LOUISIANA CORPORATE CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Postlethwaite & Netterville

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P&N
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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

To the Supervisory Committee
Louisiana Corporate Credit Union

Opinion

We have audited the accompanying financial statements of Louisiana Corporate Credit Union (the Credit Union), which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income and comprehensive income (loss), changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Credit Union's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 704.15 of the National Credit Union Administration Regulations, and our report dated May 5, 2023, expressed an unmodified opinion.

Postlethwaite + Netterville

Metairie, Louisiana
May 5, 2023

LOUISIANA CORPORATE CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2022 AND 2021

A S S E T S

	2022	2021
ASSETS		
Cash and cash equivalents	**$ 25,074,039**	$ 54,088,327
Investment securities, available-for-sale	**108,293,437**	164,683,696
Central Liquidity Facility stock	**-**	3,263,098
Federal Home Loan Bank stock	**3,106,800**	1,408,800
Other investments	**387,823**	370,306
Loans to members	**8,393,528**	-
Accrued interest receivable	**283,505**	70,634
National Credit Union Share Insurance Fund deposit	**176,842**	190,346
Premises and equipment, net	**17,406**	17,968
Other assets	**1,206,175**	1,119,641
Total assets	**$ 146,939,555**	$ 225,212,816

L I A B I L I T I E S A N D M E M B E R S' E Q U I T Y

	2022	2021
LIABILITIES		
Members' shares and certificates	**$ 94,094,404**	$ 211,423,495
Line of credit	**40,000,000**	-
Accounts payable and other liabilities	**647,671**	116,094
Total liabilities	**134,742,075**	211,539,589
MEMBERS' EQUITY, SUBSTANTIALLY RESTRICTED		
Perpetual contributed capital	**7,301,494**	7,301,494
Undivided earnings	**7,683,548**	5,427,754
Accumulated other comprehensive income (loss)	**(2,787,562)**	943,979
Total members' equity	**12,197,480**	13,673,227
Total liabilities and members' equity	**$ 146,939,555**	$ 225,212,816

The accompanying notes are an integral part of these financial statements.

LOUISIANA CORPORATE CREDIT UNION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
INTEREST INCOME		
Investments	$ 3,173,514	$ 1,011,619
Loans to members	126,725	746
Total interest income	3,300,239	1,012,365
INTEREST EXPENSE		
Members' shares and certificates	1,585,192	235,031
Interest on borrowed money	641,432	-
Total interest expense	2,226,624	235,031
NET INTEREST INCOME	1,073,615	777,334
NON-INTEREST INCOME		
Service charges and other fees	837,719	823,710
Miscellaneous operating income	2,361,427	3,224,934
Employee retention credit	84,498	-
Loss on disposition of investment securities - net	(288,971)	-
Gain on disposition of assets - net	-	10,400
Total non-interest income	2,994,673	4,059,044
NON-INTEREST EXPENSE		
Compensation and benefits	806,322	777,121
Professional and outside services	756,417	692,813
Office occupancy and operations	103,202	108,116
Administrative expenses	98,447	70,306
Total non-interest expense	1,764,388	1,648,356
NET INCOME	2,303,900	3,188,022
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gains (losses), arising during the period	(4,020,512)	350,185
Reclassification adjustment for realized losses included in net income	288,971	-
Total other comprehensive income (loss)	(3,731,541)	350,185
COMPREHENSIVE INCOME (LOSS)	$ (1,427,641)	$ 3,538,207

The accompanying notes are an integral part of these financial statements.

LOUISIANA CORPORATE CREDIT UNION

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

	Perpetual Contributed Capital	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, JANUARY 1, 2021	$ 7,301,494	$ 2,247,010	$ 593,794	$ 10,142,298
Net income	-	3,188,022	-	3,188,022
Dividends paid on perpetual contributed capital	-	(7,278)	-	(7,278)
Other comprehensive income	-	-	350,185	350,185
BALANCE, DECEMBER 31, 2021	7,301,494	5,427,754	943,979	13,673,227
Net income	-	2,303,900	-	2,303,900
Dividends paid on perpetual contributed capital	-	(48,106)	-	(48,106)
Other comprehensive loss	-	-	(3,731,541)	(3,731,541)
BALANCE, DECEMBER 31, 2022	**$ 7,301,494**	**$ 7,683,548**	**$ (2,787,562)**	**$ 12,197,480**

The accompanying notes are an integral part of these financial statements.

LOUISIANA CORPORATE CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 2,303,900**	$ 3,188,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**11,775**	13,025
Net amortization of premiums on investments	**27,181**	97,200
Loss on disposition of investment securities - net	**288,971**	-
Gain on disposition of assets - net	**-**	(10,400)
Changes in operating assets and liabilities:		
Accrued interest receivable	**(212,871)**	6,221
Other assets	**(86,451)**	(86,035)
Accounts payable and other liabilities	**531,577**	12,071
Net cash provided by operating activities	**2,864,082**	3,220,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale investment securities	**(9,003,615)**	(37,051,015)
Proceeds from sales, maturities and paydowns of investment securities	**61,346,181**	31,699,836
Redemption of Central Liquidity Facility stock	**3,263,098**	-
Purchase of Federal Home Loan Bank stock	**(1,698,000)**	(1,500)
Change in other investments	**(17,517)**	53,824
Loans to members, net of principal collections	**(8,393,528)**	102,443
Proceeds from the sale of premise and equipment	**-**	10,400
Purchase of premises and equipment	**(11,296)**	(11,332)
Net change in NCUSIF deposit	**13,504**	722
Net cash provided by (used in) investing activities	**45,498,827**	(5,196,622)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in members' shares and certificates	**(117,329,091)**	10,788,849
Proceeds from borrowings, net of repayments	**40,000,000**	-
Dividends paid on perpetual contributed capital	**(48,106)**	(7,278)
Net cash provided by (used in) financing activities	**(77,377,197)**	10,781,571
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(29,014,288)**	8,805,053
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**54,088,327**	45,283,274
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 25,074,039**	$ 54,088,327
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	**$ 1,955,721**	$ 223,308

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Louisiana Corporate Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Louisiana Revised Statutes Section 6.641 *Credit Unions*, for the purpose of serving corporate accounts by providing money management services, creating a source of credit and offering various correspondent services to its members who are principally state and federally chartered credit unions located in the United States. The Credit Union competes with other asset management and investment companies, including other corporate credit unions. The Credit Union is chartered by the State of Louisiana (State) and regulated by the State as well as by the federal government through the National Credit Union Administration (NCUA), which also provides insurance on members' deposits.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates susceptible to change are those related to the assessment of other-than-temporary impairment on investments.

Cash and Cash Equivalents

For purposes of financial statement classification, the Credit Union considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposit accounts.

The Credit Union maintains its cash in deposit accounts at various financial institutions. These balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as "available-for-sale" and recorded at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). At December 31, 2022 and 2021, all securities were available-for-sale. The Credit Union does not maintain a trading portfolio.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Securities (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. U.S. GAAP specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

Federal Home Loan Bank (FHLB) stock is restricted as to its marketability. Because no ready market exists for this investment and it has no quoted market value, the Credit Union's investment in this stock is carried at cost.

The NCUA Central Liquidity Facility (CLF) is a liquidity lender for credit unions experiencing unusual or unexpected liquidity shortfalls. The Credit Union joined the CLF in 2020 as an agent member on behalf of member credit unions. Effective December 31, 2022, the temporary legislation enabling the agent membership provision was not extended, and as a result, the Credit Union’s subscribed capital it had provided on behalf of the member group was returned before the end of 2022. CLF stock was restricted as to its marketability, and the Credit Union's investment in this stock was carried at cost at December 31, 2021.

Other investments consist of two investments in credit union service organizations accounted for using the equity method. Primary Financial Company, LLC offers a program, SimpliCD, which enables the Credit Union’s members to invest in and issue federally insured certificates of deposit. CU Business Group, LLC provides business lending and deposit consulting services to credit unions nationwide.

Loans to Members

The Credit Union grants installment and demand loans to its members. Loans receivable are stated at unpaid principal balances. Interest on loans, which is recognized on the accrual basis, is calculated based on the principal balance using rates as stipulated in the loan agreements. The Credit Union evaluates each member’s credit worthiness on a case-by-case basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans to Members (continued)

An allowance for loan losses is based on management's evaluation of the collectability of the loans. The evaluation of management includes consideration of prior loan-loss experience, the results of internal review procedures, the current financial condition of the borrower, the quality of the collateral, and current economic condition affecting the inherent collection risks of the loan portfolio. The accrual of interest is discontinued when management believes that the collection of interest is doubtful. The Credit Union has not historically incurred loan losses. Management believes no allowance for loan losses is necessary at December 31, 2022 and 2021, because loans are generally short-term in nature and secured by member deposits and other assets. The Credit Union does not grant unsecured loans. There were no losses or delinquent loans in 2022 and 2021.

Premises and Equipment, net

Premises and equipment are stated at cost less accumulated depreciation. Furniture, fixtures and equipment generally depreciate using the straight-line method with useful lives ranging from three to seven years.

Leases

In February 2016, the FASB issued guidance as ASC 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial condition. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. The Credit Union adopted the standard and recognized and measured leases existing at, or entered into after January 1, 2022, using the modified retrospective approach, with certain practical expedients available. The adoption of ASC 842 did not result in any adjustments to members' equity or changes in the timing or amounts of lease costs. Comparable periods continue to be presented under the guidance of the previous standard.

The Credit Union determines if an arrangement is a lease at the inception of the contract. For leases with terms greater than twelve months, ROU assets and lease liabilities are recognized at the contract commencement date based on the present value of lease payments over the lease term. ROU assets represent the Credit Union's right to use the underlying asset for the lease term. Lease liabilities present the Credit Union's obligation to make lease payments arising from these contracts. The Credit Union uses an incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Credit Union's operating leases in effect prior to January 1, 2022, were recognized at the present value of the remaining payments on the remaining lease term as of January 1, 2022.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease agreements may include rental escalation clauses or renewal options that are factored into management's determination of lease payments, when appropriate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that such options will be exercised. The estimated useful life of ROU assets is limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. The Credit Union's lease agreements generally do not contain any material residual value guarantees, restrictions or covenants.

The Credit Union has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this practical expedient to all relevant asset classes. Additionally, the Credit Union elected the package of transition provisions available which allowed the carryforward of the Credit Union's historical assessments of whether contracts contain leases, the lease classification, and the treatment of initial direct costs.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums

The Credit Union is required to pay an annual insurance premium equal to a percent of its total insured shares as determined by the NCUA, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the premium for the years ended December 31, 2022 and 2021.

Members' Shares and Certificates

Members' shares and certificates are subordinated to all other liabilities of the Credit Union other than perpetual contributed capital and paid-in capital upon liquidation. Interest rates on members' shares and members' share certificates are set by management under the direction of the Board of Directors.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Perpetual Contributed Capital

Perpetual contributed capital (PCC) represents the investment required for membership capital voting rights and membership by credit unions. PCC is not negotiable or assignable but may be transferable to another eligible member credit union under certain provisions. PCC may not be pledged or used as security for borrowing. PCC dividends are determined based on net earnings and the overall capital needs of the Credit Union. Additionally, PCC dividends are not guaranteed and may be suspended if earnings are negative and/or capital levels fall below regulatory and/or policy minimum levels.

Revenue Recognition

The Credit Union recognizes a significant portion of its revenue from contracts with customers in accordance with ASC 606, *Revenue from Contracts with Customers*. The Credit Union generally satisfies its performance obligations on its contracts with customers as services are rendered, and the transaction prices are typically fixed, charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Non-interest income includes fees from the Credit Union's members for transaction-based activities, such as account maintenance, share draft processing, wire transfers and ACH origination and receipt. These fees are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. The Credit Union also acts as an agent for third-party vendors that provide investment and lending services and products. Upon completion of the sale of services or products to a member, the Credit Union receives fees from the third-party vendor. The performance obligation to the third-party vendor is satisfied and the fee income is recognized at that point in time.

The majority of the Credit Union's revenue is not subject to ASC 606, including investment income, loan interest income and gain on sales of investment securities, if any. The recognition of revenues from interest-earning assets is based on the underlying loan agreements, securities contracts or other similar contracts.

Due to the nature of the services provided, the Credit Union does not incur costs to obtain contracts, and there are no material incremental costs to fulfill these contracts that should be capitalized. Additionally, there are no material contract assets or liabilities as the Credit Union does not typically enter into long-term contracts with its members.

Advertising

The Credit Union's policy is to expense advertising costs as incurred. Advertising expense was $17,400 and $5,735 for the years ended December 31, 2022 and 2021, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income (Loss)

Comprehensive income or loss consists of net income or loss and other comprehensive income or loss that includes unrealized gains and losses on investment securities available for sale, which are also recognized as a separate component of members' equity.

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes, except for certain products and services deemed by the IRS to be unrelated to the Credit Union's exempt purpose.

Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Significant Groups of Concentrations and Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its members are located in Louisiana. The Credit Union continually monitors operations, including loan and investment portfolios, for potential impairment. However, the loan portfolio is well diversified in terms of geographical location within Louisiana and the Credit Union does not have any significant concentrations of credit risk.

Recent Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. The standard will be effective for annual periods beginning after December 15, 2022.

The Credit Union is currently assessing the impact of these pronouncements on its financial statements.

2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at December 31, 2022 and 2021, are as follows:

	December 31, 2022			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	**$ 49,905,669**	**$ 186,261**	**$ (827,982)**	**$ 49,263,948**
Mortgage-backed securities	**58,439,452**	**1,684**	**(1,975,388)**	**56,465,748**
Student loan asset-backed securities	**2,735,878**	**-**	**(172,137)**	**2,563,741**
	$ 111,080,999	**$ 187,945**	**$ (2,975,507)**	**$ 108,293,437**

	December 31, 2021			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	$ 76,279,890	$ 918,453	$ (54,785)	$ 77,143,558
Mortgage-backed securities	80,917,549	311,847	(109,431)	81,119,965
Student loan asset-backed securities	6,542,278	-	(122,105)	6,420,173
	$ 163,739,717	$ 1,230,300	$ (286,321)	$ 164,683,696

At December 31, 2022 and 2021, investments held in safekeeping by FHLB of Dallas are available as collateral for the Credit Union's line of credit with the FHLB. See Note 7.

The amortized cost and estimated fair value of certificates of deposit and debt securities, including mortgage-backed securities, at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within 1 year	$ -	$ -
Due after 1 year through 5 years	15,250,000	14,642,146
Due after 5 years through 10 years	27,417,730	27,498,952
Due after 10 years	7,237,939	7,122,850
	49,905,669	49,263,948
Mortgage-backed securities	58,439,452	56,465,748
Student loan asset-backed securities	2,735,878	2,563,741
Total	$ 111,080,999	$ 108,293,437

2. INVESTMENT SECURITIES (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Agency securities	**$ 26,407,045**	**$ (248,624)**	**$ 5,670,643**	**$ (579,358)**	**$ 32,077,688**	**$ (827,982)**
Mortgage-backed securities	**38,047,771**	**(934,514)**	**17,543,255**	**(1,040,874)**	**55,591,026**	**(1,975,388)**
Student loan asset-backed securities	**-**	**-**	**2,563,746**	**(172,137)**	**2,563,746**	**(172,137)**
	$ 64,454,816	**$ (1,183,138)**	**$ 25,777,644**	**$ (1,792,369)**	**$ 90,232,460**	**$ (2,975,507)**

	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. Agency securities	$ 9,195,215	$ (54,785)	$ -	$ -	$ 9,195,215	$ (54,785)
Mortgage-backed securities	20,245,271	(84,700)	4,179,598	(24,731)	24,424,869	(109,431)
Student loan asset-backed securities	-	-	6,420,174	(122,105)	6,420,174	(122,105)
	$ 29,440,486	$ (139,485)	$ 10,599,772	$ (146,836)	$ 40,040,258	$ (286,321)

Substantially all of these securities with gross unrealized losses are either guaranteed by the U.S. Government or secured by mortgage loans or student loans. These unrealized losses relate principally to current interest rates for similar types of securities. Because the Credit Union does not intend to sell the investments and it is more likely than not that the Credit Union will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

3. LOANS TO MEMBERS

Loans to members outstanding at December 31, 2022 and 2021, was $8,393,528 and $-0-, respectively. Loans at December 31, 2022, consisted of nine (9) demand line of credit loans to member credit unions which originated in 2022. These loans are considered short-term loans and were collected after year end. The Credit Union has not established an allowance for loan losses as all outstanding loans are secured either by general or a specific pledge of the member credit union's assets and there has been no historical loss. Additionally, there were no impaired loans as of December 31, 2022 and 2021; and none of the loans were past due or had been modified as troubled as of December 31, 2022 and 2021.

4. PREMISES AND EQUIPMENT

Premises and equipment is summarized as follows:

	December 31,			
	2022		2021	
Furniture and equipment	**$**	**135,360**	$	194,968
Leasehold improvements		**8,039**		8,039
		143,399		203,007
Less: accumulated depreciation		**(125,993)**		(185,039)
Premises and equipment, net	**$**	**17,406**	$	17,968

Depreciation expense for the years ended December 31, 2022 and 2021, was $11,775 and $13,025, respectively.

5. LEASES

The Credit Union leases its main office facilities under an operating lease through 2023. There was no significant impact to the 2022 financial statements as a result of the adoption of ASC 842. At December 31, 2022, ROU assets and lease liabilities, which are included in other assets and accounts payable and other liabilities, respectively, totaled approximately $167,000. Operating cash flows from operating leases total approximately $61,000.

Operating lease expenses were $63,111 and $59,977 for the years ended December 31, 2022 and 2021, respectively, and is included in office occupancy and operations in the statements of income and comprehensive income (loss).

6. MEMBERS' SHARES AND CERTIFICATES

A summary of members' shares and certificates is as follows:

	December 31,			
	2022		2021	
Daily shares	**$**	**91,559,259**	$	208,888,350
Fixed callable certificates		**2,498,000**		2,498,000
Paid-in capital shares		**37,145**		37,145
Total	**$**	**94,094,404**	$	211,423,495

During 2021, the Credit Union issued $2,498,000 of callable, fixed rate share certificates, which mature on March 30, 2026, if not called prior by the Credit Union.

The aggregate amounts of members' shares and certificates over $250,000 were $90,466,821 and $204,279,287 as of December 31, 2022 and 2021, respectively.

7. BORROWED FUNDS

The Credit Union maintains a line of credit as follows:

	December 31, 2022	
Lender	Outstanding Balance	Available Balance
Federal Home Loan Bank	**$ 40,000,000**	**$ 31,667,471**

	December 31, 2021	
Lender	Outstanding Balance	Available Balance
Federal Home Loan Bank	$ -	$ 125,699,946

Advances and borrowings from the FHLB are required to be collateralized by securities held in safekeeping by the FHLB (see Note 2). At December 31, 2022 and 2021, the Credit Union had securities held in safekeeping at the FHLB with fair values of approximately $108.3 million and $164.7 million, respectively, which provided a borrowing capacity of approximately $71.7 million and $125.7 million, respectively. The interest rate is priced daily based on the FHLB of Dallas' discount note market and was approximately 4.6% at December 31, 2022.

8. EMPLOYEE BENEFIT PLANS

Defined Contribution Retirement Plans

The Credit Union sponsors a defined contribution safe harbor 401(k) retirement plan for all eligible employees. All full-time employees with one year of service are eligible, and vesting is graduated over six years. The Credit Union makes matching contributions equal to 100% of the participant's first 5% of salary contributed. The Credit Union may also make discretionary contributions at the direction of management. The plan includes a safe harbor non-elective contribution equal to 3% of eligible compensation. This safe harbor contribution is fully vested to the participants. During the years ended December 31, 2022 and 2021, the amount contributed by the Credit Union and charged to expense was $42,448 and $44,587, respectively.

Supplemental Executive Retirement Plan

The Credit Union provides for a supplemental retirement benefit for an executive by entering into a collateral assignment split dollar plan with the executive. The executive is the policy owner of a life insurance policy, and the Credit Union advances the premiums due under the policy. The Credit Union also executed a limited recourse demand promissory note in which the principal outstanding equals the premiums paid by the Credit Union on behalf of the executive. Pursuant to the note, the executive collaterally assigned the policy cash value of the insurance policy to the Credit Union. Total split-dollar loans outstanding at December 31, 2022 and 2021, were $942,834 and $933,407, respectively, and are included in other assets in the accompanying statements of financial condition. Termination of the plan occurs upon events specified in the plan agreement. At the termination of the plan, the Credit Union is entitled to repayment of the outstanding loans under the note which may be repaid from the proceeds of the cash value of the policy or the death benefit.

9. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union makes loans to member credit unions with common directors and principal officers. These loans are made on the same terms, including interest rate and collateral, as those prevailing at the time for similar loans with other members. Loan balances outstanding from related parties at December 31, 2022 and 2021, were $4,068,180 and $-0-, respectively. Members' shares and certificates from related parties at December 31, 2022 and 2021, amounted to $30,303,319 and $60,130,879, respectively.

10. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Credit Risk

The Credit Union is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Credit Union has in particular classes of financial instruments.

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

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. Since 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 credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral generally consists of the total assets of the member.

Advised lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Standby letters of credit are conditional commitments issued by the Credit Union to guarantee the performance of a member credit union to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to members. Standby letters of credit reduce a member credit union's advised line of credit.

10. COMMITMENTS AND CONTINGENCIES (continued)

Financial Instruments with Off-Balance Sheet Credit Risk (continued)

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2022	2021
Advised lines of credit - unused	**$ 130,136,000**	$ 125,479,000
Standby letters of credit - unused	**7,392**	7,392
Total	**$ 130,143,392**	$ 125,486,392

The Credit Union, as agent, has entered into Excess Balance Account (EBA) agreements with participating member credit unions and the Federal Reserve Bank, whereby the Federal Reserve Bank opened EBA accounts for the benefit of the participants at the request of the agent. As such, the balances in the EBA accounts are not reflected in the Credit Union's financial statements. These balances totaled $-0- and $57,500,000 as of December 31, 2022 and 2021, respectively. The aggregate balance in the EBA represents a deposit liability of the Federal Reserve Bank solely to the participants. The Credit Union, as agent, is responsible for calculating and distributing the interest payable to each participant on the participant's excess balance.

Other

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

During 2009, the Credit Union impaired and charged off 100% of its investment in U.S. Central Federal Credit Union (USC), which was placed in conservatorship by the NCUA on March 20, 2009. The Credit Union is entitled to available recoveries after satisfaction of all liabilities of the liquidation estate based on its pro-rata share of member contributed capital. The Credit Union was issued a claim certificate in the total amount of $7,144,197. During the years ended December 31, 2022 and 2021, the Credit Union received $2,361,427 and $3,224,934, respectively, in payments, which are recognized as miscellaneous operating income in the statements of income and other comprehensive income (loss).

In March 2023, the Credit Union was notified of additional payments in the amount of $555,805 which was received in March 2023. The remaining claims after the aforementioned payments is $1,002,030; however, no assurance can be provided as to the ultimate amount, if any, to be recovered at this time. Further distributions will be evaluated by the liquidating agent on a semi-annual basis on June 30 and December 31 of each year.

11. FAIR VALUE MEASUREMENTS

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

U.S. GAAP also establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These levels are as follows:

- *Level 1* – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- *Level 2* – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

- *Level 3* –Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

11. FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis are as follows:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. Agency securities	**$ -**	**$ 49,263,948**	**$ -**	**$ 49,263,948**
Mortgage-backed securities	**-**	**56,465,748**	**-**	**56,465,748**
Student loan asset-backed securities	**-**	**2,563,741**	**-**	**2,563,741**
Total	**$ -**	**$ 108,293,437**	**$ -**	**$ 108,293,437**

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. Agency securities	$ -	$ 77,143,558	$ -	$ 77,143,558
Mortgage-backed securities	-	81,119,965	-	81,119,965
Student loan asset-backed securities	-	6,420,173	-	6,420,173
Total	$ -	$ 164,683,696	$ -	$ 164,683,696

The Credit Union's available-for-sale debt securities are measured on a recurring basis through a model used by the Credit Union's investment custodian. All the debt security price adjustments meet Level 2 criteria at December 31, 2022 and 2021. Pricing models use actively quoted rates, prepayment models and other underlying credit and collateral data, including data from similar issues in active markets.

12. REGULATORY CAPITAL

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 financial statements. The risk-based capital requirements are as follows:

- *Leverage Ratio* (4% to be adequately capitalized, 5% to be well capitalized) – the ratio of Tier 1 core capital to Moving Daily Average Net Assets (MDANA). Tier 1 core capital is defined as the sum of undivided earnings and perpetual contributed capital, adjusted for certain exclusions.

- *Tier 1 Risk-Based Capital Ratio* (4% to be adequately capitalized, 6% to be well capitalized – the ratio of Tier 1 core capital to the Moving Monthly Average Net Risk-weighted Assets (MMANRA).

- *Total Risk-Based Capital Ratio* (8% to be adequately capitalized, 10% to be well capitalized) – the ratio of total capital (undivided earnings, perpetual contributed capital or non-perpetual capital, adjusted for certain exclusions) to MMANRA.

Failure to meet minimum capital requirements would require the Credit Union to submit a plan of action to correct the shortfall. Additionally, NCUA could require an increase in capital to specific levels, reduction of interest, and ceasing or limiting the Credit Union's ability to accept deposits.

12. REGULATORY CAPITAL (continued)

The Credit Union's actual and required ratios for December 31, 2022 and 2021, are as follows:

	Actual		Minimum to be Adequately Capitalized Under Prompt Corrective Provisions		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Leverage capital	**$ 14,597,219**	**7.74%**	**$ 7,542,090**	**4.00%**	**$ 9,427,612**	**5.00%**
Tier 1 risk-based capital (Tier 1 core capital to MMANRA)	**$ 14,597,219**	**41.17%**	**$ 1,418,189**	**4.00%**	**$ 2,127,284**	**6.00%**
Total risk-based capital (Total capital to MMANRA)	**$ 14,597,219**	**41.17%**	**$ 2,836,378**	**8.00%**	**$ 3,545,473**	**10.00%**
Retained earnings (Retained earnings to MDANA)	**$ 7,683,548**	**4.08%**	**$ 848,485**	**0.45%**	**N/A**	**N/A**
December 31, 2021						
Leverage capital	$ 12,358,942	5.84%	$ 8,467,551	4.00%	$ 10,584,439	5.00%
Tier 1 risk-based capital (Tier 1 core capital to MMANRA)	$ 12,358,942	34.05%	$ 1,452,002	4.00%	$ 2,178,002	6.00%
Total risk-based capital (Total capital to MMANRA)	$ 12,362,031	34.06%	$ 2,904,003	8.00%	$ 3,630,004	10.00%
Retained earnings (Retained earnings to MDANA)	$ 5,427,754	2.56%	$ 952,600	0.45%	N/A	N/A

As of December 31, 2022 and 2021, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

13. SUBSEQUENT EVENTS

As described in Note 10, in March 2023, the Credit Union was notified of a payment from the U.S. Central Federal Credit Union liquidation in the amount of $555,805, which was received in March of 2023.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 5, 2023, and determined that no other matters required additional disclosure in the financial statements. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.