NAMED #1 CREDIT UNION IN INDIANA

Forbes 2022
BEST-IN-STATE CREDIT UNIONS
POWERED BY STATISTA

Our entire Purdue Federal team and Board of Directors were ecstatic to be recognized as the number one credit union in Indiana by Forbes in June 2022.

Forbes identified Best-In-State Credit Unions based on an independent survey by Statista of approximately 26,000 U.S. consumers who were asked to rate credit unions at which they have or previously had checking accounts. Respondents rated their overall satisfaction in addition to areas including trust, terms and conditions, branch services, digital services, customer service and financial advice.

At Purdue Federal, we strive each and every day to provide our member-owners with excellent service, competitive products and user-friendly digital services to meet their individual needs. As you will see in our Annual Report, these areas of focus helped your credit union earn this remarkable honor and end 2022 financially strong. Our top three areas of growth included:

- Home Equities
- Secured Loans
- Business Loans and First Mortgages (tied)

Our team also worked to fulfill our social mission, which is to impact the communities we serve by providing financial education and services. During 2022, our team made this happen through one-on-one financial counseling sessions to 676 individuals and presentations to 10,528 people through Purdue Federal credit counselors and our partnership with Purdue University Recreation & Wellness called Boiler Financial Track.

As we look toward the future, we want to thank you—our member-owner—for choosing Purdue Federal. We assure you that 2023 will be a year marked by a crucial system upgrade, enhanced products and services, and more financial wellness opportunities in our Lafayette-West Lafayette, La Porte and Crown Point communities.

Sincerely,

Bob Falk
President/CEO

David Kish
Board Chair

PURDUE FEDERAL
CREDIT UNION

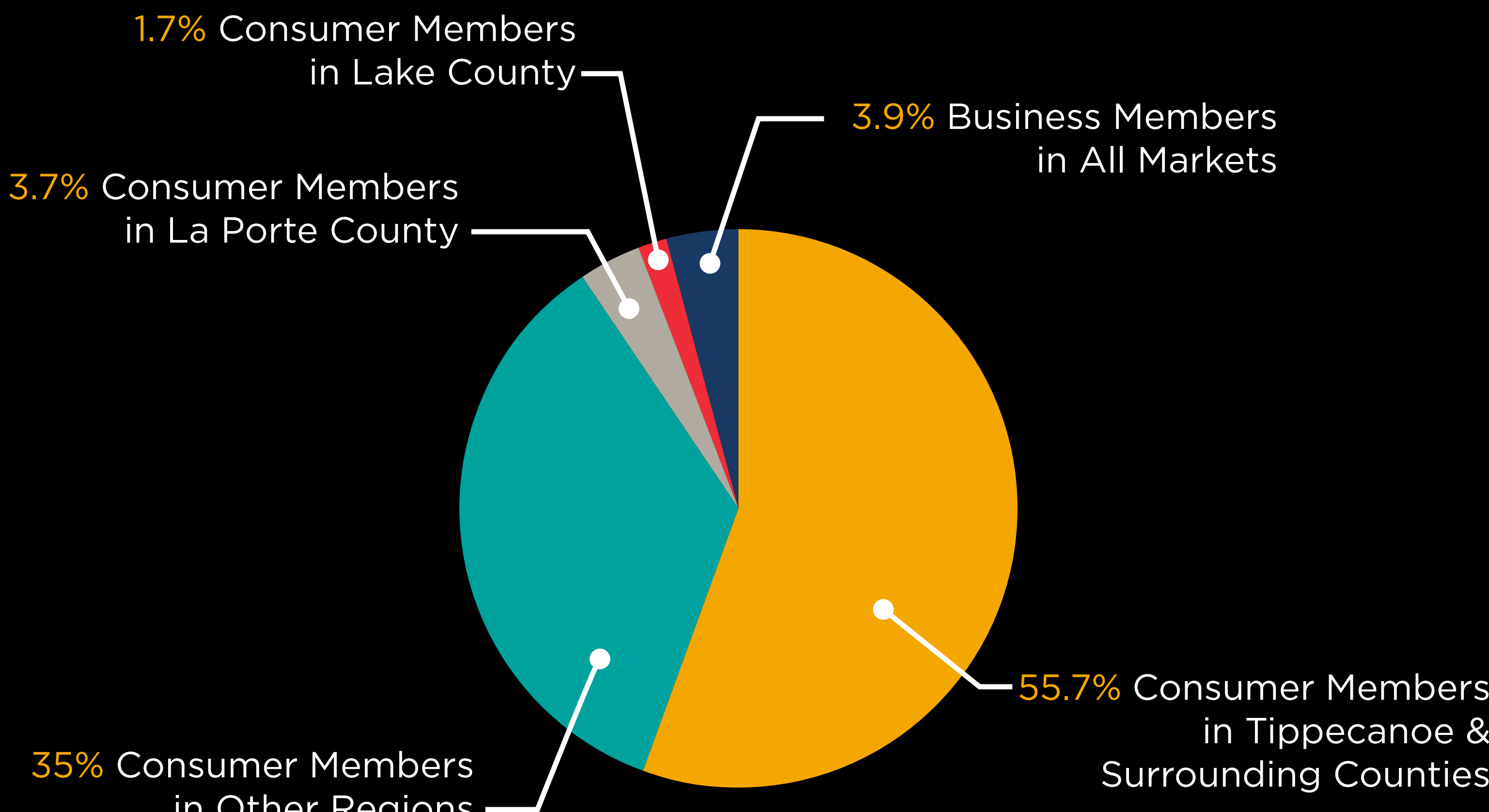
myMEMBERPERKS!

$7,627,265

given back to members during 2022.

Membership SUCCESS

84,770 members as of December 31, 2022.



Committed to our COMMUNITIES

Volunteer Time Off (VTO)
623.5 hours volunteered in 2022

Financial Wellness
Total One-on-One Counseling Sessions: 676
Purdue Federal: 501
Boiler Financial Track: 175

Total Presentation Attendees: 10,528
Purdue Federal: 8,176
Boiler Financial Track: 2,352

Account GROWTH

Home Equities
16.3%

Secured Loans
14.9%

Business Loans
10.7%

First Mortgages
10.7%

Unsecured Loans
8.9%

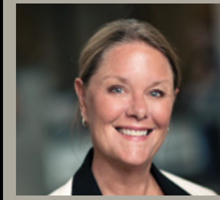
Student Loans
4.1%

BOARD OF DIRECTORS

David Kish
Chair

Cristina Farmus
Vice Chair

Rick Davis
Treasurer



Laura Carson
Secretary

Lucia Anderson
Director
(retired October 2022)

Jená Bellezza
Director

Edgar Cyr
Director

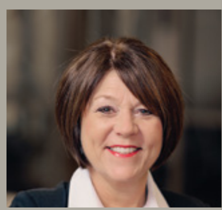
Steven Mogensen
Director

Sundeep S. Rao
Director
(appointed November 2022)

John Schneider
Director

EXECUTIVE LEADERSHIP

Bob Falk
President & CEO



Jackie Hofman
Senior Vice President
Human Resources &
Marketing

Matthew Lerzak
Senior Vice President
Chief Exp Ofc/CIO

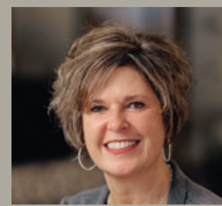
Brian Musser
Senior Vice President
Finance & CFO

Evelyn Royer
Senior Vice President
Operations

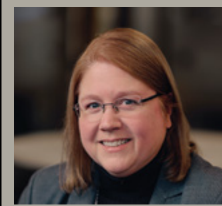
Sam Burns
Vice President
Business Services

Jim Dougherty
Vice President
Retail Sales
& Service
(beginning January 2023)

Laura Feeney
Vice President
Retail Sales
& Service
(retired December 2022)



Nikki Gaylord
Vice President
Lending



Cathleen Wyatt
Vice President
Enterprise Risk
Management &
General Counsel

VOLUNTEER COMMITTEES

Asset & Liability
Rick Davis, Chair
Laura Carson
Steve Mogensen
Jeremy Dewell
Joe Balagtas
Brooke Beier
Charlene Sullivan

Member Business Services
Edgar Cyr, Chair
David Kish
John Schneider

Membership Services
Jackie Hofman, Liaison
Jená Bellezza, Chair
Edgar Cyr
Lucia Anderson
Kindra Rodgers

Supervisory
Chris Martin, Chair
Edgar Cyr
Jillian Henry
Sundeep Rao
Jon Story

PURDUE FEDERAL
CREDIT UNION

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Purdue Federal Credit Union

TREASURER'S REPORT

SUPERVISORY COMMITTEE'S REPORT

INDEPENDENT AUDITOR'S REPORT and CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

PURDUE FEDERAL
CREDIT UNION

Treasurer's Report *on 2022*

Forbes has recognized Purdue Federal Credit Union as the top-ranked credit union in the state of Indiana in 2022. Your credit union remains dedicated to becoming our members' trusted financial partner for life, helping us achieve an increase in total assets of $52 million to $1.8 billion.

Member capital ended 2022 at 10.4%, well above the 7% deemed well-capitalized by the National Credit Union Association (NCUA). Total loans increased by $138 million to $1.4 billion, mainly driven by growth in first mortgage and commercial loans. My Member Perks, Purdue Federal's member giveback program, returned an additional $7.6 million in cooperative benefits throughout the year.

Your Board of Directors and Senior Leadership Team remain committed to making sound financial decisions that are in our membership's best interest and ensuring that Purdue Federal remains your trusted financial partner for life. The credit union is financially sound and well-positioned for a successful year in 2023.

Respectfully submitted on behalf of the Purdue Federal Credit Union Board of Directors.

Rick B. Davis

Rick Davis
Treasurer

Supervisory Committee's Report *on 2022*

The Supervisory Committee is a volunteer group of Purdue Federal members that is appointed annually by the Board of Directors. The purpose of the Supervisory Committee is to ensure the financial condition of the credit union is accurately and fairly presented in the organization's financial statements, and also that the credit union's management practices and procedures are in accordance with federal regulations and are sufficient to safeguard members' assets and sensitive information.

Under the direction of the Supervisory Committee, an annual audit is performed by an independent, outside accounting firm with proven knowledge of credit union regulations and operations. This year that firm is Forvis, LLP (formerly BKD). The committee then works with the board and Purdue Federal's Leadership Team to address any areas of concern raised in the audit.

After completion of this year's external audit, BKD met with the Supervisory Committee on March 30, 2023. The discussion items included a complete review of the financial statements and audit reports. Forvis proposed no audit adjustments, resulting in a clean, unmodified opinion of Purdue Federal's financial statements and did not note any material weaknesses or significant deficiencies relating to internal controls at Purdue Federal. All financial and required letters were reviewed with no major exceptions found. We are pleased that our financial condition and management practices play a role in helping Purdue Federal to be the area's leader in financial services.

The audit opinion from Forvis reflects the good leadership and careful work of the Internal Audit, Finance, and Accounting Departments, as well as the Purdue Federal Credit Union Leadership Team.

The Internal Audit Department staff also report to the Supervisory Committee at regular meetings throughout the year. The basic work performed by the Internal Audit Department consists of internal audits, internal control testing, and coordination of specialized external audits, such as those surrounding information technology and information security. All items are supervised by the Assistant Vice President of Internal Audit and overseen by the Vice President of Enterprise Risk Management.

The Supervisory Committee would like to acknowledge the outstanding support and professionalism exhibited by the credit union staff. We thank the Leadership Team for the exceptional care and high ethical standards shown during this past year. This year was particularly challenging due to the financial core conversion, but in spite of this herculean effort, the comprehensive audit plan was executed efficiently and effectively with exceptional results. In fact, the number of audits completed exceeded the number planned.

I would also like to acknowledge and thank all the volunteers of the Supervisory Committee for offering their time and expertise.

It is a pleasure to serve you, the members.

Christopher J. Martin
Supervisory Committee Chair

Purdue Federal Credit Union

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2022 and 2021

FORVIS

201 N. Illinois Street, Suite 700 / Indianapolis, IN 46204
P 317.383.4000 / **F** 317.383.4200
forvis.com

Independent Auditor's Report

Board of Directors and Supervisory Committee
Purdue Federal Credit Union
West Lafayette, Indiana

Opinion

We have audited the consolidated financial statements of Purdue Federal Credit Union and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in members' 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 Purdue Federal Credit Union and subsidiary as of December 31, 2022 and 2021, 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 Consolidated Financial Statements" section of our report. We are required to be independent of Purdue Federal Credit Union 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

As discussed in Note 14 to the consolidated financial statements, Purdue Federal Credit Union changed its method of accounting for leases in 2022 due to the adoption of ASU 2016-02 – *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated 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 Purdue Federal Credit Union'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 Purdue Federal 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.

FORVIS, LLP

Indianapolis, Indiana
March 30, 2023

Purdue Federal Credit Union

Consolidated Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Cash and due from banks	$ 11,182,832	$ 10,408,848
Interest-bearing demand deposits	56,709,200	72,694,807
Cash and cash equivalents	67,892,032	83,103,655
Interest-bearing time deposits	27,695,000	1,960,000
Available-for-sale securities	235,250,181	246,516,123
Other investments with a readily determinable fair value	4,881,366	79,422,664
Loans held for sale at fair value	8,777,577	35,391,391
Loans, net of allowance for loan losses of $4,765,940 and $4,829,592 at December 31, 2022 and 2021	1,370,962,320	1,232,712,632
Premises and equipment, net	29,867,585	28,615,028
National Credit Union Share Insurance Fund (NCUSIF) deposit	13,099,559	12,441,022
Federal Home Loan Bank stock, at cost	5,400,000	5,400,000
Cash surrender value of life insurance	11,684,537	11,414,271
Interest receivable	4,286,068	2,789,031
Other	33,037,831	21,222,628
Total assets	$ 1,812,834,056	$ 1,760,988,445

Liabilities

	2022	2021
Members' deposits	$ 1,538,547,328	$ 1,532,703,882
Borrowings	70,000,000	45,000,000
Other liabilities	39,428,871	19,204,427
Total liabilities	1,647,976,199	1,596,908,309

Members' Equity

	2022	2021
Regular reserve	-	7,502,640
Undivided earnings	185,939,117	159,778,907
Accumulated other comprehensive loss	(21,081,260)	(3,201,411)
Total members' equity	164,857,857	164,080,136
Total liabilities and members' equity	$ 1,812,834,056	$ 1,760,988,445

Purdue Federal Credit Union

Consolidated Statements of Income

Years Ended December 31, 2022 and 2021

	2022	2021
Interest Income		
Loans	$ 53,046,479	$ 44,814,392
Securities	4,908,174	3,248,154
Interest-earning deposits with other financial institutions	1,352,901	109,546
	59,307,554	48,172,092
Interest Expense		
Members' deposits	4,225,448	3,230,076
Borrowings	1,076,921	763,435
Total interest expense	5,302,369	3,993,511
Net Interest Income	54,005,185	44,178,581
Provision (Credit) for Loan Losses	936,483	(1,569,047)
Net Interest Income After Provision for Loan Losses	53,068,702	45,747,628
Other Income		
Customer service fees	4,590,599	5,022,422
Card transaction interchange	13,793,688	12,812,876
Net gains on loan sales	784,281	2,474,633
Gain on sales of securities (reclassified from accumulated other comprehensive loss)	6,492	18,270
Gain (Loss) on sale/disposal of premises and equipment	4,101	(7,199)
Other income	3,053,108	1,943,924
Total other income	22,232,269	22,264,926
Other Expenses		
Salaries and employee benefits	28,090,376	24,749,693
Net occupancy expense	2,774,433	2,723,925
Office operations and equipment expense	6,678,658	7,603,560
Loan servicing	1,281,190	1,359,122
Credit card loan servicing expense	9,830,602	8,887,194
ATM and debit card expense	3,619,369	3,660,205
Advertising and marketing expense	2,236,470	2,022,022
Other expenses	2,132,303	1,885,681
Total other expenses	56,643,401	52,891,402
Net Income	$ 18,657,570	$ 15,121,152

Purdue Federal Credit Union

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
Net Income	$ 18,657,570	$ 15,121,152
Other Comprehensive Income (Loss)		
Change in fair value of derivative financial instruments	905,273	1,243,949
Unrealized depreciation on available-for-sale securities	(18,778,630)	(4,553,555)
Less: reclassification adjustment for realized gain included in net income	6,492	18,270
	(17,879,849)	(3,327,876)
Comprehensive Income	$ 777,721	$ 11,793,276

Purdue Federal Credit Union

Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2022 and 2021

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2021	$ 7,502,640	$ 144,657,755	$ 126,465	$ 152,286,860
Net income		15,121,152		15,121,152
Other comprehensive loss			(3,327,876)	(3,327,876)
Balance, December 31, 2021	7,502,640	159,778,907	(3,201,411)	164,080,136
Net income		18,657,570		18,657,570
Regular Reserves Reclassification	(7,502,640)	7,502,640		-
Other comprehensive loss			(17,879,849)	(17,879,849)
Balance, December 31, 2022	$ -	$ 185,939,117	$ (21,081,260)	$ 164,857,857

Purdue Federal Credit Union

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Net income	$ 18,657,570	$ 15,121,152
Items not requiring (providing) cash		
Depreciation and amortization	2,795,875	2,975,983
Provision (credit) for loan losses	936,483	(1,569,047)
Accretion and amortization	723,153	1,365,717
Gain on sale of available-for-sale securities	(6,492)	(18,270)
Loss (gain) on other investments with a readily determinable fair value	1,412,467	1,061,508
(Gain) on sale of limited liability company	(1,378,243)	-
Loss (gain) on the sale/disposal of premises and equipment	(4,101)	7,199
Changes in		
Interest receivable	(1,497,037)	(66,560)
Loans held for sale	26,613,814	13,323,363
Other assets	(13,179,488)	1,535,007
Other liabilities	21,129,717	2,192,606
Net cash provided by operating activities	56,203,718	35,928,658
Investing Activities		
Proceeds from maturities of available-for-sale securities	56,960,883	59,191,422
Proceeds from sales of available-for-sale securities	612,333	792,466
Net change in interest-bearing time deposits	(25,735,000)	2,205,000
Net change in loans	(139,186,171)	(128,379,704)
Purchase of available-for-sale securities	(65,809,057)	(75,879,545)
Sale (Purchase) of other investments with a readily determinable fair value	73,128,831	(36,863,718)
Purchase of premises and equipment	(4,044,331)	(4,309,522)
Net change on NCUSIF deposit	(658,537)	(1,315,533)
Proceeds from sale of limited liability company	2,472,262	-
Investment in limited liability company	-	(94,019)
Net cash used in investing activities	(102,258,787)	(184,653,153)
Financing Activities		
Net change in members' deposits	5,843,446	163,224,608
Proceeds from borrowings	51,701,175	26,705,618
Repayment of borrowings	(26,701,175)	(26,705,618)
Net cash provided by financing activities	30,843,446	163,224,608
Increase (Decrease) in Cash and Cash Equivalents	(15,211,623)	14,500,113
Cash and Cash Equivalents, Beginning of Year	83,103,655	68,603,542
Cash and Cash Equivalents, End of Year	$ 67,892,032	$ 83,103,655
Supplemental Cash Flows Information		
Interest paid	$ 5,252,904	$ 3,902,940

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Purdue Federal Credit Union and its wholly owned credit union service organization, CU Channels, LLC (CUSO). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

Purdue Federal Credit Union (Credit Union) is a federally chartered credit union with locations in Tippecanoe, LaPorte, and Lake Counties in Indiana. The Credit Union offers a broad range of consumer and commercial financial services to its members. The Credit Union's primary services include accepting members' deposits and making loans. The Credit Union grants loans primarily to members who are individuals (including family members) students, faculty, staff and communities where Purdue University and its regional campuses operate. The majority of its loans are collateralized by specific items, including consumer and commercial assets, residential and commercial real estate and member deposit balances. Additional services include financial planning, investment, trust and insurance services to Credit Union members through LPL Financial, a registered investment advisor and broker-dealer.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported and disclosed in the consolidated financial statements, and future results could differ from those estimates. A significant area involving the use of management's estimates and assumptions is the allowance for loan losses.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, loan servicing rights and derivative asset.

Cash and Cash Equivalents

The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2022, the Credit Union's cash accounts exceeded the insured limits by approximately $52,994,787. This amount represents uninsured funds held with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis, which are not federally insured.

Interest-Bearing Time Deposits

The fair value of interest-bearing time deposits approximates cost.

Available-for-Sale Securities

Available-for-sale securities, which include any federal agencies, mortgage-backed securities and corporate bonds for which the Credit Union has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded in other comprehensive income (loss).

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses).

Other Investments With a Readily Determinable Market Value

Equity securities and mutual funds, which are traded in active markets, are measured at fair value with changes recognized in net income. Gains and losses on sales of securities are determined on the specific-identification method.

Federal Home Loan Bank (FHLB) Stock

FHLB stock is a required investment based upon predetermined formulas and is carried at cost. The FHLB stock may only be sold to the FHLB at par value.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market under mandatory pricing agreements are carried at fair value to facilitate hedging of the loans. Gains and losses resulting from changes in fair value are included in other income. Loans sold in the secondary market are sold with the servicing of the loans being retained.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage, commercial and consumer loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Credit Union's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Premises and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Leasehold improvements are amortized over the shorter of the estimated useful lives of the related assets or the lease term.

Long-Lived Asset Impairment

The Credit Union evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Mortgage-Servicing Rights

Mortgage-servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

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. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage-servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant 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 carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with net gains on loan sales on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

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 netted against loan servicing fee income.

Investment in Limited Liability Company

In 2020 the Credit Union has entered into a subscription agreement to purchase units in a limited liability company. The investment in the limited liability company is recorded using the equity method of accounting. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount. This investment is included in other on the consolidated balance sheets. In 2022 this investment was sold and the recorded value eliminated from the financials.

NCUSIF Deposit

The National Credit Union Share Insurance Fund (NCUSIF) is required by National Credit Union Association (NCUA) regulations in an amount equal to one percent of the Credit Union's insured shares. The noninterest-earning deposit is intended to provide insurance coverage on members' deposits.

NCUA Insurance Premiums

A credit union may be required to pay an annual insurance premium to the NCUSIF equal to one-twelfth of one percent of its total insured shares. There were no premiums assessed for 2022 or 2021.

The fund was created by Congress in 1970 to insure member deposits in credit unions and currently insures member deposits up to $250,000. Administered by NCUA, the NCUSIF is backed by the "full faith and credit" of the U.S. Government. 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.

Members' Deposits

Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposits is based on available earnings and is not guaranteed by the Credit Union. Interest rates on members' deposits are set by the board of directors, based on an evaluation of a number of factors, including market conditions.

Members' Equity

The updated Risk Based Capital regulations adopted by the NCUA allowed for the consolidation of Regular Reserves into Undivided Earnings. This reclassification is reflected on the consolidated balance sheets and statement of changes in members' equity.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive loss includes unrealized gains and losses on securities available for sale and change in derivative financial instruments that qualify for hedge accounting, which is recognized as a separate component of members' equity.

Advertising Expenses

Advertising expenses are expensed as incurred.

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes.

Revenue Recognition

A description of the Credit Union's revenue streams accounted for under Topic 606 are as follows:

Customer Service Fees. The Credit Union generates revenues through fees charged to members related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time.

Card Transaction Interchange. The Credit Union earns interchange fees from card transaction interchange conducted through credit card payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Derivative Instruments

Derivative instruments can be designated as fair value hedges or cash flow hedges. The Credit Union uses interest rate swaps to hedge risk associated with interest rate volatility, either as hedges of the change in value of certain fixed-rate assets or as hedges of the variability in cash flows related to floating-rate interest payments. Changes in the fair value of fair value hedges are recorded in the same consolidated statements of income line item as the related hedged item. Changes in fair value of cash flow hedges are reported as a component of AOCI and are reclassified into earnings in the same period – and same income statement line as the hedged item – when the hedged transaction affects earnings.

At the inception of a qualifying hedge accounting relationship, the Credit Union designates each qualifying hedge relationship as a hedge of the fair value of a specifically identified asset or liability (fair value hedge), or as a hedge of the variability of cash flows to be received or paid, related to a recognized or forecasted asset or liability (cash flow hedge). The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives for undertaking such hedge transactions. Both at hedge inception and on an ongoing basis, the Credit Union formally assesses whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative instruments qualifying as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in current period earnings. For qualifying cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (loss), and recognized in the income statement when the hedged cash flows affect earnings. Hedge accounting treatment is no longer applied if a derivative financial instrument is terminated, the hedge designation is removed, or the derivative instrument is assessed to be no longer highly effective. For terminated fair value hedges, any changes to the hedged asset or liability remain as part of the basis of the hedged asset or liability and are recognized into income over the remaining life of the hedged item. For terminated cash flow hedges, unless the forecasted cash flows are probable not to occur within a specified period, any changes in fair value of the derivative financial instrument previously recognized remain in accumulated other comprehensive income (loss), and are reclassified into earnings in the same period that the hedged cash flows affect earnings. In all instances, after hedge accounting is no longer applied, any subsequent changes in fair value of the derivative instrument will be recorded into earnings. Changes in the fair value of derivative financial instruments held for risk management purposes that are not designated as accounting hedges under GAAP are reported in current period earnings.

Note 2: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities				
(GSE) residential	$ 218,351,551	$ 879	$ (16,181,763)	$ 202,170,667
Private CMO	$ 5,587,566	-	(778,188)	4,809,378
Corporate bonds	$ 29,368,638	77,556	(1,176,057)	28,270,137
Total investment securities	$ 253,307,755	$ 78,435	$ (18,136,008)	$ 235,250,182

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities				
(GSE) residential	$ 209,573,779	$ 1,859,297	$ (1,291,678)	$ 210,141,397
Private CMO	4,416,956	12,462	(34,977)	4,394,441
Corporate bonds	31,797,840	315,046	(132,601)	31,980,285
Total investment securities	$ 245,788,574	$ 2,186,804	$ (1,459,256)	$ 246,516,123

The amortized cost and fair value of available-for-sale securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$ 4,375,084	$ 4,358,813
One to five years	$ 22,436,978	$ 21,425,201
Five to ten years	$ 2,556,575	$ 2,486,122
	$ 29,368,638	$ 28,270,137
Mortgage-backed securities		
Government-sponsored entities (GSE) residential	218,351,551	$ 202,170,667
Private CMO	5,587,566	$ 4,809,378
Totals	$ 253,307,755	$ 235,250,182

Gross gains of approximately $7,137 resulting from sales of available-for-sale securities were realized for 2022. Gross gains of approximately $22,968 resulting from sales of available-for-sale securities were realized for 2021. Gross losses of approximately $645 resulting from sales of available-for-sale securities were recognized for 2022. Gross losses of approximately $4,698 resulting from sales of available-for-sale securities were recognized for 2021.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2022 and 2021 was approximately $228,260,000 and $107,107,000, which is 97% and 43%, respectively, of the Credit Union's available-for-sale investment portfolio. These declines in fair values primarily resulted from changes in market interest rates.

The unrealized losses on the Credit Union's available-for-sale investments were caused by changes in interest rates and illiquidity. The Credit Union expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not a credit quality, and because the Credit Union does not intend to sell the investments and it is not more likely than not the Credit Union will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Credit Union's investments' gross unrealized losses and fair value of the Credit Union's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021:

	2022					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 153,913,465	$ (9,603,119)	$ 47,692,043	$(6,578,644)	$ 201,605,509	$(16,181,763)
Private CMO	2,519,526	(287,951)	2,289,852	(490,237)	4,809,378	(778,188)
Corporate bonds	9,196,586	(202,945)	12,648,973	(973,113)	21,845,559	(1,176,057)
Total	$ 165,629,577	$(10,094,015)	$ 62,630,869	$(8,041,994)	$ 228,260,446	$(18,136,008)

	2021					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 93,675,185	$ (1,290,538)	$ 366,589	$ (1,140)	$ 94,041,774	$ (1,291,678)
Private CMO	2,520,334	(27,293)	310,359	(7,683)	2,830,693	(34,977)
Corporate bonds	10,234,134	(132,601)	-	-	10,234,134	(132,601)
Total	$ 106,429,653	$ (1,450,433)	$ 676,948	$ (8,823)	$ 107,106,601	$ (1,459,256)

The unrealized losses on corporate bonds, private CMOs, and mortgage-backed securities at December 31, 2022 and 2021 were primarily due to changes in interest rates and illiquidity. The Credit Union expects to recover the amortized cost basis of these securities over the terms of the securities. Because the Credit Union does not intend to sell the investments, and it is not likely the Credit Union will be required to sell the investments before recovery of their amortized cost basis prior to maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

Other Investments with a Readily Determinable Market Value

Other investments with a readily determinable fair value are carried at fair value, which include mutual funds and equity securities with changes in fair value recognized in other income in the consolidated statements of income.

The amortized cost and estimated fair value of other investments with a readily determinable fair value at December 31 are summarized as follows:

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Bond mutual funds	$ 3,083	$ 3,010	$ 75,338,257	$ 75,151,700
Equity securities	$ 4,465,979	$ 4,878,356	2,951,991	4,270,964
Other investments with a readily determinable market value	$ 4,469,062	$ 4,881,366	$ 78,290,248	$ 79,422,664

Certain information concerning changes in fair value of investments with a readily determinable fair value for the years ended December 31 was as follows:

	2022	2021
Net unrealized gains (losses) recognized	$ (1,412,467)	$ 617,478

Note 3: Loans

Portfolio segments of loans at December 31 include:

	2022	2021
Consumer - secured	$ 89,548,206	$ 77,966,808
Consumer - unsecured	92,460,874	84,911,673
Residential - first mortgage	707,069,651	638,679,701
Residential - home equity	76,644,980	65,922,517
Commercial	408,376,043	368,787,983
Subtotal	1,374,099,754	1,236,268,682
Net deferred loan origination costs	1,628,506	1,273,542
Allowance for loan losses	(4,765,940)	(4,829,592)
	$ 1,370,962,320	$ 1,232,712,632

At December 31, 2022 and 2021, rental housing approximated 36% and 35% of the commercial loan portfolio, respectively.

In the normal course of business, the Credit Union makes loans to directors, supervisory committee members, other committee members and executive officers (related parties). The aggregate dollar of these loans amounted to approximately $3,483,000 and $2,935,000 at December 31, 2022 and 2021, respectively.

The risk characteristics of each loan portfolio segment are as follows:

Consumer Secured, Consumer Unsecured, Residential First Mortgage, Residential Home Equity

Consumer and residential loans consist of four segments - consumer secured, consumer unsecured, residential first mortgage and residential home equity loans. Consumer secured loans are secured by personal assets, such as automobiles or recreational vehicles. Consumer unsecured loans are primarily made up of outstanding VISA credit card balances. For residential first mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Credit Union generally establishes a maximum loan-to-value ratio of 80% and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family primary residences. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial

The Credit Union's commercial loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Credit Union's commercial real estate portfolio are diverse. However, most properties are located within the Credit Union's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria.

The following presents, by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2022 and 2021:

	2022					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Beginning Balance	$ 260,333	$ 1,487,964	$ 240,238	$ 24,122	$ 2,816,935	$ 4,829,592
Provision (Credit) for loan losses	$ 155,527	$ 810,817	$ 137,392	$ 23,430	$ (190,682)	936,483
Loans charged off	(250,859)	$ (1,228,999)	(65,158)	-	(10,649)	(1,555,665)
Recoveries	89,027	441,346	18,882	-	6,275	555,530
Ending Balance	$ 254,027	$ 1,511,128	$ 331,354	$ 47,551	$ 2,621,880	$ 4,765,940

	2021					
	Consumer Secured	**Consumer Unsecured**	**Residential First Mortgage**	**Residential Home Equity**	**Commercial**	**Total**
Beginning Balance	$ 542,145	$ 1,937,097	$ 572,670	$ 326,750	$ 3,546,826	$ 6,925,488
Credit for loan losses	(200,846)	(11,239)	(332,432)	(300,619)	(723,911)	(1,569,047)
Loans charged off	(163,081)	(975,705)	-	(11,029)	(10,873)	(1,160,688)
Recoveries	82,115	537,811	-	9,020	4,894	633,840
Ending Balance	$ 260,333	$ 1,487,964	$ 240,238	$ 24,122	$ 2,816,935	$ 4,829,592

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2022 and 2021:

	2022					
	Consumer Secured	**Consumer Unsecured**	**Residential First Mortgage**	**Residential Home Equity**	**Commercial**	**Total**
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ 3,308	$ -	$ -	$ 3,308
Collectively evaluated for impairment	254,027	1,511,128	328,046	47,551	2,621,880	4,762,633
Total allowance for loan losses	$ 254,027	$ 1,511,128	$ 331,354	$ 47,551	$ 2,621,880	$ 4,765,940
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 243,637	$ -	$ -	$ 243,637
Collectively evaluated for impairment	89,548,206	92,460,874	706,826,014	76,644,980	408,376,043	1,373,856,117
Total loan balances	$89,548,206	$92,460,874	$ 707,069,651	$ 76,644,980	$ 408,376,043	$ 1,374,099,754

	2021					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ 59,530	$ -	$ -	$ 59,530
Collectively evaluated for impairment	260,333	1,487,964	180,708	24,122	2,816,935	4,770,062
Total allowance for loan losses	$ 260,333	$ 1,487,964	$ 240,238	$ 24,122	$ 2,816,935	$ 4,829,592
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 297,462	$ -	$ -	$ 297,462
Collectively evaluated for impairment	77,966,808	84,911,673	638,382,239	65,922,517	368,787,983	1,235,971,220
Total loan balances	$77,966,808	$84,911,673	$ 638,679,701	$ 65,922,517	$ 368,787,983	$ 1,236,268,682

Management's general practice is to proactively classify loans individually evaluated for impairment to the fair value on the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. Generally, charge-offs occur within six months or when collateral is obtained, whichever is later. The Credit Union's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

Management grades all loans except commercial loans as performing or nonperforming. Nonperforming are defined as those loans that are more than 90 days past due and nonaccruing.

The following tables present the credit risk profile of the Credit Union's consumer and residential loan portfolio based on rating category and payment activity as of December 31, 2022 and 2021:

	2022					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Grade:						
Performing	$ 89,378,294	$ 91,799,037	$ 707,069,651	$ 76,576,658	$ 408,368,450	$ 1,373,192,090
Nonperforming	169,912	661,837	-	68,322	7,593	907,664
Total	$ 89,548,206	$ 92,460,874	$ 707,069,651	$ 76,644,980	$ 408,376,043	$ 1,374,099,754

	2021					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Grade:						
Performing	$ 77,874,815	$ 84,477,340	$ 638,215,421	$ 65,773,492	$ 368,787,983	$ 1,235,129,051
Nonperforming	91,993	434,333	464,280	149,025	-	1,139,631
Total	$ 77,966,808	$ 84,911,673	$ 638,679,701	$ 65,922,517	$ 368,787,983	$ 1,236,268,682

For commercial loans, the Credit Union promptly classifies loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations.

Internal Risk Categories

Commercial loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grades of 5-6, or Substandard, 7, or Doubtful, and 8, or Loss, refer to assets that are classified. The use and application of these grades by the Credit Union will be uniform and shall conform to the Credit Union's policy.

Pass (1-4) loans are of reasonable credit strength and repayment ability providing an acceptable credit risk due to one or more underlying weaknesses.

Special Mention (5) loans that do not currently exhibit a sufficient degree of risk to warrant adverse classification, but do possess credit deficiencies deserving close attention by management. These credits are considered criticized.

Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (7) loans have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The majority of loans upgraded from Special Mention in 2021 to Pass in 2022 are hotel and lodging loans that were negatively impacted by the COVID-19 pandemic.

The following table presents the credit risk profile of the Credit Union's commercial loan portfolio based on internal rating category and payment activity as of December 31, 2022 and 2021:

	Commercial 2022	Commercial 2021
Grade:		
Pass (1-4)	$ 401,675,576	$ 356,464,806
Special Mention (5)	6,700,467	12,323,177
Substandard (6)	-	-
Doubtful (7)	-	-
Loss (8)	-	-
Total	$ 408,376,043	$ 368,787,983

The following tables present the Credit Union's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2022 and 2021:

2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 507,147	$ 103,890	$ 169,912	780,949	$ 88,767,257	$ 89,548,206
Consumer - unsecured	$ 733,412	$ 300,843	$ 661,837	1,696,091	90,764,783	92,460,874
Residential - first mortgage	$ 1,734,663	$ 110,768	$ -	1,845,431	705,224,220	707,069,651
Residential - home equity	$ 606,651	$ 41,490	$ 68,322	716,463	75,928,517	76,644,980
Commercial	$ 2,354	$ 5,035	$ 7,593	14,982	408,361,061	408,376,043
Total loans	$ 3,584,227	$ 562,025	$ 907,663	$5,053,916	$ 1,369,045,838	$ 1,374,099,754

2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 337,074	$ 55,168	$ 91,993	$ 484,235	$ 77,482,573	$ 77,966,808
Consumer - unsecured	673,928	185,021	434,333	1,293,283	83,618,390	84,911,673
Residential - first mortgage	1,354,299	217,631	464,280	2,036,210	636,643,491	638,679,701
Residential - home equity	78,517	164,106	149,025	391,647	65,530,870	65,922,517
Commercial	-	-	13,320	13,320	368,774,663	368,787,983
Total loans	$ 2,443,818	$ 621,926	$1,152,951	$4,218,695	$ 1,232,049,987	$ 1,236,268,682

All loans greater than 90 days past due are nonaccrual loans. There were no accruing loans delinquent 90 days or more at December 31, 2022 and 2021.

The following tables present impaired loans for the years ended December 31, 2022 and 2021:

2022

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Residential - first mortgage	$ 243,637	$ 243,637	$ 3,308	$ 244,931	$ 3,760
Total impaired loans with no related specific reserve	$ 243,637	$ 243,637	$ 3,308	$ 244,931	$ 3,760
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ -	$ -	$ -	$ 159,247	$ -
Total impaired loans with an allowance recorded	$ -	$ -	$ -	$ 159,247	$ -
Total impaired loans	$ 243,637	$ 243,637	$ 3,308	$ 404,178	$ 3,760

2021

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Residential - first mortgage	$ 98,403	$ 98,403	$ 2,170	$ 99,702	$ 4,189
Total impaired loans with no related specific reserve	$ 98,403	$ 98,403	$ 2,170	$ 99,702	$ 4,189
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ 199,059	$ 199,059	$ 57,359	$ 199,059	$ 706
Total impaired loans with an allowance recorded	$ 199,059	$ 199,059	$ 57,359	$ 199,059	$ 706
Total impaired loans	$ 297,462	$ 297,462	$ 59,530	$ 298,762	$ 4,895

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Credit Union requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in any loan classification, the Credit Union records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the negotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with renegotiated terms for a period of at least six months.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to optimize collectability of the loan. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Credit Union do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Credit Union may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

It is the Credit Union's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Credit Union reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

There was one newly classified troubled debt restructuring with a loan amount of approximately $148,000 in 2022 that received a payment modification. There were no newly added troubled debt restructures in 2021.

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

Impact of COVID-19 on the Credit Union

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose, which can ultimately affect the financial position, results of operations and cash flows of the Credit Union, as well as the Credit Union's customers. In response to economic concerns over COVID-19, in March 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The *2021 Consolidated Appropriations Act,* passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Credit Union into 2021.

The CARES Act included several provisions designed to help financial institutions like the Credit Union in working with their members. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Credit Union has taken advantage of this provision to extend certain payment modifications to loan customers in need. The Credit Union had 57 loans for $12,435,000 that were modified under the CARES Act guidance as of December 31, 2021. These loans do not qualify for TDR reporting through the CARES Act guidance. With the expiration of the CARES Act on January 1, 2022, the Credit Union reinstated our regular collections and accounting processes for TDRs. The loans that had previously been reported as modified under CARES Act guidance are either current, delinquent, or charged-off. There are $0 Cares Act loans as of December 31, 2022.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The *2021 Consolidated Appropriations Act* approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Credit Union, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Credit Union if the borrower's loan is not forgiven and is then not repaid by the customer. The Credit Union earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Credit Union originated approximately $0 and $6,950,000 in PPP loans during 2022 and 2021, respectively. The Credit Union recognized $123,000 and $475,000 in PPP loan origination income in 2022 and 2021, respectively. The Credit Union had $72,000 and $1,962,000 still outstanding in PPP loans as of December 31, 2022 and December 31, 2021, respectively.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2022	2021
Land	$ 2,883,568	$ 2,883,568
Buildings	22,609,335	20,790,279
Furniture, fixtures and equipment	20,888,562	19,390,624
Fixed Assets in process	5,213,497	4,795,193
Leasehold improvements	2,385,586	2,375,322
	53,980,548	50,234,985
Less accumulated depreciation	(24,112,963)	(21,619,957)
	$ 29,867,585	$ 28,615,028

Depreciation expense was $2,795,875 and $2,975,983 in 2022 and 2021, respectively.

Note 5: Mortgage-Servicing Rights

Mortgage loans sold and serviced for Purdue Federal Credit Union members are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced was approximately $446,240,573 and $446,635,147 at December 31, 2021 and 2020, respectively.

Custodial escrow balances maintained in connection with the loan servicing, and included in demand deposits, were approximately $2,903,633 and $2,871,364 at December 31, 2022 and 2021, respectively.

Activity in the balance of mortgage-servicing rights was as follows:

	2022	2021
Amortized cost		
Balance beginning of year	$ 1,438,564	$ 1,432,025
Additions	453,511	792,156
Amortization	(644,827)	(785,617)
Balance end of year	$ 1,247,248	$ 1,438,564
Fair value disclosures		
Fair value as of the beginning of the period	$ 3,165,750	$ 2,938,700
Fair value as of the end of the period	5,196,471	3,165,750

Note 6: Members' Deposits

	2022	2021
Checking	$ 461,121,746	$ 461,978,029
Regular and IRA savings accounts	$ 550,428,669	534,189,007
Money market accounts	$ 379,605,797	393,773,656
Share and IRA certificate accounts	$ 147,391,116	142,763,190
	$ 1,538,547,328	$ 1,532,703,882

Individual share certificates of $250,000 or more were approximately $37,425,954 and $46,884,143 at December 31, 2022 and 2021, respectively.

At December 31, 2022, scheduled maturities of certificates for the next five years were as follows:

2023	87,328,730
2024	39,329,452
2025	14,626,334
2026	4,743,557
2027	1,363,043
	$ 147,391,116

Deposits from related parties held by the Credit Union at December 31, 2022 and 2021 totaled $3,532,000 and $5,556,000, respectively.

Note 7: Borrowings

The Federal Home Loan Bank advances are secured by mortgage loans totaling $70,000,000 and $45,000,000 at December 31, 2022 and 2021, respectively. Advances, at interest rates from 1.64 to 4.19 percent and maturity dates ranging from 2023 to 2025, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities at December 31, 2022 are:

2023	$ 40,000,000
2024	15,000,000
2025	15,000,000
2026	-
2027	-
	$ 70,000,000

The Credit Union has a $300,000,000 Board-approved advance borrowing agreement with the Federal Home Loan Bank, of which $25,000,000 is available as an overnight line of credit. The overnight line of credit agreement was renewed in August 2021. At December 31, 2022 and 2021, the Credit Union has approximately $661,473,934 and $592,404,459, respectively, of mortgage loans pledged to FHLB. Additionally, the Credit Union has available a $264,033,665 and $199,554,257 line of credit from the Federal Reserve Bank with no maturity date and $461,745,195 and $381,112,040 in loans pledged as collateral to the Federal Reserve Bank at December 31, 2022 and 2021, respectively. There were no borrowings on these lines of credit at December 31, 2022 and 2021.

Note 8: Derivative Financial Instruments

The Credit Union uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Credit Union enters into forward contracts for the future delivery of mortgage loans to third-party investors and enters into interest rate lock commitments (IRLC) with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Credit Union's commitment to fund the loans.

Derivatives Not Designated as Hedging Instruments

These items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in net gain on loan sales on the consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other on the consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities on the consolidated balance sheets.

Cash is pledged as collateral to counterparties that the derivatives have been executed with to mitigate unsecured financial transactions. The amount pledged to counterparties totaled $44,816 and $0 as of December 31, 2022 and 2021, respectively. The amount pledged from counterparties totaled $90,000 and $90,000 as of December 31, 2022 and 2021, respectively

The notional amount and fair value of IRLCs and forward contracts utilized by the Credit Union were as follows for the years ended December 31, 2022 and 2021:

	2022				
	Balance Sheet Location		Fair Value		Notional Amount
Asset Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other assets	$	5,157	$	709,800
TBA Forward Contract	Other assets	$	47,867	$	-
Liability Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other liabilities	$	1,103	$	240,000
TBA Forward Contract	Other liabilities	$	-	$	6,200,000

	2021				
	Balance Sheet Location		Fair Value		Notional Amount
Asset Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other assets	$	205,296	$	10,414,177
Liability Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other liabilities	$	1,926	$	746,600
TBA Forward Contract	Other liabilities	$	88,941	$	39,900,000

Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Credit Union entered into the IRLC and the balance sheet date. Periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the years ended December 31, 2022 and 2021 were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized		Amount of Gain (Loss) Recognized in Income 2022
Interest rate lock commitments	Net gain on loan sales	$	(199,315)
Forward contracts	Net gain on loan sales		3,277,625

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized		Amount of Gain (Loss) Recognized in Income 2021
Interest rate lock commitments	Net gain on loan sales	$	(720,872)
Forward contracts	Net gain on loan sales		124,480

Derivatives Designated as Hedging Instruments

As a strategy to maintain acceptable levels of exposure to the risk due to interest rate fluctuations, the Credit Union has entered into various interest rate swap agreements for portions of its loans and deposit accounts to its members. The agreements provide for the Credit Union to receive interest from the counterparty at the monthly weighted-average of the daily FedFunds index and to pay interest to the counterparty at a fixed rate. Under the agreement, the Credit Union pays or receives the net interest amount monthly, with the monthly settlements included within interest income for loans (Fair Value Hedge) and interest expense for deposits (Cash Flow Hedge).

Cash is pledged as collateral to counterparties that the derivatives have been executed with to mitigate unsecured financial transactions. The amount pledged to counterparties totaled $0 and $2,360,000 as of December 31, 2022 and 2021, respectively. The amount pledged from counterparties totaled $13,380,000 and $910,000 as of December 31, 2022 and 2021, respectively

The following table presents amounts that were recorded in the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2022 and 2021.

	Carrying Amount of Hedged Assets/(Liabilities)		Value Hedging Adjustment Included in the Carrying Amount of Hedged Assets/(Liabilities)	
Line Item in the Consolidated Balance Sheet in Which the Hedged Item is Included	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Loans	$ 225,737,813	$ 268,212,981	$ (16,159,736)	$ (2,403,510)

These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship.

The following tables present a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables and member deposits used in the Credit Union's asset/liability management activities at December 31, 2022 and 2021, identified by the underlying interest rate-sensitive instruments.

December 31, 2022

Instruments Associated With	Notional Value	Weighted-Average Remaining Maturity Years	Fair Value	Weighted-Average Rate Receive	Weighted-Average Rate Pay
Loans	$ 120,000,000	5.5	$ 13,399,007	1.82%	1.38%

December 31, 2021

Instruments Associated With	Notional Notional Value	Weighted-Average Remaining Maturity Years	Fair Value	Weighted-Average Rate Receive	Weighted-Average Rate Pay
Loans	$ 150,000,000	5	$ (1,423,950)	0.09%	1.43%

The fair values of interest rate swaps were estimated using a discounted cash flow method that incorporates current market interest rates as of consolidated balance sheet dates. Fair values of IRLCs and forward contracts were estimated using changes in mortgage interest rates from the date the Credit Union entered into the IRLC and the consolidated balance sheet date.

	2022			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 13,399,007	Other liabilities	$ -

	2021			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 865,598	Other liabilities	$ (2,289,548)

There were no gains or losses recognized on cash flow hedges for the years ended December 31, 2022 and 2021. The following table presents the effects of the Credit Union's interest rate swap agreements designated as hedging instruments on the consolidated statements of income during the years ended December 31, 2022 and 2021.

Line Item in Consolidated Statements of Income	Year Ended December 31, 2022	2021
Interest Income (Expense)		
Loans	$ 254,112	$ (1,576,640)

Note 9: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive income (loss), included in members' equity, are as follows:

	2022	2021
Net unrealized gain (loss) on available-for-sale securities	$ (18,057,573)	$ 727,549
Net unrealized loss on derivatives used for cash flow hedges	$ (3,023,687)	(3,928,960)
	$ (21,081,260)	$ (3,201,411)

Note 10: Retirement Plan

The Credit Union maintains a defined-contribution pension plan (401(k) Plan and Trust) covering substantially all employees who meet certain age and service requirements. The Credit Union's contribution and expense for the pension plan is a discretionary amount approved by the Board of Directors. The 2022 and 2021 contribution was 8% (reduced by forfeitures) of annual wages for eligible employees and was approximately $1,360,000 and $1,306,000 in 2022 and 2021, respectively.

The Credit Union participates in a Split Dollar Supplemental Retirement Plan (Retirement Plan) covering a key executive of the Credit Union's management team. The Retirement Plan provided a collateralized loan to the executive which funded a split dollar life insurance policy and an annuity contract. The loan is collateralized by the insurance policy and annuity contract and is due upon death of the executive or upon termination with cause (as defined in the agreement) of employment. The Credit Union initially funded $5,866,604 into the plan in 2015.

The receivable related to the Retirement Plan totaled $6,928,600 and $6,786,757 as of December 31, 2022 and 2021. This amount is included in other assets on the consolidated balance sheets.

Note 11: Disclosures about Fair Value of Assets

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 at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities, Equity Securities and Mutual Funds

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics. The fair value measurements consider observable data, which may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions. Pricing models typically include a technique known as matrix pricing, which is a mathematical technique used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but, rather, relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include mortgage-backed securities and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. No securities are classified within Level 3. The Credit Union obtains all fair value measurements from an independent pricing service.

Loans Held-for-Sale (Mandatory Pricing Agreements)

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Forward Contracts

The fair values of forward contracts on to-be-announced (TBA) securities are determined using quoted prices in active markets, or benchmarked thereto (Level 1).

Interest Rate Lock Commitments

The fair value of interest rate lock commitments (IRLCs) are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant's option due to the passage of time and the remaining origination costs to be incurred based on management's estimate of market costs (Level 3).

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

		2022 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored				
entities residential	$ 202,170,667	$ -	$ 202,170,667	$ -
Private CMO	4,809,378	-	4,809,378	-
Corporate bonds	28,270,137	-	28,270,137	-
Other investments with a readily determinable				
fair value	4,881,366	4,881,366	-	-
Loans held-for-sale				
(mandatory pricing agreements)	8,777,577	8,777,577	-	-
TBA Forward Contract - asset	47,867	47,867	-	-
Interest rate lock commitments - asset	5,157	-	-	5,157
Interest rate lock commitments - liability	(1,103)	-	-	(1,103)
Interest rate swap agreements - asset	13,399,007	-	13,399,007	-

	2021			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored				
entities residential	$ 210,141,397	$ -	$ 210,141,397	$ -
Private CMO	4,394,441	-	4,394,441	-
Corporate bonds	31,980,285	-	31,980,285	-
Other investments with a readily determinable				
fair value	79,422,664	79,422,664	-	-
Loans held-for-sale				
(mandatory pricing agreements)	35,391,391	35,391,391	-	-
TBA Forward Contract - liability	(88,941)	(88,941)		
Interest rate lock commitments - asset	205,296	-	-	205,296
Interest rate lock commitments - liability	(1,926)	-	-	(1,926)
Interest rate swap agreements - asset	865,598	-	865,598	-
Interest rate swap agreements - liability	(2,289,548)	-	(2,289,548)	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Interest Rate Lock Commitments
Balance as of January 1, 2021	$ 924,241
Total realized gains (loss), net	
Included in net income	(720,872)
Balance as of December 31, 2021	203,369
Total realized gains (loss), net	
Included in net income	(199,315)
Balance, December 31, 2022	$ 4,054

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range
IRLCs - Asset	$ 5,157	Discounted cash flow	Loan closing rates	90% - 98%
IRLCs - Liability	$ 1,103	Discounted cash flow	Loan closing rates	90% - 98%

	Fair Value at December 31, 2021	Valuation Technique	Unobservable Inputs	Range
IRLCs - Asset	$ 205,296	Discounted cash flow	Loan closing rates	90% - 98%
IRLCs - Liability	$ 1,926	Discounted cash flow	Loan closing rates	90% - 98%

Note 12: The Fair Value Option

The Credit Union has elected to measure certain loans held for sale at fair value. The Credit Union hedges its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third-party investors and entering into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. To facilitate the hedging of the loans, the Credit Union has elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements.

Included in the accompanying consolidated balance sheets are loans held for sale reported at fair value of $8,777,577 and $35,391,391 at December 31, 2022 and 2021, respectively. See Note 11 for additional disclosures regarding fair value of loans held for sale.

Note 13: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2022	2021
Commitments to extend credit	$ 597,693,758	$ 566,042,065

In the normal course of business, the Credit Union is subject to various legal actions. Management believes that the results of these legal actions will not have a material adverse effect on the Credit Union's consolidated financial position.

Note 14: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Credit Union adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Credit Union elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. The Credit Union has lease agreements with nonlease components that relate to the lease components. The Credit Union elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, the Credit Union elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Credit Union did elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $2,901,062 and $3,091,960, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect our Consolidated Statements of Operations, Comprehensive Income or Cash Flows.

Accounting Policies

The Credit Union determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the Consolidated Balance Sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Credit Union determines lease classification as operating or finance at the lease commencement date. The ROU asset is included with other assets on the consolidated balance sheet and the lease liability is presented with other liabilities.

The Credit Union combines lease and nonlease components within the consideration of a contract in calculating the ROU assets and lease liabilities for its leases. The Credit Union applies the portfolio approach to effectively account for the operating lease ROU assets and liabilities.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. As most of the leases do not provide an implicit rate, the Credit Union uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by using FHLBI posted advance rates since it would most closely mirror what the Credit Union would pay to borrow, on a collateralized basis, an amount equal to the lease payments.

The lease term may include options to extend or to terminate the lease that the Credit Union is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Credit Union has elected not to record leases with an initial term of 12 months or less on the Consolidated Balance Sheet. Lease expense on such leases is recognized upon payment.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2022 are:

	2022
Operating Lease Cost (Cost resulting from lease payments)	554,811
Short-term Lease Cost	123,761
Variable Lease Cost (Cost excluded from lease payments)	91,039
Total Lease Cost	**769,612**
Operating Lease - Operating Cash Flows (Fixed Payments)	550,975
Operating Lease - Operating Cash Flows (Liability Reduction)	495,027
New ROU Assets - Operating Leases	3,396,308
Weighted Average Lease Term - Operating Leases	7.83 yrs
Weighted Average Discount Rate - Operating Leases	2.35%

	Operating Leases
2023	553,857
2024	478,518
2025	400,430
2026	379,910
2027	360,041
Thereafter	893,688
Total future undiscounted lease payments	3,066,444
Less interest	25,516
Lease liabilities	$ 3,091,960

Future minimum commitments at December 31, 2021 for the noncancelable lease and other agreements are summarized as follows:

2022	1,389,494
2023	1,343,323
2024	801,805
2025	286,693
2026	281,838
Thereafter	1,169,968
	$ 5,273,121

The amount expensed for 2021 related to the lease and other agreements was approximately $1,709,000.

Note 15: Regulatory Capital

Effective January 1, 2022, the NCUA modified their capital reporting standards. The Credit Union has opted in to the Complex Credit Union Leverage Ratio (CCULR). This ratio requires a net worth ratio at or above 9%, off-balance sheet exposure of 25% or less of total assets, trading assets and trading liabilities less than 5% of total assets, and Goodwill and Other Intangible Assets less than 2% of total assets.

As of December 31, 2022 and 2021, the Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. As of December 31, 2022, using the CCULR classification for risk based capital, the Credit Union is above the 9% ratio and is considered well capitalized. In 2021 and prior periods, to be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7% and exceed its RBNW ratio. The Credit Union's RBNW ratio requirement of 6.8% is below the net worth ratio of 9.8%, the Credit Union retains its original classification of well capitalized.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Minimum Base Leverage Ratio Required		Risk Base Capital Ratio Required	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in millions)					
Current Standard as of December 31, 2022	$ 185.7	10.4%	$ 125.0	7.0%	$ 160.7	9.0%
Previous Standard as of December 31, 2021	$ 167.2	9.8%	$ 120.0	7.0%	$ 117.1	6.8%

Note 16: Future Change in Accounting Principle

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized.

The CECL model represents a significant change from existing practice and may result in material changes to the Credit Union's accounting for financial instruments. The Credit Union is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those years.

Note 17: Subsequent Events

Subsequent events have been evaluated through March 30, 2023 which is the date the consolidated financial statements were available to be issued.