securities would not be settled at a price less than the amortized cost of the Credit Union’s investment.

Because the Credit Union does not have the intent to sell these investments and it is not likely the Credit Union will be required to sell these investments before anticipated recovery of fair value, which may be at maturity, the Credit Union did not consider any of its investments to be other-than-temporarily impaired as of June 30, 2023 or 2022.

(Dollar amounts in thousands)

The gain (loss) recognized on equity securities in the Consolidated Statement of Income was composed of the following for the years ended June 30:

	2023	2022
Net gain (loss) recognized on equity securities	$ 676	$ (1,975)
Less net gain recognized on equity securities sold	634	3,810
Unrealized gain (loss) recognized on equity securities held	$ 42	$ (5,785)

Other investments consist of the following as of June 30:

	2023	2022
FHLB of Atlanta stock	$ 3,800	$ 3,704
Certificate of deposit	-	5,461
Co-op stock	20	20
Minority Interest in CUSO's	362	191
	$ 4,182	$ 9,376

The Credit Union views its investment in FHLB of Atlanta stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recoverability of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by factors such as 1) the significance of the decline in net assets of the institution as compared to the investment amount and length of time a decline has persisted, 2) impact of legislative and regulatory changes on the institution, and 3) the liquidity position of the institution. The Credit Union does not believe that its investment in the FHLB of Atlanta stock is impaired as of June 30, 2023.

The certificate of deposit was held at All In Credit Union, accrued dividends at 3%, and matured July 22, 2022.

(Dollar amounts in thousands)

Note 3 – Loans, Net

Loans consist of the following at June 30:

	2023		
	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Member business loans	$ 2,784	$ 336,731	$ 339,515
Residential real estate and home equity	6,380	1,334,919	1,341,299
Consumer loans	8,444	1,959,647	1,968,091
Total loans	$ 17,608	$ 3,631,297	3,648,905
Less allowance for loan losses			(41,226)
			$ 3,607,679

	2022		
	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Member business loans	$ 2,746	$ 174,336	$ 177,082
Residential real estate and home equity	6,686	1,205,805	1,212,491
Consumer loans	7,154	1,863,963	1,871,117
Total loans	$ 16,586	$ 3,244,104	3,260,690
Less allowance for loan losses			(31,991)
			$ 3,228,699

The Credit Union had net deferred loan origination costs included in the above loan balances of $14,132 and $9,219 as of June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

A summary of the activity in the allowance for loan losses is as follows for the years ended June 30:

	2023			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 1,815	$ 5,304	$ 24,872	$ 31,991
Provision for loan losses	1,045	684	34,789	36,518
Loans charged off	(523)	(258)	(34,220)	(35,001)
Recoveries of loans	51	453	7,214	7,718
Balance at end of year	$ 2,388	$ 6,183	$ 32,655	$ 41,226

	2022			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 1,744	$ 4,988	$ 24,492	$ 31,224
Provision for loan losses	258	560	18,442	19,260
Loans charged off	(229)	(480)	(24,612)	(25,321)
Recoveries of loans	42	236	6,550	6,828
Balance at end of year	$ 1,815	$ 5,304	$ 24,872	$ 31,991

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid/balloon, which consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to a variable rate using the fully indexed rate, which can result in significant payment adjustment to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor these additional risks.

The allowance for loan losses is considered by the Credit Union as adequate to cover probable losses inherent in the loan portfolio at June 30, 2023. However, no assurance can be given the Credit Union will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of the prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is in nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method.

(Dollar amounts in thousands)

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount. Also presented are the average recorded investments in the impaired loans. The average balances are calculated based on the month end balances of the loans receivable of the period reported.

Information about impaired loans is as follows as of and for the years ended June 30:

	2023				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Member business loans					
Real estate secured	$ 2,271	$ 2,271	$ 907	$ 2,317	$ 9
Other secured	18	18	9	20	-
Unsecured	162	162	162	176	1
Total member business loans	2,451	2,451	1,078	2,513	10
Residential real estate and home equity					
First mortgage	4,467	4,467	2,466	4,538	20
Second mortgage	37	37	37	40	-
Home equity lines of credit	859	859	856	915	8
Total real estate and home equity	5,363	5,363	3,359	5,493	28
Consumer loans - collateralized					
Automobile	1,382	1,382	569	1,431	2
Indirect automobile	4,168	4,116	1,880	4,441	9
Other secured	1,048	1,044	520	1,079	2
Total consumer loans - collateralized	6,598	6,542	2,969	6,951	13
Consumer loans - unsecured					
Unsecured	168	168	168	194	1
Credit cards	248	248	333	227	-
Total consumer loans - unsecured	416	416	501	421	1
Total impaired loans with an allowance recorded	14,828	14,772	7,907	15,378	52
Without an allowance recorded					
Member business loans					
Real estate secured	260	260	-	266	-
Other secured	73	73	-	78	-
Total member business loans	333	333	-	344	-
Residential real estate and home equity					
First mortgage	893	893	-	922	3
Second mortgage	102	102	-	106	-
Home equity lines of credit	22	22	-	40	-
Total real estate and home equity	1,017	1,017	-	1,068	3
Consumer loans - collateralized					
Automobile	375	375	-	471	2
Indirect automobile	705	701	-	943	4
Other secured	350	350	-	375	1
Total consumer loans - collateralized	1,430	1,426	-	1,789	7
Total impaired loans without an allowance recorded	2,780	2,776	-	3,201	10
Total	$ 17,608	$ 17,548	$ 7,907	$ 18,579	$ 62

(Dollar amounts in thousands)

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Member business loans					
Real estate secured	$ 2,366	$ 2,366	$ 873	$ 2,300	$ 4
Other secured	17	17	-	18	-
Unsecured	79	83	83	82	-
Total member business loans	2,462	2,466	956	2,400	4
Residential real estate and home equity					
First mortgage	4,563	4,563	2,381	4,612	22
Second mortgage	62	62	62	63	-
Home equity lines of credit	1,304	1,304	1,300	1,361	5
Total real estate and home equity	5,929	5,929	3,743	6,036	27
Consumer loans - collateralized					
Automobile	1,019	1,019	359	1,093	2
Indirect automobile	3,375	3,343	1,229	3,593	8
Other secured	1,103	1,097	689	1,126	2
Total consumer loans - collateralized	5,497	5,459	2,277	5,812	12
Consumer loans - unsecured					
Unsecured	267	267	267	308	1
Credit cards	175	175	175	152	-
Total consumer loans - unsecured	442	442	442	460	1
Total impaired loans with an allowance recorded	14,330	14,296	7,418	14,708	44
Without an allowance recorded					
Member business loans					
Real estate secured	273	273	-	279	1
Other secured	11	11	-	14	-
Total member business loans	284	284	-	293	1
Residential real estate and home equity					
First mortgage	683	683	-	829	3
Second mortgage	40	40	-	42	-
Home equity lines of credit	34	34	-	65	-
Total real estate and home equity	757	757	-	936	3
Consumer loans - collateralized					
Automobile	336	336	-	467	2
Indirect automobile	537	533	-	809	2
Other secured	342	342	-	366	1
Total consumer loans - collateralized	1,215	1,211	-	1,642	5
Total impaired loans without an allowance recorded	2,256	2,252	-	2,871	9
Total	$ 16,586	$ 16,548	$ 7,418	$ 17,579	$ 53

Credit quality indicators – The Credit Union utilizes internal risk ratings for its credit quality indicators. The internal risk ratings (1) provide a basis for evaluating, monitoring, and reporting the overall quality of the loan portfolio, (2) promptly identify deterioration of loan quality and the need for remedial action, and (3) emphasize areas requiring upgrading of policies, procedures, or documentation.

The internal risk ratings are as follows:

For member business loans, management's judgment about the quality of each individual loan is made at the time the loan is granted and the collectability of each loan is reviewed periodically and changed when warranted, based on the status of the loan or business. Loans are classified on a nine-point system ranging from Excellent to Probable Loss. Loans classified as Excellent are generally secured by marketable collateral such as deposit accounts pledged to the Credit Union or government backed securities. Strong loans are generally secured by pledged liquid collateral such as publicly traded stocks or corporate bonds with an adequate margin of safety. Satisfactory loans have sound credit quality overall but may indicate a slight potential weakness in the financial analysis. Loans classified as Acceptable have sound credit quality overall but may indicate several moderate trends toward weakness in the financial analysis or may be a startup business with less than 12 months of financial history. Pass with Caution loans have strained liquidity, unfavorable payment trends, management weakness or erratic profitability and financial performance. Loans classified as Other Loans Especially Mentioned (OLEM) have been downgraded at first 30 days past due and placed on the watch list. Substandard loans are problem loans and likely to deteriorate over the near term. Loans classified as Doubtful have deteriorated and there is no defined source of repayment, identified deficiencies cannot be corrected, and loan loss is expected. Probable Loss loans have no repayment ability and loan loss is near certain.

Real estate loans, home equity, and consumer loans are generally risk based priced at the time the loan is made based on the borrower's or co-borrower's beacon score. Loans are classified as A, B, C, D, E, or Not Rated. Loans classified as A are the highest quality and the borrower's current beacon score is in the highest desirable range. E loans are generally loans with a beacon score below 620. Loans that are classified as Not Rated were either made prior to risk based pricing implementation or the borrower has no established credit score available. Real estate loans in the Not Rated category are loans granted prior to April 2011 and were generally approved based on strict underwriting guidelines. Loan classifications are performed at the time of origination.

(Dollar amounts in thousands)

The following tables presents the credit exposure of the loan classes as of June 30:

	2023				
Member business loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
1 Excellent	$ -	$ 42	$ 65	$ 265	$ 372
2 Strong	2,494	-	-	-	2,494
3 Satisfactory	90,001	81	15	886	90,983
4 Acceptable	210,068	6,863	1,689	7,183	225,803
5 Pass with Caution	2,444	27	-	-	2,471
6 Other Especially Mentioned	16,839	116	-	208	17,163
7 Substandard	-	106	-	52	158
8 Doubtful	-	34	-	37	71
9 Probable Loss	-	-	-	-	-
Total	$ 321,846	$ 7,269	$ 1,769	$ 8,631	$ 339,515

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$ 21,338	$ 2	$ 8,606	$ 29,946
A	596,729	4,863	183,811	785,403
B	210,014	3,230	76,032	289,276
C	169,412	4,997	24,243	198,652
D	21,548	323	5,341	27,212
E	10,470	95	245	10,810
Total	$ 1,029,511	$ 13,510	$ 298,278	$ 1,341,299

Consumer loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 1	$ 81	$ 3,425	$ 3,507
A	290,086	397,047	194,153	881,286
B	134,043	244,893	83,892	462,828
C	42,250	57,311	23,888	123,449
D	19,485	20,788	9,359	49,632
E	8,121	6,790	2,448	17,359
Total	$ 493,986	$ 726,910	$ 317,165	$ 1,538,061

Consumer loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 10,649	$1,976	$ 12,625
A	98,127	120,583	218,710
B	55,594	69,204	124,798
C	16,958	23,460	40,418
D	4,460	12,268	16,728
E	1,636	15,115	16,751
Total	$ 187,424	$ 242,606	$ 430,030

(Dollar amounts in thousands)

	2022				
Member business loans	Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
1 Excellent	$ -	$ 41	$ 142	$ 252	$ 435
2 Strong	2,634	-	-	-	2,634
3 Satisfactory	32,415	41	27	1,165	33,648
4 Acceptable	104,976	8,175	2,208	6,097	121,456
5 Pass with Caution	18,300	155	15	6	18,476
6 Other Especially Mentioned	-	121	-	221	342
7 Substandard	-	38	-	-	38
8 Doubtful	-	25	-	28	53
9 Probable Loss	-	-	-	-	-
Total	$ 158,325	$ 8,596	$ 2,392	$ 7,769	$ 177,082

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$ 23,326	$ 14	$ 12,922	$ 36,262
A	586,217	4,109	133,753	724,079
B	188,191	2,799	51,698	242,688
C	152,598	3,037	16,460	172,095
D	20,283	406	4,169	24,858
E	12,131	111	267	12,509
Total	$ 982,746	$ 10,476	$ 219,269	$ 1,212,491

Consumer loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 28	$ 16	$ 4,084	$ 4,128
A	280,361	300,635	191,088	772,084
B	130,412	204,728	83,940	419,080
C	41,144	50,128	25,306	116,578
D	18,382	16,844	9,982	45,208
E	7,288	4,781	1,156	13,225
Total	$ 477,615	$ 577,132	$ 315,556	$ 1,370,303

Consumer loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 10,430	$ 1,730	$ 12,160
A	79,006	168,135	247,141
B	46,627	106,727	153,354
C	15,766	39,980	55,746
D	4,191	12,923	17,114
E	1,396	13,903	15,299
Total	$ 157,416	$ 343,398	$ 500,814

(Dollar amounts in thousands)

The following table is an aging analysis of loans receivable as of June 30:

	2023						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Member business loans							
Real estate secured	$ -	$ -	$ -	$ -	$ 321,846	$ 321,846	$ -
Unsecured	94	5	-	99	7,170	7,269	-
SBA guaranteed	-	-	-	-	1,769	1,769	-
Other secured	22	-	37	59	8,572	8,631	-
Residential real estate and home equity							
First mortgage	-	2,395	1,338	3,733	1,025,778	1,029,511	-
Second mortgage	-	85	-	85	13,425	13,510	-
Home equity lines of credit	596	134	151	881	297,397	298,278	-
Consumer loans - collateralized							
Automobile	2,378	851	1,032	4,261	489,725	493,986	-
Indirect automobile	7,203	2,292	3,182	12,677	714,233	726,910	-
Other secured	2,094	657	824	3,575	313,590	317,165	-
Consumer loans							
Unsecured	1,419	462	35	1,916	185,508	187,424	-
Credit cards	1,896	717	8	2,621	239,985	242,606	-
Total	$ 15,702	$ 7,598	$ 6,607	$ 29,907	$ 3,618,998	$ 3,648,905	$ -

	2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Member business loans							
Real estate secured	$ -	$ -	$ -	$ -	$ 158,325	$ 158,325	$ -
Unsecured	88	75	29	192	8,404	8,596	-
SBA guaranteed	5	18	-	23	2,369	2,392	-
Other secured	23	17	-	40	7,729	7,769	-
Residential real estate and home equity							
First mortgage	-	2,119	2,231	4,350	978,396	982,746	-
Second mortgage	-	38	44	82	10,394	10,476	-
Home equity lines of credit	205	157	393	755	218,514	219,269	-
Consumer loans - collateralized							
Automobile	2,087	728	632	3,447	474,168	477,615	-
Indirect automobile	7,254	1,890	2,170	11,314	565,818	577,132	-
Other secured	2,079	487	992	3,558	311,998	315,556	-
Consumer loans							
Unsecured	1,176	348	186	1,710	155,706	157,416	-
Credit cards	2,777	1,406	-	4,183	339,215	343,398	-
Total	$ 15,694	$ 7,283	$ 6,677	$ 29,654	$ 3,231,036	$ 3,260,690	$ -

(Dollar amounts in thousands)

The following table presents nonaccrual loans by asset class as of June 30:

	2023	2022
Member business loans		
Unsecured	$ -	$ 29
Other secured	37	-
Total member business loans	37	29
Residential real estate and home equity		
First mortgage	1,338	2,231
Second mortgage	-	44
Home equity lines of credit	151	393
Total residential real estate and home equity loans	1,489	2,668
Consumer loans - collateralized		
Automobile	1,032	632
Indirect automobile	3,183	2,170
Other secured	824	992
Total collateralized consumer loans	5,039	3,794
Consumer loans - unsecured		
Unsecured	34	186
Credit cards	8	-
Total unsecured consumer loans	42	186
Total loans	$ 6,607	$ 6,677
Forgone interest on nonaccrual loans	$ 161	$ 161

Troubled debt restructurings – At June 30, 2023 and 2022, impaired loans of $5,180 and $5,834, respectively, were classified as troubled debt restructurings. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is modified.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment modification – A modification in which the payment amount is changed.

Combination modification – Any other type of modification, including the use of multiple types of modifications.

(Dollar amounts in thousands)

The following table presents loans identified as restructured during the years ended June 30:

	2023		
	Number of Loans	Pre-Modification Outstanding Balance	Modification Outstanding Balance
Residential real estate and home equity			
First mortgage	2	$ 247	$ 252
Total residential real estate and home equity loans	2	247	252
Consumer loans - collateralized			
Automobile	2	37	37
Indirect automobile	7	97	97
Total collateralized consumer loans	9	134	134
Total loans	11	$ 381	$ 386

	2022		
	Number of Loans	Pre-Modification Outstanding Balance	Modification Outstanding Balance
Consumer loans - collateralized			
Automobile	4	$ 42	$ 42
Indirect automobile	11	233	233
Other secured	1	2	2
Total collateralized consumer loans	16	277	277
Total loans	16	$ 277	$ 277

(Dollar amounts in thousands)

The Credit Union defines default as loans that went 91 days or more past due after the modification, loans that were charged off during the year, or loans that encounter a subsequent modification. The following table presents subsequent defaults within 12 months of the modification date on troubled debt restructurings during the years ended June 30:

	2023		2022	
	Number of Loans	Total Balance	Number of Loans	Total Balance
Residential real estate and home equity				
Home equity lines of credit	-	$ -	1	$ 46
Total residential real estate and home equity loans	-	-	1	46
Consumer loans - collateralized				
Automobile	5	29	14	119
Indirect automobile	3	-	12	112
Other secured	1	-	1	-
Total collateralized consumer loans	9	29	27	231
Total unsecured consumer loans	-	-	-	-
Total loans	9	$ 29	28	$ 277

Note 4 – Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at June 30 are summarized as follows:

	2023	2022
Mortgage loan portfolio serviced for Fannie Mae	$ 567,361	$ 590,228
Mortgage loan portfolio serviced for Freddie Mac	6	9
Mortgage loan portfolio serviced for City of Huntsville	212	237
	$ 567,579	$ 590,474

Mortgage servicing rights, net of impairment, in the amounts of $2,751 and $2,647 at June 30, 2023 and 2022, respectively, are classified as other assets in the consolidated statements of financial condition.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares in the consolidated statements of financial condition, were $5,914 and $5,563 at June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

The activities in capitalized mortgage servicing rights for the years ended June 30 are summarized as follows:

	2023	2022
Mortgage servicing rights		
Balance, beginning of year	$ 2,647	$ 2,722
Additions	635	789
Amortization	(531)	(864)
Balance, end of year	2,751	2,647
Reserve for impairment of mortgage servicing rights		
Balance, beginning of year	-	3
(Recovery) impairment	-	(3)
Balance, end of year	-	-
Net book value	$ 2,751	$ 2,647
Fair value	$ 6,951	$ 6,768

The key market assumptions used in determining the fair value of mortgage servicing rights at June 30 were as follows:

	2023	2022
Prepayment speed per year	7.75 CPR	7.37 CPR
Weighted-average discount rate	9.00%	9.00%

Note 5 – Property and Equipment

Property and equipment are summarized as follows at June 30:

	2023	2022
Land	$ 41,720	$ 26,060
Land improvements	13,799	12,664
Building and building improvements	174,579	160,287
Leasehold improvements	5,196	5,696
Furniture and equipment	67,138	66,470
Lease right-of-use asset	705	501
	303,137	271,678
Accumulated depreciation and amortization	(123,024)	(116,750)
	$ 180,113	$ 154,928

Depreciation and amortization expense totaled $13,764 and $14,580 for the years ended June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

Note 6 – Leases

The Credit Union leases 14 buildings and offices under noncancelable operating leases. Substantially all of the leases provide the Credit Union with the option to extend the lease term one or more times following expiration of the initial term.

Lease position – The table below presents the lease right-of-use assets and lease liabilities recorded on the consolidated statement of financial condition as of June 30:

	Classification on the Consolidated Statements of Financial Condition	2023	2022
Assets			
Operating right-of-use lease assets	Property and equipment	$ 705	$ 501
Liabilities			
Operating lease liabilities	Accrued expenses and liabilities	$ 704	$ 451
Weighted-average remaining lease term			
Operating leases		7.42 years	8.77 years
Weighted-average discount rate			
Operating leases		3.76%	2.22%

All other leases held by the Credit Union were not considered material for purposes of reporting the right-of-use assets and liabilities and therefore were not included in these amounts.

Lease costs – All right-of-use leases were classified as operating leases. The table below presents lease costs for years ended June 30:

	2023	2022
Operating lease cost		
Buildings and offices	$ 561	$ 600
Automobiles	44	53
Total lease cost	$ 605	$ 653

(Dollar amounts in thousands)

Undiscounted cash flows – The table below presents the undiscounted cash flows remaining on all lease liabilities recorded on the consolidated statements of financial position:

	Operating Leases
Years Ending June 30,	
2024	$ 178
2025	126
2026	120
2027	116
Thereafter	260
Total minimum lease payments	800
Less amount of lease payments representing interest	(96)
Lease obligations	$ 704

Note 7 – Members' Shares

Members' shares are summarized as follows at June 30:

	2023	2022
Regular shares	$ 2,959,953	$ 3,141,900
Share draft accounts	1,404,203	1,398,142
Money market accounts	1,773,573	1,837,609
Individual retirement accounts	40,800	47,689
Other savings	39,782	38,591
Certificates	587,302	560,711
	$ 6,805,613	$ 7,024,642

Certificates by contractual maturity as of June 30 are summarized as follows:

2024	$ 227,156
2025	122,173
2026	52,069
2027	23,955
2028	21,266
Thereafter	140,683
	$ 587,302

Regular shares, share draft accounts, money market accounts, individual retirement accounts, and other savings have no contractual maturity. The NCUSIF insures members' shares and certain individual retirement and Keogh accounts. As of July 21, 2010, Congress permanently applied the minimum NCUSIF coverage to $250 on member share accounts. This includes all account types, such as regular share, share draft, money market, and certificates of deposit. Individual retirement account and Keogh account coverage remains at up to $250 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of $250 or more was $90,329 and $71,046 at June 30, 2023 and 2022, respectively.

Overdraft demand shares reclassified to loans totaled $1,751 and $2,125 at June 30, 2023 and 2022, respectively.

Note 8 – Borrowed Funds

The Credit Union utilizes a demand loan agreement with the FHLB of Atlanta. The advances are collateralized by FHLB of Atlanta stock and pledged mortgage loan collateral, which includes residential first mortgages, home equity lines of credit, and second mortgages, under an Advances and Security Agreement between the FHLB and the Credit Union. The amount of loans pledged as collateral at June 30, 2023, is $1,212,595. Based on the qualifying collateral, the agreement provides for a maximum borrowing amount of approximately $798,906. There were no borrowings outstanding as of June 30, 2023 or 2022.

The Credit Union has available lines of credit with the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Atlanta, which are secured by pledged investments from the Credit Union's investment portfolio. The terms of the agreements provide for primary credit up to the market value of the securities pledged. There were no borrowings under these agreements as of June 30, 2023 or 2022.

Note 9 – Off-Balance-Sheet Activities

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual amount of these commitments. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

Outstanding loan commitments total $41,270 and $44,145 at June 30, 2023 and 2022, respectively. Letters of credit outstanding totaled $1,215 and $1,215 as of June 30, 2023 and 2022, respectively.

ACH origination limits for business customers outstanding totaled approximately $7,916 and $7,579 as of June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

Unfunded loan commitments under lines of credit are summarized as follows at June 30:

	2023	2022
Credit card	$ 2,253,601	$ 1,749,526
Home equity line of credit	324,004	279,946
Overdraft line of credit	54,138	53,524
Member business	39,487	27,195
Other consumer	1,108	3,558
	$ 2,672,338	$ 2,113,749

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under member business lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

The Credit Union is regularly a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

Note 10 – Contingent Liabilities

Defective loan repurchase – In the ordinary course of business, the Credit Union sells loans that may have to be subsequently repurchased due to defects that occurred during the origination of the loan. The defects are categorized as documentation errors, underwriting errors, early payment defaults, and fraud. When a loan sold to an investor without recourse fails to perform, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Credit Union may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no defects, the Credit Union has no commitment to repurchase the loan.

(Dollar amounts in thousands)

Legal contingencies – The Credit Union is party to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against the Credit Union. Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Credit Union and the loss amounts are reasonably measurable. The estimated liabilities for "probable" cases against the Credit Union are $3.7 million and $0 as of June 30, 2023, and 2022, respectively, and are included in "Accrued Expenses and Other Liabilities" on the consolidated statement of financial condition.

Note 11 – Employee Benefits

Defined benefit pension plan – The Credit Union sponsors a defined benefit pension plan (Plan) for the benefit of its employees. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the Plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The Plan's status as of and for the years ended June 30 is as follows:

	2023	2022
Projected benefit obligation	$ (110,888)	$ (106,438)
Fair value of plan assets	148,394	136,964
Funded status	$ 37,506	$ 30,526
Accumulated benefit obligation	$ 82,122	$ 80,065
Net pension cost	$ 650	$ 667
Employer contribution	-	-
Benefit payments	1,858	1,513

The components of pension expense are as follows for the years ended June 30:

	2023	2022
Service cost	$ 4,664	$ 7,142
Interest cost	4,707	3,963
Expected return on Plan assets	(9,508)	(11,504)
Amortization of loss	787	1,066
Net periodic pension cost	$ 650	$ 667

Amounts recognized in the consolidated statements of financial condition at June 30 consist of:

	2023	2022
Defined pension asset	$ 37,506	$ 30,526

(Dollar amounts in thousands)

Amounts recognized in accumulated other comprehensive loss at June 30 consist of:

	2023	2022
Unrealized losses	$ 15,724	$ 23,354

Components of net periodic pension cost over the next fiscal year ending June 30, 2024:

Amortization of loss	$ 74

Expected long-term return on Plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The Plan seeks to beat inflation, meet actuarial assumptions, meet or exceed benchmark returns, and fund Plan operating needs. The goal is to control risk through portfolio diversification and to reflect, among other possible factors, the previously stated objectives in conjunction with current and anticipated funding levels and economic and industry trends. Plan assets are primarily invested in funds with a high degree of liquidity and/or marketability. Quantitative and qualitative determinants will establish the appropriate asset allocation on a periodic, but not less than annual basis.

	2023	2022
Assumptions used to determine benefit obligation		
Discount rate	4.91%	4.47%
Rate of compensation increase	5.00%	5.00%
Assumptions used to determine net pension cost		
Discount rate	4.91%	4.47%
Expected long-term return on Plan assets	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%

The Credit Union does not expect to contribute to the Plan in fiscal year 2024.

The Credit Union’s pension plan weighted average asset allocations by asset category are as follows as of June 30:

	2023	2022
Equity securities	69.0%	65.9%
Fixed income	29.3%	32.1%
Money market funds and cash	1.7%	2.0%

(Dollar amounts in thousands)

The following pension benefits, which reflected expected future service, as appropriate, are expected to be paid as follows:

Years Ending June 30,	
2024	$ 2,377
2025	2,796
2026	3,144
2027	3,515
2028	3,951
2029–2033	25,653
	$ 41,436

The following table discloses the fair value of Pension Plan assets by level:

June 30, 2023	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	$ 2,593	$ 2,593	$ -	$ -
Mutual funds				
Domestic equity		-		
Blended funds	70,335	70,335	-	-
International equity	26,150	26,150	-	-
Specialty funds	5,876	5,876	-	-
Fixed income	43,440	43,440	-	-
	$ 148,394	$ 148,394	$ -	$ -

June 30, 2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	$ 2,776	$ 2,776	$ -	$ -
Mutual funds				
Domestic equity				
Blended funds	60,366	60,366	-	-
International equity	24,738	24,738	-	-
Specialty funds	5,175	5,175	-	-
Fixed income	43,909	43,909	-	-
	$ 136,964	$ 136,964	$ -	$ -

(Dollar amounts in thousands)

Postretirement benefit plan – The Credit Union provides certain health care benefits for all retired employees who meet eligibility requirements. The Credit Union's share of the benefits that will be paid after retirement is being accrued by charges to expense over each employee's service period to the dates they are fully eligible for benefits.

The status of the Plan is as follows for the years ended June 30:

	2023	2022
Projected benefit obligation	$ (13,572)	$ (14,283)
Funded status	$ (13,572)	$ (14,283)
Benefit cost	$ 892	$ 881
Employer contribution	544	479
Participant contribution	10	9
Benefit payments	553	488

The components of postretirement benefit expense are as follows for the years ended June 30:

	2023	2022
Service cost	$ 297	$ 419
Interest cost	620	462
Amortization of (gain) loss	(25)	-
Net periodic pension cost	$ 892	$ 881

The Credit Union expects to contribute $619 to the Plan in fiscal year 2024.

Amounts recognized in the consolidated statements of financial condition consist of the following at June 30:

	2023	2022
Accrued expenses and other liabilities	$ 13,572	$ 14,283

Amounts recognized in accumulated other comprehensive (gain) loss consist of the following at June 30:

	2023	2022
Unrealized (gains) losses	$ (2,698)	$ (1,638)

(Dollar amounts in thousands)

The following are assumptions used to determine net periodic benefit cost for the Plan at June 30:

	2023	2022
Weighted-average assumptions as of June 30,		
Discount rate	4.90%	4.42%
Healthcare cost trend		
Current	8.00%	5.20%
Ultimate	3.94%	3.84%

The following benefits are expected to be paid as follows:

Years Ending June 30,	
2024	$ 619
2025	680
2026	713
2027	803
2028	838
2029–2033	4,412
	$ 8,065

Defined contribution retirement savings plan – The Credit Union has a 401(k) defined contribution plan (Plan) that allows employees to defer a portion of their salary into the Plan. The Credit Union matches a portion of employees' wage reductions. The Credit Union contributed $5,130 and $4,974 in matching contributions to the Plan for the years ended June 30, 2023 and 2022, respectively.

Deferred compensation plans – The Credit Union has a deferred compensation plan (Plan) created in accordance with Internal Revenue Code (IRC) Section 457(b). The Plan permits the eligible employees to defer a portion of their salary until future years. The recorded obligation of approximately $716 and $634 as of June 30, 2023 and 2022, respectively, was included in other liabilities.

On July 28, 2020, the Credit Union entered into split dollar insurance agreements which are collateral assignment arrangements between the Credit Union and certain members of executive management. The agreements involve a method of paying for insurance coverage for the executives by splitting the elements of the life insurance policies. Under the agreements, the executives are the owners of the policies and make a collateral assignment to the Credit Union in return for a full recourse loan equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The loan balances under these agreements are classified within other assets in the consolidated statements of financial condition and were approximately $9,625 and $9,513 as of June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

Note 12 – Members' Equity

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Effective January 1, 2022, all federally insured credit unions defined as complex are required to comply with the NCUA's risk-based capital (RBC) rule or the newly created Complex Credit Union Leverage Ratio (CCULR) rule. A credit union is defined as complex and a risk-based capital measure is applicable only if the credit union's quarter-end total assets exceed $500,000, as reflected in its most recent call report. A complex credit union may calculate its risk-based capital measure either by using the risk-based capital ratio or, for a qualifying complex credit union, opting into the CCULR framework. As of June 30, 2023 and 2022, the Credit Union qualified for and opted into CCULR. The Credit Union's CCULR requirement was 9.00% as of June 30, 2023 and 2022. Management believes, as of June 30, 2023 and 2022, the Credit Union meets all capital adequacy requirements to which it is subject.

As of June 30, 2023 and 2022, the NCUA categorized the Credit Union as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category. In performing its calculation of total assets, the Credit Union used the quarter end balance option, as permitted by regulation.

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows:

	2023		2022	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as well capitalized	$ 518,266	7.00%	$ 533,678	7.00%
Amount needed to be classified as well capitalized for CCULR	666,342	9.00%	686,157	9.00%
Actual net worth	873,673	11.80%	786,800	10.32%

(Dollar amounts in thousands)

Note 13 – Changes in Accumulated Other Comprehensive Income (Loss) Balances

The changes in the balances of each component of accumulated other comprehensive income (loss) are as follows:

	Net Change in (Losses) Gains, Prior Service Cost, and Transition Obligation on Defined Benefit Pension Plan	Net Change in Losses and Prior Service Cost on Postretirement Benefit Plan	Net Unrealized (Losses) Gains on Investments in Available-for-Sale Debt Securities	Total
Balance as of June 30, 2021	$ (29,273)	$ (1,720)	$ 41,995	$ 11,002
Other comprehensive income (loss) before reclassifications	5,919	3,358	(265,940)	(256,663)
Amounts reclassified from accumulated other comprehensive loss	-	-	(7,620)	(7,620)
Net current period other comprehensive income (loss)	5,919	3,358	(273,560)	(264,283)
Balance as of June 30, 2022	(23,354)	1,638	(231,565)	(253,281)
Other comprehensive income (loss) before reclassifications	7,630	1,060	(106,054)	(97,364)
Amounts reclassified from accumulated other comprehensive loss	-	-	(45)	(45)
Net current period other comprehensive income (loss)	7,630	1,060	(106,099)	(97,409)
Balance as of June 30, 2023	$ (15,724)	$ 2,698	$ (337,664)	$ (350,690)

Note 14 – Related-Party Transactions

In the normal course of business, the Credit Union extends credit to directors, committee members, and executive officers. The aggregate loans to related parties are $3,214 and $1,559 at June 30, 2023 and 2022, respectively. Deposits from related parties amounted to $6,934 and $6,129 at June 30, 2023 and 2022, respectively.

Note 15 – Fair Value Measurements

The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets.

Fair value measurements are disclosed by level within the fair value hierarchy. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach, and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. (Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.)

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. (Valuations are obtained from observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.)

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. (Level 3 valuations incorporate certain assumptions and projections for which require significant management judgment or estimation in determining the fair value assigned to such assets or liabilities.)

A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values follows:

Cash and cash equivalents – The carrying amounts of cash and cash equivalents approximate their fair value.

Money market account – The money market deposit accounts are public investment vehicles valued using $1 for the net asset value. The money market deposit accounts are classified within Level 2 of the valuation hierarchy.

Investments – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities would include U.S. agency debentures and agency issued mortgage-backed securities. In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

U.S. agency and agency issued mortgage-backed securities are generally based upon a matrix pricing model from an investment reporting and valuation service. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Fixed income bonds in the charitable donation account and employee benefit funding account are valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Equity securities in the charitable donation account and employee benefit funding account are valued at the closing price reported on the active market on which the individual securities are traded.

Loans held for sale – Loans held for sale are valued at the lower of cost or market value as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Loans that are committed with firm investor pricing are classified as Level 1. In the absence of a commitment, these are classified as Level 2.

Impaired loans – The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2023 and 2022, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. For a majority of impaired real estate loans, the Credit Union obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis, and contractual sales information.

Mortgage servicing rights – Mortgage servicing rights (MSRs) do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Mortgage servicing rights would be classified within Level 3 of the valuation hierarchy.

(Dollar amounts in thousands)

Fair value on a recurring basis – The table below presents the balances of assets and liabilities measured and presented in the consolidated statement of financial condition at fair value on a recurring basis:

June 30, 2023	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts				
Charitable Donation Account	$ 526	$ -	$ 526	$ -
Employee Benefit Funding Account	2,291	-	2,291	-
Available for sale debt securities				
Operating Investments				
Collateralized debt obligation	28,796	-	28,796	-
Residential Mortgage-backed securities	957,696	-	957,696	-
Commercial Mortgage-backed securities	1,870,472	-	1,870,472	-
Charitable Donation Account - fixed income bonds	25,402	-	25,402	-
Employee Benefit Funding Account - fixed income bonds	107,998	-	107,998	-
Equity securities				
Charitable Donation Account	9,352	9,352	-	-
Employee Benefit Funding Account	46,629	46,629	-	-
	$ 3,049,162	$ 55,981	$ 2,993,181	$ -

June 30, 2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts				
Charitable Donation Account	$ 1,599	$ -	$ 1,599	$ -
Employee Benefit Funding Account	5,426	-	5,426	-
Available for sale debt securities				
Operating Investments				
Collateralized debt obligation	41,877	-	41,877	-
Residential Mortgage-backed securities	1,149,159	-	1,149,159	-
Commercial Mortgage-backed securities	2,231,597	-	2,231,597	-
Charitable Donation Account - fixed income bonds	23,642	-	23,642	-
Employee Benefit Funding Account - fixed income bonds	101,781	-	101,781	-
Equity securities				
Charitable Donation Account	9,013	9,013	-	-
Employee Benefit Funding Account	44,921	44,921	-	-
	$ 3,609,015	$ 53,934	$ 3,555,081	$ -

(Dollar amounts in thousands)

Fair value on a nonrecurring basis – Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the statements of financial condition by caption and by level within the valuation hierarchy (as described above) for which a nonrecurring change in fair value has been recorded.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2023				
Restructured and impaired loans	$ 7,002	$ -	$ -	$ 7,002
June 30, 2022				
Restructured and impaired loans	$ 6,956	$ -	$ -	$ 6,956

Quantitative information about Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets during the years ended June 30 along with the valuation techniques used, are shown in the following table:

	Fair Value at June 30, 2023	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Restructured loans	$ 1,475	Present value	Discount rate	3% - 39% (33%)[1]
Impaired loans	5,527	Fair market value	Collateral value	1% - 90% (40%)[2]

[1] Discount to the present value of the expected cash flows based on the revised loan terms.
[2] Discount to the estimated value of the collateral that secures the loan. Various methods of valuation are used.

	Fair Value at June 30, 2022	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Restructured loans	$ 1,610	Present value	Discount rate	3% - 39% (33%)[1]
Impaired loans	5,346	Fair market value	Collateral value	1% - 90% (40%)[2]

[1] Discount to the present value of the expected cash flows based on the revised loan terms.
[2] Discount to the estimated value of the collateral that secures the loan. Various methods of valuation are used.

(Dollar amounts in thousands)

Note 16 – Collaborative Arrangement with Rural King

The Credit Union has a contract with RK Family, Inc., Rural King Holdings, LLP, and RK Finance, LLC (collectively referred to as Rural King), under which the Credit Union will provide financial services to Rural King customers. Revenue and expenses are included in the consolidated statement of income, net of reimbursements provided by Rural King as described in Note 1.

In early 2023, Rural King notified the Credit Union of its intent to purchase the credit card portfolio. The portfolio sale remains in process as of June 30, 2023. The Credit Union has reclassified the entire Rural King credit card portfolio to loans held for sale as of June 30, 2023 (see Note 1).

Results for the years ended June 30, 2023 and 2022, were as presented below:

	2023	2022
Interest income		
Loans	$ 26,309	$ 22,991
Interest expense		
Borrowed funds	7,387	1,389
Net interest income	18,922	21,602
Provision for loan losses	13,408	11,926
Net interest income after provision for loan losses	5,514	9,676
Other income		
Credit card and interchange income	6,360	6,222
Loan fees	2,750	2,189
Total other income	9,110	8,411
Other expense		
Salary and benefits	2,615	2,919
Office occupancy	111	261
Data processing	867	1,261
Credit card processing	5,257	4,472
Cash back rebate on credit and debit cards	3,825	4,824
Member education and promotion	222	281
Loan servicing	1,520	1,800
Professional and outside	204	140
Uncollectible accounts	387	273
Other operating expense	13,983	8,802
Total other expense	28,991	25,033
Net program income (loss)	(14,367)	(6,946)
Profit sharing income (loss)	(13,276)	(4,862)
Redstone Federal Credit Union’s share of net program income (loss)	$ (1,091)	$ (2,084)

(Dollar amounts in thousands)

Note 17 – Other Non-Interest Income and Operating Expense

Other noninterest income is composed of the following for the years ended June 30:

	2023	2022
Account fees	$ 4,753	$ 3,699
Marketing incentives	4,115	3,991
Subsidiary income	7,678	7,555
Other noninterest income	5,675	2,561
(Loss) gain on other assets	155	(32)
	$ 22,376	$ 17,774

Other operating expense is composed of the following for the years ended June 30:

	2023	2022
Communications (telephone and postage)	$ 4,325	$ 3,928
Armored car service	1,039	2,375
Subsidiary expenses	4,131	4,613
Maintenance of equipment and vehicles	1,135	1,007
Insurance	1,604	1,109
Supplies	725	646
Rural King joint venture expense	1,741	5,493
Other operating expenses	6,781	2,259
	$ 21,481	$ 21,430

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