Report of Independent Auditors
and Consolidated Financial Statements

Redstone Federal Credit Union and Subsidiary

June 30, 2024 and 2023

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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, 2024 and 2023, and the related consolidated statements of income, comprehensive income (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, 2024 and 2023, 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.

Emphasis of Matter- Change in Accounting Principle

As discussed in Notes 1 and 3 to the consolidated financial statements, in 2023, Redstone Federal Credit Union and Subsidiaries adopted new accounting guidance Accounting Standards Codification Topic 326 *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

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 27, 2024

Consolidated Financial Statements

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Financial Condition
June 30, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
ASSETS		
Cash and cash equivalents	$ 502,391	$ 283,390
Investments in available for sale debt securities (amortized costs of $3,279,394 and $3,328,028 at June 30, 2024 and 2023, respectively)	2,962,845	2,990,364
Allowance for credit losses – securities	(1,312)	-
Equity securities, at fair value	63,052	55,981
Loans held for sale	4,266	133,621
Loans to members, net	3,797,168	3,648,905
Allowance for credit losses – loans	(44,919)	(41,226)
Accrued interest receivable	20,480	17,241
Property and equipment, net	198,281	180,113
National Credit Union Share Insurance Fund (NCUSIF) deposit	62,874	64,039
Other investments	5,665	4,182
Net pension asset	47,581	37,506
Other assets	42,334	29,681
Total assets	$ 7,660,706	$ 7,403,797
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 6,907,148	$ 6,805,613
Accrued expenses and other liabilities	91,393	75,201
Total liabilities	6,998,541	6,880,814
Contingent liabilities (Note 19)		
Members' equity		
Retained earnings	981,171	873,673
Accumulated other comprehensive loss	(319,006)	(350,690)
Total members' equity	662,165	522,983
Total liabilities and members' equity	$ 7,660,706	$ 7,403,797

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Income
Years Ended June 30, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
Interest income		
Interest on loans	$ 255,745	$ 197,351
Interest and dividends on investments and cash equivalents	106,047	96,312
Total interest income	361,792	293,663
Interest expense		
Dividends on members' shares	81,048	43,111
Interest on borrowed funds	7,374	3,301
Total interest expense	88,422	46,412
Net interest income	273,370	247,251
Provision for credit losses	43,830	36,518
Net interest income after provision for credit losses	229,540	210,733
Noninterest income		
Loan late and over limit fees	6,754	6,954
Loan servicing	1,654	1,802
Mortgage banking revenue	2,177	2,308
Nonsufficient fund and overdraft fees	21,505	20,299
Debit card interchange	47,400	45,465
Credit card interchange	25,417	26,026
Insurance and investment commissions	15,740	14,078
Net gain on sale of securities	3,243	45
Unrealized gain on equity securities	3,072	42
Other noninterest income	45,708	22,376
Total noninterest income	172,670	139,395
Noninterest expenses		
Salaries and benefits	138,982	122,985
Occupancy	23,371	22,690
Data processing	21,605	18,077
Debit and credit card processing	23,605	22,079
Cash back rebate on credit and debit cards	25,017	21,545
Loan processing and servicing	6,854	4,423
Member education and promotion	10,792	10,193
Professional and outside services	15,085	12,436
Uncollectible accounts	9,819	6,762
Other operating expense	9,612	22,065
Total noninterest expense	284,742	263,255
Net income	$ 117,468	$ 86,873

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Comprehensive (Loss) Income
Years Ended June 30, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
Net income	$ 117,468	$ 86,873
Other comprehensive (loss) income		
Net change in defined benefit plan obligations	10,153	7,630
Net change in postretirement benefit plan obligations	416	1,060
Net change in unrealized holding gains (losses) on investments in available for sale securities	24,358	(106,054)
Reclassification adjustment for net gain realized in income from sale of investments in available for sale securities	(3,243)	(45)
Other comprehensive income (loss)	31,684	(97,409)
Change to comprehensive income (loss)	$ 149,152	$ (10,536)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Members' Equity
Years Ended June 30, 2024 and 2023
(Dollar amounts in thousands)

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular	Unappropriated	Total	
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)
Impact of ASC 326 adoption	-	(9,970)	(9,970)	-
Net income	-	117,468	117,468	-
Other comprehensive income	-	-	-	31,684
Balance, June 30, 2024	$ 24,833	$ 956,338	$ 981,171	$ (319,006)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 117,468	$ 86,873
Adjustments to reconcile net income to net cash from operating activities		
Capitalization of mortgage servicing rights	(415)	(635)
Amortization of mortgage servicing rights	557	531
Amortization of premiums and discounts on investments in securities, net	9,534	11,340
Provision for credit losses	43,830	36,518
Adjustment to allowance related to Rural King termination	(11,515)	-
Depreciation and amortization of property and equipment	13,997	13,764
Lease right-of-use operating expense	302	2,202
Mortgage banking revenue	(2,218)	(1,673)
Proceeds from sales of loans held for sale	82,033	83,352
Origination of loans held for sale	(79,196)	(79,617)
Net loss (gain) on derivatives	42	-
Net gain on sale of equity investments	(3,503)	(633)
Net gain on sale of debt securities	260	588
Unrealized gain on equity securities	(3,072)	(42)
Net gain on disposition of property and equipment	(478)	(23)
Net change in		
Accrued interest receivable	(3,239)	(3,630)
Defined benefit pension asset	77	650
Other assets	(12,192)	996
Accrued expenses and other liabilities	16,648	10,455
Net cash from operating activities	168,920	161,016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments in available for sale securities	(290,717)	(206,184)
Proceeds from maturities of investments in securities	320,747	499,188
Proceeds from sales of investments in securities	8,810	146,672
Purchase of equity investments	(43,040)	(15,168)
Proceeds from sales of equity investments	42,543	13,797
Proceeds from maturities of other investments	-	5,461
Purchase of other investments	(1,483)	(267)
Net change in loans to members	(57,490)	(544,115)
Increase in the NCUSIF deposit	1,165	(1,675)
Proceeds from disposition of property and equipment	765	878
Purchases of property and equipment	(32,754)	(42,006)
Net cash from investing activities	(51,454)	(143,419)

See accompanying notes.

Redstone Federal Credit Union and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(Dollar amounts in thousands)

	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) increase in members' shares	$ 101,535	$ (219,029)
Proceeds from borrowed funds	879,907	789,105
Repayment of borrowed funds	(879,907)	(789,105)
Net cash from financing activities	101,535	(219,029)
NET CHANGE IN CASH AND CASH EQUIVALENTS	219,001	(201,432)
CASH AND CASH EQUIVALENTS, beginning of year	283,390	484,822
CASH AND CASH EQUIVALENTS, end of year	$ 502,391	$ 283,390
SUPPLEMENTAL CASH FLOWS INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 81,040	$ 39,809
NONCASH INVESTING AND FINANCING ACTIVITIES		
Impact of Adoption of ASC 326	$ 9,970	$ -
Transfer of loans into other real estate owned	$ 217	$ 347

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 subsidiary, RS Alliance Group, LLC (RSAG). In February 2022, Redstone Services Group, LLC (RSG), Redstone Consulting Group, LLC (RCG), Redstone Title Services, LLC (RTS), Redstone Realty Solutions, LLC (RRS), and Ascent Security Group, LLC (ASG) were transferred to RSAG and became wholly owned subsidiaries of RSAG. 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. RRS 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 are 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 credit 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 Statements 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 Statements 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 Statements of Financial Condition and before the consolidated financial statements are issued.

Management of the Credit Union has evaluated subsequent events through September 27, 2024, 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.

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 are classified as held to maturity when the Credit Union has the ability and positive intent to hold them to maturity. Securities classified as held to maturity are carried at cost, adjusted for amortization of premiums to the earliest callable date and accretion of discounts to the maturity date and, if appropriate, any credit impairment losses. Securities available for sale consist of debt securities that the Credit Union has the intent and ability to hold for an indefinite period, but not necessarily to maturity. Securities available for sale are reported at fair value. Realized gains and losses on securities available for sale, determined using the specific identification method, are included in results of operations. Amortization of premiums and accretion of discounts are recognized as adjustments to yield over the contractual lives of the related securities with the exception of premiums for non-contingently callable debt securities which are amortized to the earliest call date, rather than the contractual maturity date. Dividends and interest income are recognized when earned.

A debt security is placed on nonaccrual status at the time any principal and interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. The amount of accrued interest reversed against interest income totaled $-0- for the year ended June 30, 2024.

Management no longer evaluates securities for other-than-temporary impairment, as ASC Subtopic 326-30, *Financial Instruments – Credit Losses – Available for Sale Debt Securities*, changes the accounting for recognizing impairment on available for sale and held to maturity debt securities. Each reporting period management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component recognized through the Provision for Credit Losses on the Consolidated Statements of Income.

Allowance for credit losses on held to maturity debt securities – Management measures expected credit losses on held to maturity securities by individual basis. Accrued interest receivable on held to maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings and historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Allowance for credit losses on available for sale securities – For available for sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available for sale debt securities is not included in the estimate of credit losses.

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, 2024 and 2023, a gain of $1,134 and a gain of $104, respectively, is included as a component of noninterest income, and $1,248 and $1,155, 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, 2024 and 2023, were $375 and $375, 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, 2024 and 2023, gains of $5,179 and $467, respectively, are included as a component of noninterest income, and $5,313 and $5,045, respectively, are 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 Statements of Income 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.

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 credit 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 credit losses – The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Accrued interest receivable is excluded from the estimate of credit losses for loans other than credit cards.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Pool	Methodology
Consumer	
Direct Auto	Life-Cycle DCF
Indirect Auto	Life-Cycle DCF
RK Loans	Life-Cycle DCF
Other Secured	Life-Cycle DCF
Unsecured	Reporting Period Non-Linear DCF
Negative Shares	Reporting Period Non-Linear DCF
Residential Real Estate	
First Mortgage	Life-Cycle DCF
Other Real Estate	Life-Cycle DCF
First Time Homebuyers	Reporting Period Non-Linear DCF
Commercial	Life-Cycle DCF
Credit Cards	Life-Cycle DCF

Discounted Cash Flow (DCF) models begin with contractual cash flows based on the attributes of the loan at the time of modeling, including loan amount, interest rate, and loan term. The total contractual cash flows are then modified to derive expected life-of-loan cash flows. The life cycle of a loan refers to the period of time from when the loan was originated until it is fully repaid or charged off resulting in various vintages in the pool. The reporting period model refers to all the activity in a pool over a certain window of time.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Contractual Term: Expected credit losses are estimated over the contractual term of loans, adjusted for expected prepayments, when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the following applies: management has a reasonable expectation at the reporting date that an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Certain loans receivable such as credit cards and lines of credit do not have stated maturities. Management has elected to set an estimated maturity date for the discounted cash flow calculations used when determining the allowance for credit loss. Credit cards have an estimated maturity of 60 months and lines of credit have an estimated maturity of 160 months. All other variables of the allowance calculation follow standard life-cycle discounted cash flow modeling.

Allowance for credit losses on off-balance sheet credit exposures – The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate utilizes the same factors and assumptions as the allowance for credit losses on loans and is applied at the same collective cohort level.

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, 2024 and 2023, the Credit Union recorded a $657 and $705, respectively, right-of-use asset in property and equipment and a $656 and $704, 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 credit 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, 2024 and 2023, were $8,714 and $8,077, 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, RRS, and ASG are wholly-owned limited liability companies 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 10. 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 Statements 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 Statements of Income.

For the years ended June 30, 2024 and 2023, the Credit Union incurred a net loss after reimbursement by Rural King of $-0- and net loss of $1,091, respectively, from the program. Net loss is included in the Consolidated Statements of Income. See Note 15 for additional financial information attributed to this collaborative arrangement.

Reclassifications – Certain account reclassifications have been made to the 2023 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.

Adoption of new accounting standards – On July 1, 2023, the Credit Union adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current loss (CECL) methodology. The measurement of expected credit losses under the 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 (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, Accounting Standards Codification (ASC) *Topic 326* made changes to the accounting for available for sale debt securities. One such change is to require credit losses 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 not be required to sell.

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after July 1, 2023, are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in an increase to our allowance for credit losses on loans of $8,286, an increase of $304 to our allowance for unfunded commitments, an increase of $1,380 to our allowance for available for sale securities, and a net of tax cumulative-effect adjustment of $9,970 to decrease the beginning balance of retained earnings.

(Dollar amounts in thousands)

The Credit Union adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to July 1, 2023. As a result, the amortized cost basis remains the same before and after the effective date of ASC 326. The effective interest rate on these debt securities was not changed. Amounts previously recognized in accumulated other comprehensive income as of July 1, 2023, related to improvements in cash flows expected to be collected will be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off related to improvements in cash flows after July 1, 2023, will be recorded in earnings when received.

The effective interest rate used to discount expected cash flows considers the timing of expected cash flows resulting from expected prepayments for troubled debt restructuring that existed at July 1, 2023. The prepayment-adjusted effective interest rate uses the original contractual rate and prepayment assumptions at July 1, 2023.

The Credit Union finalized the adoption of ASC 326 as of July 1, 2023, as detailed in the following table:

	July 01, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Investments			
Available for sale			
Mortgage-backed securities	$ 88	$ -	$ 88
Other	1,292	-	1,292
Allowance for credit losses on debt securities	$ 1,380	$ -	$ 1,380
Loans			
Commercial	$ 89	$ 495	$ (406)
Commercial real estate	859	1,894	(1,035)
Residential real estate	5,226	6,182	(955)
Consumer auto	21,151	11,046	10,105
Credit card	16,986	14,470	2,516
Consumer other	5,201	7,140	(1,939)
Allowance for credit losses on loans	$ 49,512	$ 41,227	$ 8,286
Liabilities:			
Allowance for credit losses on off-balance-sheet credit exposures	$ 305	$ -	$ 305

(Dollar amounts in thousands)

Note 2 – Investments

The following tables present the amortized cost, gross unrealized gains and losses, allowance for credit losses, and fair value of securities.

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

	2024				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Operating investments					
Collateralized debt obligations	$ 24,478	$ -	$ (1,735)	$ -	$ 22,743
Residential mortgage-backed securities	1,031,393	31	(128,341)	-	903,083
Commercial mortgage-backed securities	2,081,906	2,701	(180,849)	216	1,903,974
Charitable donation account					
Fixed income bonds	27,143	49	(1,541)	223	25,874
Employee benefit funding account					
Fixed income bonds	114,474	202	(7,066)	873	108,483
	$ 3,279,394	$ 2,983	$ (319,532)	$ 1,312	$ 2,964,157

	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

(Dollar amounts in thousands)

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

	2024			
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
Residential mortgage backed securities	$ -	$ -	$ -	$ -
Charitable donation account	1,724	152	(118)	34
Employee benefit funding account	7,086	371	(665)	(294)
	$ 8,810	$ 523	$ (783)	$ (260)

	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)

Debt securities with fair value of $760,850 and $595,655 have been pledged as collateral to secure advances from the Federal Reserve Bank discount window as of June 30, 2024 and 2023, respectively, as more fully disclosed in Note 7. Securities with fair value of $251,915 and $5,962 have been pledged as collateral to secure advances from the Federal Home Loan Bank as of June 30, 2024 and 2023, respectively.

(Dollar amounts in thousands)

Investments in debt securities by contractual maturity as of June 30, 2024, are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Operating investments		
Collateralized debt obligations	$ 24,478	$ 22,743
Residential mortgage-backed securities	1,031,393	903,265
Commercial mortgage-backed securities	2,081,906	1,903,792
Charitable donation account		
Less than 1 year maturity	2,296	2,276
1-5 years maturity	16,554	15,791
5-10 years maturity	8,293	7,807
Greater than 10 year maturity	-	-
Employee benefit funding account		
Less than 1 year maturity	11,395	11,252
1-5 years maturity	67,059	63,307
5-10 years maturity	35,870	33,752
Greater than 10 year maturity	150	172
	$ 3,279,394	$ 2,964,157

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.

The table below presents a roll forward by major security type for the year ended June 30, 2024, of the allowance for credit losses on debt securities available for sale held at period end:

AFS	Mortgage-backed	Other
Beginning balance, July 1, 2023	$ -	$ -
Impact of adopting ASC 326	88	1,292
Provision for credit losses	127	(195)
Ending balance, June 30, 2024	$ 215	$ 1,097

(Dollar amounts in thousands)

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at June 30, 2024, aggregated by major security type and length of time in a continuous loss position:

	2024				
	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	$ -	$ 22,743	$ -	$ 1,735	$ 1,735
Residential mortgage-backed securities	65,996	839,808	315	128,026	128,341
Commercial mortgage-backed securities	156,584	1,419,841	1,031	179,818	180,849
Charitable donation account					
Fixed income bonds	6,153	16,742	93	1,448	1,541
Employee benefit funding account					
Fixed income bonds	18,076	76,897	227	6,839	7,066
	$ 246,809	$ 2,376,031	$ 1,666	$ 317,866	$ 319,532

	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

At June 30, 2024 and 2023, the investment portfolio included 317 and 529 available for sale debt securities, respectively, with unrealized losses.

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

	2024	2023
Net unrealized gain recognized on equity securities	$ 23,894	$ 676
Less net gain recognized on equity securities sold	20,822	634
Unrealized gain recognized on equity securities held	$ 3,072	$ 42

(Dollar amounts in thousands)

In 2008, the Credit Union was issued VISA common stock Class-B shares as compensation for becoming a member in the loss sharing agreement related to the legal action known as In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation (MDL 1720). The shares had zero basis and were not recorded on the balance sheet. The shares were sold on November 27, 2023, for a gain of $17,320, included in unrealized net gain recognized on equity securities and net gain recognized on equity securities sold in the above table. Realized gain is included within other noninterest income in the consolidated statement of income.

Other investments consist of the following as of June 30:

	2024	2023
FHLB of Atlanta stock	$ 5,283	$ 3,800
Co-op stock	20	20
Minority Interest in CUSO's	362	362
	$ 5,665	$ 4,182

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, 2024.

(Dollar amounts in thousands)

Note 3 – Loans, Net

Our disclosures below reflect these changes made in 2023 to conform with the adoption of ASC 326, *Financial Instruments – Credit Losses*, using the modified retrospective approach. Accordingly, prior period was not modified to conform to the current period presentation.

The following table presents the principal balance of total loans outstanding by portfolio segment and class of loans receivable at June 30, 2024 and 2023:

	2024
Member business loans	$ 443,280
Residential real estate and home equity	1,414,966
Consumer loans – collateralized	1,468,693
Consumer loans	456,073
Gross loans outstanding	3,783,012
Deferred net loan origination costs	14,156
Allowance for credit losses	(44,919)
	$ 3,752,249

	2023
Member business loans	
Residential real estate and home equity	$ 339,515
Consumer loans – collateralized	1,341,299
Consumer loans	1,538,061
	430,030
Amortized cost of loans outstanding	3,648,905
Allowance for credit losses	(41,226)
	$ 3,607,679

The following table presents, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans for the years ended June 30, 2024 and 2023:

	2024			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 2,388	$ 6,182	$ 32,656	$ 41,226
Impact of adopting ASC 326	(1,441)	(955)	10,682	8,286
Provision for credit losses	717	373	31,354	32,444
Loans charged off	(687)	(632)	(45,417)	(46,736)
Recoveries of loans	35	179	9,485	9,699
Balance at end of year	$ 1,012	$ 5,147	$ 38,760	$ 44,919

(Dollar amounts in thousands)

	2023			
	Member Business	Residential Real Estate and Home Equity	Consumer	Total
Balance at beginning of year	$ 1,815	$ 5,304	$ 24,871	$ 31,990
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	7,215	7,719
Balance at end of year	$ 2,388	$ 6,183	$ 32,655	$ 41,226

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 credit losses is considered by the Credit Union as adequate to cover expected losses in the loan portfolio at June 30, 2024. However, no assurance can be given the Credit Union will not sustain credit 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 credit losses.

(Dollar amounts in thousands)

The following tables are disclosed at principal, the difference between principal and amortized cost is not material.

Credit quality indicators – The Credit Union monitors past due status for the purpose of managing credit risk for all loans. The following tables provide past due amounts for each class of loan:

	2024						
	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	$ -	$ -	$ -	$ -	$ 424,912	$ 424,912	$ -
Unsecured	60	19	15	94	8,050	8,144	-
SBA guaranteed	-	-	-	-	1,552	1,552	-
Other secured	196	15	-	211	8,461	8,672	-
Residential real estate and home equity							
First mortgage	-	2,872	4,645	7,517	974,576	982,093	-
Second mortgage	-	156	98	254	65,167	65,421	-
Home equity lines of credit	2,729	468	931	4,128	363,324	367,452	-
Consumer loans - collateralized							
Automobile	4,159	1,273	1,647	7,079	467,208	474,287	-
Indirect automobile	12,829	4,974	6,302	24,105	692,623	716,728	-
Other secured	2,928	1,020	1,549	5,497	272,181	277,678	-
Consumer loans							
Unsecured	1,854	824	41	2,719	197,986	200,705	-
Credit cards	2,498	1,494	13	4,005	251,363	255,368	-
Total	$ 27,253	$ 13,115	$ 15,241	$ 55,609	$ 3,727,403	$ 3,783,012	$ -

	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	$ -

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 credit loss is expected. Probable Loss loans have no repayment ability and credit 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:

Member business loans	2024 Real Estate Secured	Unsecured	SBA Guaranteed	Other Secured	Total
1 Excellent	$ -	$ 41	$ 37	$ 321	$ 399
2 Strong	2,356	-	-	71	2,427
3 Satisfactory	108,043	2	312	862	109,219
4 Acceptable	288,193	7,854	150	7,202	303,399
5 Pass with Caution	9,331	48	1,053	18	10,450
6 Other Especially Mentioned	16,457	33	-	2	16,492
7 Substandard	468	93	-	-	561
8 Doubtful	64	73	-	196	333
9 Probable Loss	-	-	-	-	-
Total	$ 424,912	$ 8,144	$ 1,552	$ 8,672	$ 443,280

Residential real estate and home equity	First Mortgage	Second Mortgage	Home Equity Lines of Credit	Total
Not Rated	$ 14,102	$ 79	$ 5,786	$ 19,967
A	571,299	30,564	224,831	826,694
B	201,977	16,024	98,184	316,185
C	160,344	17,881	31,332	209,557
D	20,609	714	7,104	28,427
E	9,861	148	215	10,224
N	3,901	11	-	3,912
Total	$ 982,093	$ 65,421	$ 367,452	$ 1,414,966

Consumer loans - collateralized	Automobile	Indirect Automobile	Other Secured	Total
Not Rated	$ 1	$ -	$ 3,636	$ 3,637
A	269,210	374,811	169,072	813,093
B	132,776	244,307	73,974	451,057
C	43,529	64,320	19,932	127,781
D	20,926	25,350	7,869	54,145
E	7,845	7,940	3,195	18,980
Total	$ 474,287	$ 716,728	$ 277,678	$ 1,468,693

Consumer loans - unsecured	Unsecured	Credit Cards	Total
Not Rated	$ 13,583	$ -	$ 13,583
A	105,121	122,861	227,982
B	59,247	69,912	129,159
C	16,303	25,448	41,751
D	4,788	19,748	24,536
E	1,640	17,399	19,039
N	16	-	16
S	7	-	7
Total	$ 200,705	$ 255,368	$ 456,073

(Dollar amounts in thousands)

	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)

Nonaccrual loans – The following table presents the amortized cost basis of loans on nonaccrual status as of June 30, 2024:

	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual
Member business loans			
Real estate secured	$ -	$ -	$ -
Unsecured	-	15	15
SBA guaranteed	-	-	-
Other secured	-	-	-
		-	-
Residential real estate and home equity			
First mortgage	-	4,645	4,645
Second mortgage	-	98	98
Home equity lines of credit	-	931	931
			-
Consumer loans – collateralized			
Automobile	-	1,647	1,647
Indirect automobile	-	6,302	6,302
Other secured	-	1,549	1,549
			-
Consumer loans			
Unsecured	-	41	41
Credit cards	-	13	13
Total	$ -	$ 15,241	$ 15,241

The amount of accrued interest reversed against interest income totaled $1,598 for the year ended June 30, 2024.

(Dollar amounts in thousands)

The following table presents nonaccrual loans by asset class as of June 30, 2023:

	Total Nonaccrual
Member business loans	
Unsecured	$ -
Other secured	37
Residential real estate and home equity	
First mortgage	1,337
Second mortgage	-
Home equity lines of credit	151
Consumer loans – collateralized	
Automobile	1,032
Indirect automobile	3,183
Other secured	824
Consumer loans – unsecured	
Unsecured	35
Credit cards	8
Total	$ 6,607

If interest on nonaccrural loans had been accrued, such income would have been $553 and $161 for June 30, 2024 and 2023, respectively.

Collateral-dependent loans – Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. As of June 30, 2024, there were no collateral dependent loans. There have been no significant changes in the level of collateralization from the prior periods.

Loan modification – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or combination therein. When a principal reduction is provided, the amount of forgiveness is charged off against the allowance for credit losses. Upon determination that a modified loan, or a portion of a modified loan, has been subsequently deemed uncollectible, the loan, or portion thereof, is written off. The amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. At June 30, 2024, there were $12,157 in consumer loans and $69 in business loans outstanding which were to borrowers that were both experiencing financial difficulty and modified during the year ended June 30, 2024. During the year ended June 30, 2024, the Credit Union modified 355 loans resulting in 323 payment deferrals, 32 term extensions, and no interest rate reductions. The financial effects of loan modifications made to borrowers experiencing financial difficulty during 2024 were not significant.

(Dollar amounts in thousands)

Troubled debt restructurings – At June 30, 2023, impaired loans of $5,180 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 following table presents loans identified as restructured during the year 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

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 year ended June 30, 2023:

	2023	
	Number of Loans	Total Balance
Residential real estate and home equity		
Home equity lines of credit	-	$ -
Total residential real estate and home equity loans	-	-
Consumer loans – collateralized		
Automobile	5	29
Indirect automobile	3	-
Other secured	1	-
Total collateralized consumer loans	9	29
Total unsecured consumer loans	-	-
Total loans	9	$ 29

(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 year 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)

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:

	2024	2023
Mortgage loan portfolio serviced for Fannie Mae	$ 542,283	$ 567,361
Mortgage loan portfolio serviced for Freddie Mac	3	6
Mortgage loan portfolio serviced for City of Huntsville	196	212
	$ 542,482	$ 567,579

Mortgage servicing rights, net of impairment, in the amounts of $2,609 and $2,751 at June 30, 2024 and 2023, 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 $5,541 and $5,914 at June 30, 2024 and 2023, respectively.

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

	2024	2023
Mortgage servicing rights		
Balance, beginning of year	$ 2,751	$ 2,647
Additions	415	635
Amortization	(557)	(531)
Balance, end of year	2,609	2,751
Reserve for impairment of mortgage servicing rights		
Balance, beginning of year	-	-
(Recovery) impairment	-	-
Balance, end of year	-	-
Net book value	$ 2,609	$ 2,751
Fair value	$ 6,621	$ 6,951

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

	2024	2023
Prepayment speed per year	8.73 CPR	7.75 CPR
Weighted-average discount rate	9.00%	9.00%

(Dollar amounts in thousands)

Note 5 – Property and Equipment

Property and equipment are summarized as follows at June 30:

	2024	2023
Land	$ 47,944	$ 41,720
Land improvements	14,078	13,799
Building and building improvements	194,275	174,579
Leasehold improvements	5,339	5,196
Furniture and equipment	68,672	67,138
Lease right-of-use asset	657	705
	330,965	303,137
Accumulated depreciation and amortization	(132,684)	(123,024)
	$ 198,281	$ 180,113

Depreciation and amortization expense totaled $13,997 and $13,764 for the years ended June 30, 2024 and 2023, respectively.

Note 6 – Members' Shares

Members' shares are summarized as follows at June 30:

	2024	2023
Regular shares	$ 2,627,550	$ 2,959,953
Share draft accounts	1,388,394	1,404,203
Money market accounts	1,687,176	1,773,573
Individual retirement accounts	33,963	40,800
Other savings	34,459	39,782
Certificates	1,135,606	587,302
	$ 6,907,148	$ 6,805,613

(Dollar amounts in thousands)

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

2025	$ 900,482
2026	71,104
2027	25,312
2028	19,571
2029	29,372
Thereafter	89,765
	$ 1,135,606

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 $201,580 and $90,329 at June 30, 2024 and 2023, respectively.

Overdraft demand shares reclassified to loans totaled $3,011 and $1,751 at June 30, 2024 and 2023, respectively.

Note 7 – 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, 2024, is $1,569,045. Based on the qualifying collateral, the agreement provides for a maximum borrowing amount of approximately $1,041,468. There were no borrowings outstanding as of June 30, 2024 or 2023.

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, 2024 or 2023.

(Dollar amounts in thousands)

Note 8 – 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 $29,749 and $41,270 at June 30, 2024 and 2023, respectively. Letters of credit outstanding totaled $1,215 and $1,215 as of June 30, 2024 and 2023, respectively.

ACH origination limits for business customers outstanding totaled approximately $8,645 and $7,916 as of June 30, 2024 and 2023, respectively.

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

	2024	2023
Credit card	$ 1,538,367	$ 2,253,601
Home equity line of credit	343,625	324,004
Overdraft line of credit	52,820	54,138
Member business	67,012	39,487
Other consumer	951	1,108
	$ 2,002,775	$ 2,672,338

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.

(Dollar amounts in thousands)

Note 9 – 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. There have been no loans repurchased during fiscal year ended June 30, 2024.

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 $164 and $3,700 as of June 30, 2024 and 2023, respectively, and are included in “Accrued Expenses and Other Liabilities” on the Consolidated Statements of Financial Condition.

Note 10 – 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:

	2024	2023
Projected benefit obligation	$ (113,677)	$ (110,888)
Fair value of plan assets	161,258	148,394
Funded status	$ 47,581	$ 37,506
Accumulated benefit obligation	$ 84,347	$ 82,122
Net pension cost	$ 77	$ 650
Employer contribution	-	-
Benefit payments	$ 2,210	$ 1,858

(Dollar amounts in thousands)

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

	2024	2023
Service cost	$ 4,925	$ 4,664
Interest cost	5,386	4,707
Expected return on Plan assets	(10,304)	(9,508)
Amortization of loss	70	787
Net periodic pension cost	$ 77	$ 650

The change in fair value of pension assets is as follows for the years ended June 30:

	2024	2023
Fair value of Plan assets at beginning of year	$ 148,394	$ 136,964
Actual return on Plan assets	15,074	13,288
Employer contributions	-	-
Benefits paid	(2,210)	(1,858)
Fair value of Plan assets at end of year	$ 161,258	$ 148,394

The change in the projected benefit obligation is as follows for the years ended June 30:

	2024	2023
Projected benefit obligation at beginning of year	$ 110,888	$ 106,438
Service cost	4,925	4,664
Interest cost	5,386	4,707
Benefits paid	(2,210)	(1,858)
Actuarial loss	(5,312)	(3,063)
Projected benefit obligation at end of year	$ 113,677	$ 110,888

Amounts recognized in the Consolidated Statements of Financial Condition at June 30 consist of:

	2024	2023
Defined pension asset	$ 47,581	$ 37,506

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

	2024	2023
Unrealized losses	$ 5,571	$ 15,724

(Dollar amounts in thousands)

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

Amortization of loss	$ -

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.

	2024	2023
Assumptions used to determine benefit obligation		
Discount rate	5.35%	4.91%
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 expects to contribute $1,200 to the Plan in fiscal year 2025.

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

	2024	2023
Equity securities	68.5%	69.0%
Fixed income	29.8%	29.3%
Money market funds and cash	1.7%	1.7%

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

Years Ending June 30,	
2025	$ 2,819
2026	3,155
2027	3,519
2028	3,973
2029	4,394
2030–2034	28,101
	$ 45,961

(Dollar amounts in thousands)

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

June 30, 2024	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	$ 2,732	$ 2,732	$ -	$ -
Mutual funds				
Domestic equity				
Blended funds	74,726	74,726	-	-
International equity	29,114	29,114	-	-
Specialty funds	6,612	6,612	-	-
Fixed income	48,073	48,073	-	-
	$ 161,257	$ 161,257	$ -	$ -

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	$ -	$ -

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.

(Dollar amounts in thousands)

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

	2024	2023
Projected benefit obligation	$ (13,579)	$ (13,572)
Funded status	$ (13,579)	$ (13,572)
Benefit cost	$ 749	$ 892
Employer contribution	$ 325	$ 544
Participant contribution	$ 10	$ 10
Benefit payments	$ 336	$ 553

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

	2024	2023
Service cost	$ 282	$ 297
Interest cost	650	620
Amortization of (gain) loss	(182)	(25)
Net periodic pension cost	$ 750	$ 892

The Credit Union expects to contribute $675 to the Plan in fiscal year 2025.

Amounts recognized in the Consolidated Statements of Financial Condition consist of the following at June 30:

	2024	2023
Accrued expenses and other liabilities	$ 13,579	$ 13,572
Total recognized	$ 13,579	$ 13,572

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

	2024	2023
Unrealized (gains) losses	$ (3,114)	$ (2,698)

(Dollar amounts in thousands)

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

	2024	2023
Weighted-average assumptions as of June 30,		
Discount rate	4.90%	4.42%
Healthcare cost trend		
Current	7.00%	8.00%
Ultimate	3.94%	3.94%

The following benefits are expected to be paid as follows:

Years Ending June 30,	
2025	$ 676
2026	748
2027	854
2028	882
2029	888
2030–2034	4,323
	$ 8,371

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 $4,995 and $5,130 in matching contributions to the Plan for the years ended June 30, 2024 and 2023, 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 $965 and $716 as of June 30, 2024 and 2023, respectively, was included in other liabilities.

On July 28, 2020 and October 27, 2023 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 $19,389 and $9,625 as of June 30, 2024 and 2023, respectively.

(Dollar amounts in thousands)

Note 11 – 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, 2024 and 2023, the Credit Union qualified for and opted into CCULR. The Credit Union's CCULR requirement was 9.0% as of June 30, 2024 and 2023. Management believes, as of June 30, 2024 and 2023, the Credit Union meets all capital adequacy requirements to which it is subject.

As of June 30, 2024 and 2023, 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:

	2024		2023	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as well capitalized	$ 536,249	7.00%	$ 518,266	7.00%
Amount needed to be classified as well capitalized for CCULR	689,464	9.00%	666,342	9.00%
Actual net worth	981,171	12.81%	873,673	11.80%

(Dollar amounts in thousands)

Note 12 – 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, 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)
Other comprehensive income (loss) before reclassifications	10,153	416	24,358	34,927
Amounts reclassified from accumulated other comprehensive loss	-	-	(3,243)	(3,243)
Net current period other comprehensive income (loss)	10,153	416	21,115	31,684
Balance as of June 30, 2024	$ (5,571)	$ 3,114	$ (316,549)	$ (319,006)

Note 13 – 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 $2,600 and $3,214 at June 30, 2024 and 2023, respectively. Deposits from related parties amounted to $9,835 and $6,934 at June 30, 2024 and 2023, respectively.

Note 14 – 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.

Individually evaluated loans – The fair value of individually evaluated loans is estimated using one several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those individually evaluated 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, 2024 and 2023, substantially all of the individually evaluated loans were evaluated based on the fair value of the collateral. Individually evaluated 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 individually evaluated real estate loans, the Credit Union obtains a current external appraisal as deemed necessary. Other valuation techniques are used as well, including internal valuations, comparable property analysis, and contractual sales information.

(Dollar amounts in thousands)

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.

Fair value on a recurring basis – The table below presents the balances of assets and liabilities measured and presented in the Consolidated Statements of Financial Condition at fair value on a recurring basis:

June 30, 2024	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	$ 9,864	$ -	$ 9,864	$ -
Employee Benefit Funding Account	9,530	-	9,530	-
Available for sale debt securities				
Operating Investments				
Collateralized debt obligation	22,743	-	22,743	-
Residential Mortgage-backed securities	903,265	-	903,265	-
Commercial Mortgage-backed securities	1,903,575	-	1,903,575	-
Charitable Donation Account - fixed income bonds	25,651	-	25,651	-
Employee Benefit Funding Account - fixed income bonds	107,610	-	107,610	-
Equity securities				
Charitable Donation Account	10,528	10,528	-	-
Employee Benefit Funding Account	52,525	52,525	-	-
	$ 3,045,291	$ 63,053	$ 2,982,238	$ -

(Dollar amounts in thousands)

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	$ -

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, 2024				
Individually evaluated loans	$ -	$ -	$ -	$ -
June 30, 2023				
Restructured and impaired loans	$ 7,002	$ -	$ -	$ 7,002

(Dollar amounts in thousands)

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.

Note 15 – 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 end the collaborative arrangement by finding a buyer for the credit card portfolio. The Credit Union reclassified the entire Rural King credit card portfolio to loans held for sale as of June 30, 2023. The credit card portfolio sale to UMB Financial Corporation closed on March 22, 2024, ending the collaborative arrangement between the Credit Union and Rural King.

(Dollar amounts in thousands)

Results for the years ended June 30, 2024 and 2023, were as presented below:

	2024	2023
Interest income		
Loans	$ 20,872	$ 26,309
Interest expense		
Borrowed funds	7,055	7,387
Net interest income	13,817	18,922
Provision for credit losses	14,201	13,408
Net interest income (expense) after provision for loan losses	(384)	5,514
Other income		
Credit card and interchange income	3,825	6,360
Loan fees	2,094	2,750
Total other income	5,919	9,110
Other expense		
Salary and benefits	824	2,615
Office occupancy	-	111
Data processing	-	867
Credit card processing	3,932	5,257
Cash back rebate on credit and debit cards	2,219	3,825
Member education and promotion	123	222
Loan servicing	(58)	1,520
Professional and outside	-	204
Uncollectible accounts	495	387
Other operating expense	8,461	13,983
Total other expense	15,996	28,991
Net program income (loss)	(10,461)	(14,367)
Profit sharing income (loss)	(10,461)	(13,276)
Redstone Federal Credit Union's share of net program income (loss)	$ -	$ (1,091)

(Dollar amounts in thousands)

Note 16 – Other Non-Interest Income and Operating Expense

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

	2024	2023
Account fees	$ 5,305	$ 4,753
Marketing incentives	12,770	4,115
Subsidiary income	8,127	7,678
Other noninterest income	1,731	5,675
Gain on other assets	17,775	155
	$ 45,708	$ 22,376

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

	2024	2023
Communications (telephone and postage)	$ 4,449	$ 4,325
Armored car service	2	1,039
Subsidiary expenses	3,731	4,131
Maintenance of equipment and vehicles	1,098	1,135
Insurance	2,079	1,604
Supplies	874	725
Rural King joint venture (income) expense	(6,530)	1,741
Other operating expenses	3,909	6,781
	$ 9,612	$ 21,481

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