

**STATE EMPLOYEES' CREDIT UNION**

**2023 CONSOLIDATED FINANCIAL STATEMENTS**

**July 1, 2022 through June 30, 2023**



**STATE EMPLOYEES' CREDIT UNION**

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## INDEPENDENT AUDITORS' REPORT

Audit Committee, Board of Directors, and Members  
State Employees' Credit Union  
Raleigh, North Carolina

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of State Employees' Credit Union (the Credit Union), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of income and undivided earnings, comprehensive income (loss), 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of State Employees' Credit Union as of June 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of State Employees' 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.

#### ***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 State Employees' Credit Union's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

***Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 State Employees' 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 State Employees' 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.

Audit Committee, Board of Directors, and Members  
State Employees' Credit Union

***Supplementary Information***

We have audited the consolidated financial statements of State Employees' Credit Union as of and for the year ended June 30, 2023, and our report thereon dated September 11, 2023, which expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Report of Management, Board of Directors and Contact Information, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 11, 2023

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2023 AND 2022**

<b>ASSETS</b>	<u>2023</u>	<u>2022</u>
Cash and due from financial institutions	\$ 842,836,543	\$ 1,121,405,833
Federal Reserve Bank deposits	1,400,377,908	10,273,753,107
Investments, net (Note 2)	13,803,464,361	12,793,349,553
North Carolina student loan bonds, net (Note 3)	-	63,285,782
Loans to members, net of allowance for loan losses (Notes 4 and 5)	31,596,182,957	26,966,503,496
Accrued interest receivable	100,460,391	114,352,986
Deposit for federal insurance of member accounts (Note 7)	426,400,072	430,577,265
Property and equipment, net (Note 8)	1,247,406,590	1,212,579,676
Other assets	201,654,704	156,442,682
	<u>\$ 49,618,783,526</u>	<u>\$ 53,132,250,380</u>

**LIABILITIES AND MEMBERS' EQUITY**

Member share draft deposits	\$ 7,157,617,597	\$ 7,238,789,442
Member share deposits (Note 9)	37,901,433,451	41,776,872,564
Member mortgage loan escrow deposits	248,385,517	218,258,885
Total member deposits	<u>45,307,436,565</u>	<u>49,233,920,891</u>
Accrued interest payable	31,844,414	6,853,650
Other liabilities	205,211,702	176,906,723
Total member deposits and liabilities	<u>45,544,492,681</u>	<u>49,417,681,264</u>
Members' equity:		
Equity share reserve	1,000,000	1,000,000
Statutory reserve	2,000,000,000	2,000,000,000
Accumulated other comprehensive loss	(1,121,459,578)	(894,227,558)
Capital reserve	3,025,000,000	2,575,000,000
Undivided earnings	169,750,423	32,796,674
Total members' equity, substantially restricted	<u>4,074,290,845</u>	<u>3,714,569,116</u>
	<u>\$ 49,618,783,526</u>	<u>\$ 53,132,250,380</u>

The accompanying notes are an integral  
part of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF INCOME AND UNDIVIDED EARNINGS**  
**YEARS ENDED JUNE 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>INTEREST INCOME:</b>		
Interest on first mortgage loans	\$ 851,118,892	\$ 755,912,456
Interest on other loans and receivables	540,663,094	403,587,225
Interest on Federal Reserve Bank deposits, investments, and student loan bonds	405,433,584	136,711,866
	1,797,215,570	1,296,211,547
<b>INTEREST EXPENSE:</b>		
Dividends on member deposits	328,766,519	123,533,730
<b>NET INTEREST INCOME</b>	1,468,449,051	1,172,677,817
<b>PROVISION FOR LOAN LOSSES</b>	137,500,000	-
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN</b>	1,330,949,051	1,172,677,817
<b>NONINTEREST INCOME:</b>		
Interchange Income	185,513,479	180,372,414
Deposit Service charges and fees	64,481,312	65,978,717
Administrative services	67,116,324	55,035,062
Insurance commissions	44,014,199	45,203,444
Loan processing	9,644,864	12,783,357
Loss on investments, net	(66,640)	(2,055,194)
Gain on redemption of student loan bonds	108,344	23,040
Rental Income	20,130,523	16,978,509
Other noninterest income	32,506,335	31,810,246
	423,448,740	406,129,595
<b>NONINTEREST EXPENSE:</b>		
Salaries and employee benefits	719,473,647	619,082,634
Occupancy expenses	99,662,654	94,828,697
Equipment expenses	173,138,820	144,982,044
Card processing expenses	46,363,908	60,110,106
Postage expenses	22,520,816	22,509,585
Other operating expenses	106,284,197	73,729,795
	1,167,444,042	1,015,242,861
<b>NET INCOME</b>	\$ 586,953,749	\$ 563,564,551
Transfers to statutory and capital reserves (Note 1)	(450,000,000)	(550,000,000)
<b>UNDIVIDED EARNINGS</b>		
Undivided earnings beginning of year	32,796,674	19,232,123
Undivided earnings end of year	\$ 169,750,423	\$ 32,796,674

The accompanying notes are an integral  
part of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**YEARS ENDED JUNE 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>Net income</b>	\$ 586,953,749	\$ 563,564,551
<b>Other comprehensive loss (Note 12):</b>		
Unrealized holding losses on securities available for sale	(258,209,545)	(772,668,498)
Change in unrecognized postretirement amounts	30,977,525	1,322,643
<b>Total other comprehensive loss</b>	(227,232,020)	(771,345,855)
<b>Total comprehensive income/(loss)</b>	\$ 359,721,729	\$ (207,781,304)

The accompanying notes are an integral part of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**YEARS ENDED JUNE 30, 2023 AND 2022**

	EQUITY SHARE RESERVE	STATUTORY RESERVE	ACCUMULATED OTHER COMPREHENSIVE LOSS	CAPITAL RESERVE	UNDIVIDED EARNINGS	TOTAL
<b>Balance at June 30, 2021</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (122,881,703)	\$ 2,025,000,000	\$ 19,232,123	\$ 3,922,350,420
Net income	-	-	-	-	563,564,551	563,564,551
Other comprehensive loss	-	-	(771,345,855)	-	-	(771,345,855)
Discretionary transfers	-	-	-	550,000,000	(550,000,000)	-
<b>Balance at June 30, 2022</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (894,227,558)	\$ 2,575,000,000	\$ 32,796,674	\$ 3,714,569,116
Net income	-	-	-	-	586,953,749	586,953,749
Other comprehensive loss	-	-	(227,232,020)	-	-	(227,232,020)
Discretionary transfers	-	-	-	450,000,000	(450,000,000)	-
<b>Balance at June 30, 2023</b>	\$ 1,000,000	\$ 2,000,000,000	\$ (1,121,459,578)	\$ 3,025,000,000	\$ 169,750,423	\$ 4,074,290,845

The accompanying notes are an integral  
part of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 586,953,749	\$ 563,564,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss/(Gain) on sale of first mortgage loans	259,269	(60,757)
Gain on redemption of student loan bonds	(108,344)	(23,040)
Loss on equity investments, net	66,640	2,055,194
Provision for depreciation	84,536,500	89,333,983
Provision for loan losses	137,500,000	-
Decrease (increase) in accrued interest receivable	13,892,595	(7,487,127)
Amortization of investment premiums/discounts	77,213,940	105,358,005
Increase in accrued interest payable	24,990,764	315,915
Other, net	52,687,319	54,289,957
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 977,992,432</u>	<u>\$ 807,346,681</u>
<b>INVESTING ACTIVITIES:</b>		
Decrease in Federal Reserve Bank deposits	8,873,375,199	828,156,466
Proceeds on redemption of investments	1,039,045,812	2,568,616,778
Purchases of investments, available for sale	(2,384,650,748)	(3,887,232,542)
Redemption of student loan bonds	63,400,000	12,400,000
First mortgage loans originated	(4,813,084,291)	(7,090,836,216)
Personal loans originated	(5,830,922,730)	(4,895,502,436)
Purchase of first mortgage loans	(253,858,264)	(906,725)
Net decrease in College Foundation loans	9,743,111	1,544,254
Net increase in credit card loans	(139,704,958)	(134,752,080)
Proceeds from sale of first mortgage loans	2,562,120	-
Principal collected on first mortgage loans	2,176,525,107	4,784,657,753
Principal collected on personal loans	4,075,203,955	4,126,125,424
Purchase of property and equipment	(151,888,902)	(101,488,854)
Decrease (increase) in deposit for federal insurance of member accounts	4,177,193	(33,825,769)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>\$ 2,669,922,604</u>	<u>\$ (3,823,043,947)</u>
<b>FINANCING ACTIVITIES:</b>		
Net (decrease) increase in demand deposit, share, individual retirement, and money market share deposits	(6,850,452,954)	3,578,153,416
Proceeds from issuance of share term certificates	7,441,432,612	3,306,234,871
Payments for maturing share term certificates	(4,517,463,984)	(3,537,852,539)
<b>NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES</b>	<u>\$ (3,926,484,326)</u>	<u>\$ 3,346,535,748</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (278,569,290)</u>	<u>\$ 330,838,482</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>\$ 1,121,405,833</u>	<u>\$ 790,567,351</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 842,836,543</u>	<u>\$ 1,121,405,833</u>
<b>ADDITIONAL CASH FLOW INFORMATION:</b>		
Transfers from loans to real estate owned	\$ 6,097,219	\$ 6,413,562
Dividend and interest paid	303,775,755	123,217,815
Adoption of Lease ASU 2016-02	-	39,231,886
Unrealized holding losses on securities available for sale	(258,209,545)	(772,668,498)

The accompanying notes are an integral  
part of the consolidated financial statements.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** State Employees' Credit Union (SECU or the Credit Union) is a member-owned, non-profit financial cooperative organized under the laws of the State of North Carolina. The Credit Union was formed on June 4, 1937 to encourage thrift among members, to create a source of credit at a fair and reasonable rate of interest and to provide an opportunity for members to use and control their own money in order to improve their economic and social condition. Membership in the Credit Union is restricted principally to employees of the State of North Carolina and their families. Members of SECU share this common bond in participating in the ownership of their Credit Union. Each member-owner has one vote which is exercised to elect volunteer directors. Volunteers set the policies for the operation of the Credit Union. The members of the Board of Directors, Advisory Boards, and other Committees play major roles in directing and monitoring the affairs of the Credit Union. There are over 3,131 volunteers contributing service to the membership. These individuals, as volunteers, serve without compensation.

Credit Union Investment Services, Inc. (CUIS) was formed in 2007 as a credit union service organization and is wholly-owned by SECU. CUIS provides investment and other financial services to members through SECU employees who are registered investment representatives. SECU Brokerage Services, Inc. was formed in 2008 and is a wholly-owned subsidiary of CUIS through which brokerage services are provided to members. The financial results of CUIS and SECU Brokerage Services, Inc. are consolidated in this Annual Report. Separate annual reports with complete financial statements and footnotes are published for CUIS and SECU Brokerage Services, Inc. Intercompany accounts and transactions were eliminated in the consolidation. The assets, liabilities, incomes and expenses of CUIS and SECU Brokerage Services, Inc. are not material to the presentation of the consolidated financial statements.

SECU Life Insurance Company (SECU Life) began operation in 2013 as a credit union service organization and is wholly-owned by SECU. SECU Life provides life insurance and annuity products through SECU employees who are registered insurance agents. The financial results of SECU Life are consolidated in this Annual Report. A separate annual report with complete financial statements and footnotes is published for SECU Life. Intercompany accounts and transactions were eliminated in the consolidation. The assets, liabilities, incomes and expenses of SECU Life are not material to the presentation of the consolidated financial statements.

SECU\*RE, Inc. (SECU\*RE) was formed in 2013 as a credit union service organization and is wholly-owned by SECU. SECU\*RE was formed to purchase foreclosed properties from SECU to minimize losses on real estate owned through property revitalization efforts and partnerships with North Carolina housing industry professionals, energy efficiency organizations and local municipalities. Additionally, SECU\*RE serves as a property management company which purchases, leases, manages and sells properties. The financial results of SECU\*RE are consolidated in this Annual Report. A separate annual report with complete financial statements and footnotes are published for SECU\*RE.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Intercompany accounts and transactions were eliminated in consolidation. The assets, liabilities, incomes and expenses of SECU\*RE are not material to the presentation of the consolidated financial statements.

As of June 30, 2023, members and their families are provided mortgage loan, consumer loan, and deposit services through 275 branch offices located in 179 North Carolina communities, Member Service Support centers staffed by the entire branch network, an interactive website ([www.ncsecu.org](http://www.ncsecu.org)), an SECU Mobile App, a voice response service (ASK - SECU) and 1,122 ATMs. Member deposits that are not loaned to members are invested in U.S. Treasury securities and other securities or interest bearing overnight accounts until needed to meet member loan demand. The primary sources of operating revenues are interest earned on member loans and fee income generated by providing services to our members. The capital necessary to responsibly support the operation of the Credit Union comes from earnings that remain after all expenses have been paid.

**Taxation:** SECU is not exempt from taxation. SECU pays property taxes to local municipal and county governments within each of the 100 counties of North Carolina. In 2023, SECU paid \$13.9 million in property taxes to various local governmental taxing authorities (\$13.7 million in 2022). In addition, SECU pays state and local sales taxes on goods and services purchased by the Credit Union. During 2023, SECU paid \$5.9 million in sales taxes to state and local governments (\$2.8 million in 2022). The Credit Union also pays Federal payroll taxes under the Federal Insurance Contributions Act (FICA). In 2023, SECU paid \$40.3 million in FICA taxes to the federal government (\$35.0 million in 2022). SECU also pays State and Federal Unemployment taxes. In 2023, SECU paid \$1 million in State and Federal Unemployment taxes (\$68,000 in 2022). Additionally, 14.8% of total SECU 2023 revenues (\$304 million) were paid to members in the form of interest earned on shares and deposits (7.3% and \$124 million in 2022). SECU members are subject to paying state and federal income taxes on these interest earnings. In 2023, 53% of total SECU revenues (\$1 billion) were used to pay employees, vendors, lenders and other service providers who are subject to paying state and federal income taxes on these amounts (60% and \$1 billion in 2022). Like SECU, banks are not taxed on interest paid to their depositors; likewise, these institutions are not taxed on costs of operation paid out to employees, vendors, lenders or other service providers. State and federal income taxes are paid on the majority of income earned by SECU. The only revenues earned by SECU that are not subject to current state and federal income taxation are the revenues mandated by law or regulatory requirement to be retained by SECU as reserves against potential future operating losses. SECU, as a member-owned, not-for-profit cooperative, is not subject, by statute, to state and federal corporate income taxation. The credit union service organizations wholly-owned by SECU, Credit Union Investment Services, SECU Brokerage Services, SECU Life Insurance Company and SECU\*RE, are considered C corporations subject to federal and state income taxes. The Credit Union has evaluated its tax positions and determined no uncertain tax positions exist as of June 30, 2023 and 2022. By law, at a minimum, business tax returns are subject to examination by federal and state tax authorities for the years June 30, 2020 through June 30, 2022.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Accounting:** The Credit Union maintains its accounting records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Expenses are recorded when incurred and income is recorded when earned.

Accounting guidance related to U.S. generally accepted accounting principles (GAAP) is codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification<sup>®</sup> (ASC) 105, *Generally Accepted Accounting Principles*. ASC 105 establishes ASC as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. FASB issues Accounting Standards Updates (ASU), which serve to update the ASC, provide background information about the guidance, and provide the basis for conclusions on the changes to the ASC.

**Cash and Due from Financial Institutions:** Cash and Due from Financial Institutions, as presented in the consolidated balance sheets, includes cash on hand, cash on deposit in a non-interest bearing clearing account at the Federal Reserve Bank, cash on deposit with other financial institutions and checks in transit to other financial institutions, all of which are considered as cash and cash equivalents for purposes of the consolidated statements of cash flows.

**Federal Reserve Bank Deposits:** Interest bearing deposits held at the Federal Reserve Bank of Richmond are earning assets and are shown as Federal Reserve Bank Deposits. These funds are available to the Credit Union for the daily settlement of transactions cleared through the Federal Reserve Bank of Richmond.

**Corporate Credit Union Capital Shares and Restrictions on Cash:** The national corporate credit union network is a shared cooperative network of regional corporate credit unions. The financial benefits from this cooperative ownership structure are passed back to the member corporate credit unions. Likewise, credit unions which serve the general public are able to join regional corporate credit unions by opening capital share accounts which help provide long term, stable capital bases for the operations of regional corporate credit unions.

To obtain additional sources of liquidity, diversify investments and secure other financial services, SECU has been a member of multiple corporate credit unions for many years. As a condition of membership, SECU is required to maintain capital share accounts in these corporate credit unions. Capital share accounts are restricted-balances, are uninsured, cannot be pledged as collateral for loans and require a three year or greater notice before withdrawal. SECU capital share account balances on deposit with corporate credit unions at June 30, 2023 totaled \$250,000 (\$338,912 at June 30, 2022) and is included in Other Assets on the Consolidated Balance Sheets. .

**Investments:** Securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and carried at fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and accounted for as accumulated other comprehensive loss. Equity securities (the exchange-traded bond fund) are reported at fair value with unrealized gain/loss included with net income.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Gains and losses on the sale of securities available for sale are recorded on the trade date and determined using the specific identification method. Securities that the Credit Union has the ability and intent to hold to maturity are classified as held-to-maturity and are carried at cost, adjusted for the amortization of premiums and discounts. Amortization of premiums and discounts are recognized in interest income over the period to maturity using the straight-line method. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

The Credit Union evaluates debt securities for other-than-temporary impairment (OTTI) at least quarterly. For those securities the Credit Union does not expect to sell or expect to be required to sell before recovery of the amortized cost, the security would not be considered other-than-temporarily impaired if there is no credit loss. In the event of a credit loss, only the amount of the OTTI associated with the credit loss is recognized in earnings with the remaining loss recognized in other comprehensive loss. The OTTI recognized in other comprehensive loss for debt securities classified as held-to-maturity shall be accreted over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows. In estimating other-than-temporary impairment losses, management considers a variety of factors, including the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Credit Union to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

**Federal Home Loan Bank Stock:** The Credit Union joined the Federal Home Loan Bank of Atlanta (FHLB) in August 1998 to provide an additional source of funding and liquidity, if needed, to meet member loan demand. The Federal Home Loan Bank system is a cooperative financial system consisting of eleven regional banks which provide services to member financial institutions throughout the United States. As a condition of membership in the FHLB, the Credit Union is required to own capital stock of the FHLB in the amount of 0.05% of Credit Union total assets up to a maximum of \$15.0 million, plus 4.25% of total loan advances outstanding. FHLB capital stock cannot be bought, sold or traded through a stock exchange and has no market value. Upon termination of membership in the FHLB, the par value of the stock will be returned to the Credit Union. At June 30, 2023 and 2022, the Credit Union had no loan advances outstanding with the FHLB. At June 30, 2023, the Credit Union owned 150,000 shares of FHLB \$100 par value capital stock valued at \$15.0 million (150,000 shares valued at \$15.0 million at June 30, 2022), which is included in Other Assets on the Consolidated Balance Sheets.

**Loans to Members:** Loans are stated at the amount of unpaid principal, adjusted for an allowance for loan losses and net deferred loan fees and expenses. Interest on loans is recognized on an accrual basis. Interest on first mortgage loans is calculated on a 30-day month 360-day year amortizing term. Interest on personal loans is calculated using the simple-interest method applied to the principal amount outstanding. Interest on credit cards is calculated by applying a periodic rate to the average daily balance outstanding. Loans are put in nonaccrual

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

status if they are past due for a period of 90 days or more. Loans that are on a current payment status or past due less than 90 days may also be nonaccrual if repayment in full of principal and/or interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time and there is repayment by the borrower.

Net deferred fees are shown as a reduction in the balance of mortgage loans and are amortized into interest income as an adjustment in yield over the lives of the loans using the effective interest method. Direct loan origination costs on home equity and consumer loans are recognized in expenses when incurred. This is not materially different from expenses that would have been recognized under the provisions of the Nonrefundable Fees and Other Costs Topic of the FASB ASC.

**Allowance for Loan Losses:** Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes that the collectability of principal and interest is unlikely. Loans would generally be charged off when additional collection efforts are not productive, unsecured loans are 180 days past due, or collateral has been repossessed but not yet sold.

The amount in the allowance represents management's estimate of incurred losses and is based upon the periodic review by management of individual loans, recent loss experience, current economic conditions, risk characteristics of the various classifications of loans, the fair value of underlying collateral, and other related factors.

The Credit Union loan portfolio consists of large groups of smaller-balance homogeneous loans that are primarily collectively evaluated for impairment. The Credit Union determines the allowance for loan losses on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. For purposes of determining the allowance for loan losses, the Credit Union has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: Real Estate and Personal. The Credit Union further segments loans into classes based on the similar risks within those segments. Real estate loans are divided into two classes: first mortgage loans and home equity loans. Personal loans are divided into four classes: vehicle, consumer, credit card and other secured loans.

Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of both real estate and personal loans. Weak economic trends may have a negative impact on the borrowers' capacity to repay their obligations. In addition, the risk associated with real estate loans also depends on the loan amount in relation to the collateral value. Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the

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Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates for qualifying loans, partial payments, payment extensions, and extension of maturity dates. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered a TDR.

Loans classified as TDRs are separately evaluated for impairment. 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 and interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

**Foreclosed Assets and Collateral in Liquidation:** Assets acquired through foreclosure, or in lieu of foreclosure, are recorded at the fair value less estimated costs to sell through a charge to the allowance for loan loss account. Thereafter, the fair value of these assets is periodically reviewed with subsequent decreases in value recorded as an increase in a valuation allowance and a charge to noninterest expense.

**Property and Equipment:** Property and equipment are stated at cost and are depreciated by the straight-line method over their estimated useful lives which range from 3-10 years for furniture and equipment and up to 40 years for buildings. Leasehold improvements are amortized over the shorter of the lease term or estimated life of the improvements. Repairs and maintenance are charged to expense as incurred. Management reviews property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

**Impairment of Long-Lived Assets:** The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

**Members' Equity:** SECU is a state-chartered, federally-insured credit union. The Credit Union Membership Access Act of 1998 defined capital requirements and a series of "prompt corrective actions" (PCA) to be taken by regulatory authorities to restore the net worth of federally-insured credit unions that become inadequately capitalized. The components of PCA include a framework combining mandatory actions prescribed by statute with discretionary actions developed by the NCUA. Additionally, a risk-based net worth requirement applies to credit unions defined as "complex." For PCA purposes, if the capital (net worth) of a credit union is 7% or greater it is categorized as "well capitalized"; between 6% and 6.99% - "adequately

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capitalized”; between 4% and 5.99% - “undercapitalized”; between 2% and 3.99% - “significantly undercapitalized”; and if less than 2% - “critically undercapitalized.” On January 1, 2001, PCA rules were implemented that defined mandatory and discretionary regulatory actions for credit unions at these various levels of capital. Specific measurements were also employed to define capital requirements for those credit unions considered “complex” based on a risk-based net worth capital ratio. At June 30, 2023, using the standards approved in the final regulatory rules, the PCA net worth capital ratio of SECU was 10.47% (8.82% at June 30, 2022). SECU capital levels exceed the 7.0% standard defined by statute for a “well capitalized” credit union. As of reporting periods beginning in 2022, the NCUA requires credit unions to calculate risk based capital under a new framework. SECU has not opted into the Complex Credit Union Leverage Ratio calculation and instead calculates net worth using the risk based capital calculation as governed by the NCUA. The risk based capital ratio as of the June 30, 2023 reporting period was 21.79% (23.78% at June 30, 2022) which is considered “well capitalized” under the new framework. SECU capital and net worth balances and ratios exceed all regulatory requirements at June 30, 2023 and 2022.

Members’ Equity consists of several components: Statutory Reserve, Capital Reserve, Equity Share Reserve and Undivided Earnings. Prior to the implementation of the Credit Union Membership Access Act of 1998, North Carolina state statutes required that member reserves be retained equal to 6% of loans and certain investments considered at risk of loss. These reserves represented a regulatory restriction of retained earnings and were not available for the payment of member dividends. In 2001, federal credit unions that were classified as “well capitalized” were no longer required to make statutory transfers to the Statutory Reserve. The Board of Directors have established a Statutory Reserve balance of \$2,000,000,000 at June 30, 2023 (\$2,000,000,000 at June 30, 2022). During 2023 and 2022, there were no transfers from the Capital Reserve account to the Statutory Reserve account. These reserves exceed the statutory capital requirements of North Carolina.

A Capital Reserve in the amount of \$3,025,000,000 at June 30, 2023 and \$2,575,000,000 at June 30, 2022 has been accumulated by the Board of Directors to assure the long term financial safety and soundness of the Credit Union. During 2023, \$450,000,000 was transferred into the Capital Reserve (\$550,000,000 was transferred into the Capital Reserve in 2022). In addition to maintaining the capital levels required by regulation and law, the Board of Directors continually monitors and evaluates business factors to ensure that total members’ equity remains adequate to support the risks inherent in the Consolidated Balance Sheet of the Credit Union. Some of the factors include: the mix in the types of loans, investments and deposits, the growth in various types of loans, investments and deposits, the cost of funds, market and economic conditions, loan delinquency and charge-off volumes and trends, and other important considerations. Capital balances are available to absorb catastrophic loan and operational losses and provide for the safe and sound fiscal operation of the Credit Union.

Capital stands as the first line of defense in protecting Credit Union members, the federal government insurance fund, and ultimately, the American taxpayer from loss. The Board of Directors closely monitors the amount of members’ equity necessary to provide for the prudent

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and responsible operation of the Credit Union. The Board of Directors is sensitive to the fact that capital is provided by the member-owners of the Credit Union. Only the capital amounts required by law and those amounts considered necessary to provide for the safe and sound operation of the Credit Union are retained. All other monies are returned to the membership in the form of higher interest rates on shares and savings deposits, lower interest rates on loans, access to new financial products and services, or lower fees for services.

**Equity Share Reserve:** The Credit Union accepted a \$1,000,000 equity share capital investment during fiscal year 2001. SECU member capital was increased by a like amount. This capital investment is permitted by North Carolina State Statutes and has been accounted for as members' equity. This investment is not insured by federal deposit insurance. As members' equity, the redemption of this capital account is restricted. The use of equity share reserves increases the capital base of SECU while enhancing risk management and promoting the safety and soundness of the Credit Union.

**Presentation of Member Shares:** The American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for "Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies" indicates that the FASB classification of member share accounts are liabilities. SECU follows generally accepted accounting principles and therefore records member share accounts as liabilities rather than members' equity. The authoritative legal definition in the North Carolina General Statutes and in the Federal Credit Union Act, as well as the regulatory requirements of the NCUA, however, define member share accounts as equity which denotes an ownership interest in the credit union. Member shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on member share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. SECU believes that the AICPA and FASB errs in its opinion that member shares are liabilities rather than ownership equity. The Credit Union believes that the position fails to fully recognize that credit unions are not-for-profit cooperatives democratically controlled by member-owners who provide equity at risk to fund the operation of the cooperative enterprise.

**Comprehensive Income (Loss):** Comprehensive income (loss) is defined as the change in the equity of a business enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive loss refers to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive loss but excluded from net income. The components of other comprehensive loss include the valuation adjustment on securities available for sale, gains and losses associated with postretirement benefits and prior service costs associated with postretirement benefits.

**Segment Disclosure:** Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by decision makers in deciding upon resource allocation and performance assessment. The Credit Union owns a holding company

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CUIS and its subsidiary SBS which provides investment and brokerage services to members. The Credit Union owns SECU Life, which provides life insurance and annuity products. In addition, SECU owns SECU\*RE, Inc., a property management company which purchases, leases, manages and sells properties foreclosed upon by SECU. The results of their operations have been consolidated into the financial statements of the Credit Union. The financial results of these operations are not material to the presentation of the consolidated financial statements or operations of the Credit Union.

**Retirement Plans:** The Credit Union has a qualified 401(k) defined contribution plan which covers substantially all Credit Union employees. The Credit Union also offers a non-qualified, non-contributory 457(b) deferred compensation plan available to certain employees defined as highly compensated. In addition, the Credit Union provides certain medical and life insurance for retired employees that meet eligibility requirements through a funded defined benefit plan.

The Credit Union's share of the estimated costs that will be paid after retirement is being accrued by charges to expense over the employees' active service periods to the dates they are fully eligible for benefits.

The Credit Union has accounted for non-pension postretirement benefits in accordance with generally accepted accounting principles.

**Transfers of Financial Assets:** Transfers of an entire financial asset or a servicing interest in an entire financial asset are accounted for as sales when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Off - Consolidated Balance Sheet Assets and Liabilities:** In the ordinary course of business, the Credit Union has entered into commitments to extend credit on member loans. Such financial instruments are recorded when they are funded. As a matter of policy, the Credit Union does not enter into off-consolidated balance sheet financing arrangements such as options or interest rate swaps. Consequently, the Credit Union does not have exposure to credit loss in the event of non-performance by another party to such financial instruments. The Credit Union does not employ the use of derivative securities to manage balance sheet risk. There are no off-consolidated balance sheet assets or liabilities that could materially affect the consolidated financial condition or operation of the Credit Union.

**Sarbanes/Oxley Act of 2002:** The Sarbanes/Oxley Act of 2002 (the Act) was enacted by Congress to address increasingly widespread abuses of trust in corporate America. These abuses took the form of employee and board malfeasance, self-dealing and unethical governance that resulted in substantial losses to the employees and shareholders of the affected public companies. The Act applies to all corporations registered with the Securities and Exchange Commission. The requirements of the Act include developing formal policies and implementing best practices for Board and corporate governance, a code of ethics, audit independence, accurate and transparent

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financial reporting and disclosure, executive accountability, audit committee structure, and internal controls over the accounting and financial reporting processes. As a not-for-profit, member-owned financial cooperative SECU is not registered with the SEC and is not required to comply with the Act. The Credit Union is, however, heavily regulated and is subject to state and federal rules, regulations, and laws as a state chartered, federally insured credit union. The Credit Union Division of the State of North Carolina, as the regulator of SECU, conducts annual examinations of the Credit Union. The NCUA, a federal agency, performs insurance and interest rate risk reviews of the Credit Union on an annual basis. The Consumer Financial Protection Bureau, a federal agency, performs compliance reviews regarding consumer protection on a periodic basis. During 2005, the Board of Directors of SECU elected to voluntarily subscribe to the majority of the policies and practices prescribed by the Act. The Board formally approved a corporate governance charter. The majority of the policies and best practices necessary to fulfill the requirements of the Act have been in place at SECU for many years as the Credit Union long ago subscribed to such wise and prudent business practices. Although not required to comply with the Act the implementation of the majority of these requirements provides additional support that the Credit Union continues to be operated for the benefit of its member-owners.

**Use of Estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates also affect the reported amounts of revenues and expenses of the periods presented. Material estimates that are susceptible to significant change in the near term include the fair value of investments, determination of the allowance for loan losses, and postretirement liability.

**Revenue from Contracts with Members:** The Credit Union recognizes revenue in accordance with Topic 606. The Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

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Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Credit Union satisfies its obligation to the member. Significant sources of noninterest income considered to be within the scope of Topic 606 are presented separately in the Consolidated Statements of Income and Undivided Earnings and are summarized as follows:

*Interchange Income*

When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit or loan account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized when the funds are collected and transferred to the payment network.

*Deposit Service Charges and Fees*

The Credit Union earns fees from its member deposit accounts for transaction-based activity and account maintenance. Transaction-based fees, including ATM use fees, nonsufficient funds charges, and wire transfer fees, are recognized at the time the transaction is executed, as that is when the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Service charges on deposits are withdrawn from the member's account balance on the date of occurrence.

*Administrative Services*

The Credit Union holds contracts with other North Carolina Credit Unions that generate revenues related to various administrative services provided. These services include, but are not limited to member facing transactions, loan originations, loan servicing, deposit account maintenance and general operational services. These fees are recognized as a percentage of the other institutions revenues in accordance with the contract and are reported over time as services are performed.

*Insurance Commissions*

The Credit Union's insurance revenue has two distinct performance obligations. The first performance obligation is the selling of the policy as an agent for the carrier. This performance obligation is satisfied upon binding of the policy. The second performance obligation is the ongoing servicing of the policy, which is satisfied over the life of the policy. For employee benefits, the payment is typically received monthly. For property and casualty, payments can vary, but are typically received at, or in advance, of the policy period.

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The Credit Union does not typically enter into long-term revenue contracts with members, and therefore, does not experience significant contract balances. As of June 30, 2023, and 2022, the Credit Union did not have any significant contract balances, or any contract acquisition costs.

**Leases, Net:** The Credit Union accounts for Leases in accordance with FASB ASC 842 – Leases. The Credit Union determines if an arrangement is a lease at inception. Operating leases are included in other assets and accrued expenses and other liabilities in the Consolidated Balance Sheets.

Right of Use (ROU) assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Credit Union has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the Consolidated Balance Sheets.

**New Accounting Pronouncements:** In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2022, and interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2020, including interim periods within this fiscal year. Management continues to analyze the model to determine the impact of the adoption of ASU 2016-13 on the consolidated financial statements. Management expects the adoption of ASU 2016-13 to increase the Credit Union's allowance for loan losses.

**Reclassification of 2022 Data:** Data in the 2022 consolidated financial statements has been reclassified to conform with the presentation of the 2023 consolidated financial statements. This reclassification did not result in any change to consolidated net income or members' equity.

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**NOTE 2 – INVESTMENTS, NET**

The Credit Union invests member deposits primarily in member loans. When deposit growth exceeds member loan demand the Credit Union invests member deposits until such time as the funds are required to pay for member loans or to meet the cash needs of the membership. At June 30, 2023 and 2022 investments held by the Credit Union are categorized as available-for-sale (AFS) and equity. AFS securities are carried on the balance sheet at their fair market value via adjustments recognized through accumulated other comprehensive loss. AFS securities are comprised of U.S. Treasury securities and Agency/GSE mortgage-backed securities. Equity securities, comprised of an exchange-traded bond fund, are carried at fair market value on the balance sheet through adjustments recognized in net income.

The aggregate cost, fair value, and unrealized gains and losses of these investments as of June 30, 2023 and 2022 are as follows:

<u>2023</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 10,004,203,677	\$ 1,632	\$ (890,180,819)	\$ 9,114,024,490
Agency/GSE Mortgage-Backed Securities	4,923,566,201	639,323	(250,958,645)	4,673,246,879
<b>Total AFS Investments</b>	14,927,769,878	640,955	(1,141,139,464)	13,787,271,369
<b>Equity Investments</b>				
Exchange-traded bond fund	17,999,782	-	(1,806,790)	16,192,992
<b>Total Equity Investments</b>	17,999,782	-	(1,806,790)	16,192,992
<b>Total Investments</b>	<u>\$ 14,945,769,660</u>	<u>\$ 640,955</u>	<u>\$ (1,142,946,254)</u>	<u>\$ 13,803,464,361</u>
<u>2022</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 10,103,941,051	\$ 32,787	\$ (791,044,150)	\$ 9,312,929,688
Agency/GSE Mortgage-Backed Securities	3,560,437,876	1,821,759	(93,099,360)	3,469,160,275
<b>Total AFS Investments</b>	13,664,378,927	1,854,546	(884,143,510)	12,782,089,963
<b>Equity Investments</b>				
Exchange-traded bond fund	12,999,740	-	(1,740,150)	11,259,590
<b>Total Equity Investments</b>	12,999,740	-	(1,740,150)	11,259,590
<b>Total Investments</b>	<u>\$ 13,677,378,667</u>	<u>\$ 1,854,546</u>	<u>\$ (885,883,660)</u>	<u>\$ 12,793,349,553</u>

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**NOTE 2 – INVESTMENTS, NET - Continued**

The maturities of investments at June 30, 2023 and 2022 are as follows:

<u>2023</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 1,499,731,450	\$ 1,461,699,182
Due between one and three years	4,929,270,030	4,543,596,156
Due between three and five years	3,568,015,335	3,101,787,747
Due between five and ten years	1,515,762,665	1,501,497,150
Due after ten years	3,414,990,398	3,178,691,134
	<u>14,927,769,878</u>	<u>13,787,271,369</u>
Exchange-traded bond fund	17,999,782	16,192,992
	<u>\$ 14,945,769,660</u>	<u>\$ 13,803,464,361</u>

<u>2022</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 506,464,314	\$ 504,286,289
Due between one and three years	4,927,545,372	4,625,688,867
Due between three and five years	3,169,744,975	2,863,484,453
Due between five and ten years	2,502,314,896	2,319,745,560
Due after ten years	2,558,309,370	2,468,884,794
	<u>13,664,378,927</u>	<u>12,782,089,963</u>
Exchange-traded bond fund	12,999,740	11,259,590
	<u>\$ 13,677,378,667</u>	<u>\$ 12,793,349,553</u>

During the fiscal years ended June 30, 2023 and 2022, there were no sales of securities. Therefore, no proceeds, gains, or losses were recognized. SECU held 372 investment securities with a fair value of \$13.6 billion in an unrealized loss position at June 30, 2023 with an aggregate depreciation of 7.75%. All securities in an unrealized loss position were reviewed to determine whether those losses were caused by an other-than-temporary decline in fair value. At June 30, 2023 and 2022, SECU held no securities with declines that were considered other-than-temporary. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability and intent to hold securities until maturity or for the foreseeable future for those classified as available for sale, no declines are deemed to be other-than-temporary. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

The below table presents our debt securities at fair value and their gross unrealized losses broken down by the amount of time the investments have been in a loss position as of June 30, 2023 and June 30, 2022.

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**NOTE 2 – INVESTMENTS, NET - Continued**

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b><u>2023</u></b>						
<b>AFS Investments</b>						
U.S. Treasury Securities	\$11,856,797	(\$313,786)	\$9,101,360,194	(\$889,867,033)	\$9,113,216,991	(\$890,180,819)
Agency/GSE Mortgage-Backed Securities	1,785,231,034	(51,524,981)	2,681,939,977	(199,433,664)	4,467,171,011	(250,958,645)
<b>Total AFS Investments</b>	1,797,087,831	(51,838,767)	11,783,300,171	(1,089,300,697)	13,580,388,002	(1,141,139,464)
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b><u>2022</u></b>						
<b>AFS Investments</b>						
U.S. Treasury Securities	\$524,891,484	(\$3,371,539)	\$8,786,165,234	(\$787,672,611)	\$9,311,056,718	(\$791,044,150)
Agency/GSE Mortgage-Backed Securities	2,666,837,932	(93,099,360)	0	0	2,666,837,932	(93,099,360)
<b>Total AFS Investments</b>	3,191,729,416	(96,470,899)	8,786,165,234	(787,672,611)	11,977,894,650	(884,143,510)
<b>Total Investments</b>	<u>\$3,202,989,006</u>	<u>(\$98,211,049)</u>	<u>\$8,786,165,234</u>	<u>(\$787,672,611)</u>	<u>\$11,989,154,240</u>	<u>(\$885,883,660)</u>

**NOTE 3 – NORTH CAROLINA STUDENT LOAN BONDS**

On June 30, 2008, SECU purchased \$1.1 billion of North Carolina Student Loan Bonds from the North Carolina State Education Assistance Authority (the Authority), a political subdivision of the State of North Carolina. One bond, with a par value of \$890 million, was fully collateralized with federally insured student loans. The Department of Education, an agency of the federal government guaranteed the repayment of 97% of the principal balance of the majority of these loans. A second bond, with a par value of \$200 million, is fully collateralized with private student loans guaranteed by the North Carolina State Education Assistance Authority. On November 26, 2008 the Credit Union purchased an additional \$500 million in North Carolina Student Loan Bonds from the Authority. These bonds were fully collateralized with federally insured student loans guaranteed as to repayment up to 97% of the principal balance.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 3 – NORTH CAROLINA STUDENT LOAN BONDS - Continued**

The bond earned a base rate plus an interest margin which was subject to quarterly market adjustments. The bond was structured with interest rate caps and floors and periodic increases in the base interest rate which provided a reasonable rate of return to SECU. The proceeds of the bond were reinvested in North Carolina and meet a wonderful purpose—making funds available for loans for the education of college students of North Carolina.

During fiscal year 2023, the Authority redeemed the remaining balance of bonds. Gross realized gains on the bond redemptions for 2023 were \$108,344 (\$23,040 for 2022) on total proceeds of \$63,400,000 for 2023 (\$12,400,000 for 2022). The aggregate cost of the remaining outstanding bond at June 30, 2023 was zero (\$63,285,782 at June 30, 2022).

**NOTE 4 - LOANS TO MEMBERS**

Credit Union members deposit funds into share accounts. Members' share deposits are loaned by the Credit Union to other Credit Union members. Loans to members consist of personal and mortgage loans. Ninety-eight percent (98%) of all loans are made to North Carolinians. The Credit Union originated \$10.7 billion in personal and mortgage loans to members across North Carolina during 2023 (\$13.3 billion in 2022). SECU is a powerful economic engine for North Carolina that injects funds into the state economy while providing benefits to members. Approximately eighty-eight percent (88%) of all outstanding loan balances are collateralized by assets located in North Carolina which include deeds of trust on real estate, titles to automobiles, guaranties of state or federal agencies, shares on deposit with the Credit Union, or some other tangible collateral. Over half of our loan portfolio (62%) are adjustable rate loans. Interest rates are indexed to Treasury Bill indices and are subject to adjustment over time periods ranging from ninety days to five years. Twenty-five percent of the adjustable rate loan portfolio is subject to rate adjustment within ninety days; seven percent within one year, Thirteen percent within two years and fifty-four percent between three to five years. By providing loan products with adjustable rates, the Credit Union is able to reprice loan interest rates to reflect market conditions. This structure allows the Credit Union to provide a fair rate of interest to each borrower while protecting the membership capital of the entire Credit Union. Proprietary SECU mortgage loan products have no or low origination fees, no hidden fees, no private mortgage insurance requirements and offer the convenience of escrow accounts with the added benefit of interest paid on the escrow deposits. Many members and their families have preserved the equity in their homes or improved their financial circumstances by originating or refinancing their mortgage loans through SECU.

The largest individual loans the Credit Union makes are first mortgage loans to members. At June 30, 2023 the Credit Union had 151,803 outstanding first mortgage loans with an average balance of \$151,714. No first mortgage loan balance exceeded \$2.0 million to any member at June 30, 2023. The vast majority of mortgage loans are adjustable rate loans, are documented to secondary market standards and are principally on 1 to 4 family residences.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 4 - LOANS TO MEMBERS – Continued**

Generally, these loans are collateralized by the primary residence of the member. In providing first mortgage loan services to members, the Credit Union requires escrow accounts for the purpose of paying property taxes and homeowner's insurance premiums. In keeping with credit union philosophy, the Credit Union pays interest on the escrow account balances at share account rates (\$201,638 in 2023 \$167,543 in 2022). As an additional means of meeting member loan demand, increasing liquidity, and managing the mix of assets on the balance sheet, the Credit Union may periodically sell loans. During fiscal year 2023, the Credit Union sold \$2,562,120 of adjustable rate mortgage loans (\$0 in 2022). There were no fixed rate first mortgage loans sold during 2023 and 2022.

The Credit Union offers special mortgage loan programs for first time homebuyers. The "First Time Homebuyer" mortgage program provides 100% 5-year adjustable rate financing to qualifying first time home buyers. The program allows the first-time homebuyer to finance an additional \$2,000 to pay for closing costs. The First Time Homebuyer mortgage loan program is also available to new teachers and state employees who move or transfer into a North Carolina community and finance their home within the first 12 months of their change. SECU has partnered with North Carolina Housing Finance Agency and Federal Home Loan Bank – Atlanta to offer additional programs to assist first-time homebuyers.

To further assist members, including those caught in subprime mortgage loans, the Credit Union introduced four additional first mortgage loan products during 2008 - 15, 20, 25 and 30-year fixed rate portfolio mortgage loans. In 2013, a 10-year fixed rate first mortgage loan option was added. In 2020, SECU reintroduced the 20-year fixed rate mortgage loan. In 2021, the 30-year fixed rate mortgage loan was reintroduced by SECU as a mortgage loan option.

In February 2009, SECU created the Mortgage Assistance Program (MAP) to help members maintain homeownership through the difficult financial challenges of the recession. The MAP program provides members opportunities to meet with SECU managers to develop specific financial plans through in-depth counseling and budgeting. Assistance is provided through a number of options including payment extensions, interest rate reductions for qualifying loans, term extensions, partial payment plans, loan refinances and other actions intended to assist members and their families. Since 2009, over 17,000 families have been assisted by this program. By the end of fiscal year 2023, over 11,000 have been successful in the MAP program by having made 11 payments in the previous 12 months or paid at least six consecutive monthly payments.

During 2009, the Credit Union introduced Biweekly mortgage payment options to members by offering many existing mortgage loan products under new Biweekly repayment options to accommodate the increasing number of members who are paid in this manner.

SECU provides "Salary Advance Loans" to members in need of small dollar loans to be repaid on the next payday. These loans for up to \$500 are provided at a 16.25% interest rate on unsecured loans for no longer than 31 days (9.75% for share secured loans). There are no additional fees or expenses charged to the member. The maximum cost is \$7.00. This inexpensive service helps replace the exorbitant and predatory prices that are charged by payday lenders and check cashing outlets for payday/check cashing loans.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 4 – LOANS TO MEMBERS – Continued**

The Credit Union added a savings component to this service during 2003 in which 5% of the loan advance is deposited into a share account in the name of the member. In 2011, a savings component of 7% was established for those loans with \$500 in this share account (a fully-secured loan). These member-owned funds accumulate and can be used by members to break the payday loan cycle. At June 30, 2023, balances in these share accounts totaled \$57.4 million (\$60.6 million at June 30, 2022).

SECU recognizes the financial challenge of providing a college education for members and their families and actively supports the financing of higher education directly through loans to members and through participation in the College Foundation, Inc. (CFI). CFI is a non-profit organization which coordinates the origination and servicing of Guaranteed Student Loans (Stafford Loans). The repayment of 97% of the principal and interest of these loans is guaranteed by state and federal agencies. The Credit Union has also purchased rehabilitated Guaranteed Student Loans (Stafford Loans) through CFI. Rehabilitated student loans are loans on which students have defaulted and subsequently agreed to an updated repayment plan and thereafter have made nine consecutive on time payments. Students who participate in this federal program reestablish their credit rating which improves their eligibility for obtaining all types of credit including additional student loans in order to complete their education. During the fiscal year ended June 30, 2023, proceeds of \$9.0 million were recognized on the sale of all remaining CFI loans held. The outstanding balance of all types of student loans purchased from CFI at June 30, 2023 was zero (\$9.7 million at June 30, 2022).

Personal and mortgage loan interest is not accrued and recognized as income on loans greater than 90 days delinquent. Personal loans, on which the accrual of interest has been discontinued, totaled \$63.5 million at June 30, 2023 and \$33.7 million at June 30, 2022. If interest on those personal loans had been accrued at originally contracted rates, interest income would have been \$974,726 higher for 2023 and \$521,814 higher for 2022. Mortgage loans on which the accrual of interest had been discontinued totaled \$203.2 million at June 30, 2023 and \$176.4 million at June 30, 2022. If interest on those mortgage loans had been accrued at originally contracted rates, interest income would have been \$4,930,557 higher for 2023 and \$5,983,375 higher for 2022.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 – LOANS TO MEMBERS – Continued**

The composition of loans to members at June 30, 2023 and 2022 is as follows:

	2023	Weighted average yield	2022	Weighted average yield
<b>Real Estate Loans</b>				
First mortgage loans	\$ 23,030,588,149	3.94%	\$ 20,149,085,121	4.02%
Home equity loans	1,889,906,602	3.39%	1,174,789,689	2.98%
	24,920,494,751	3.90%	21,323,874,810	3.97%
<b>Personal Loans</b>				
Vehicle loans	3,852,248,215	6.94%	\$3,378,655,280	4.49%
Consumer loans	2,071,586,052	7.17%	1,647,076,038	10.56%
Credit card loans	1,060,260,188	10.68%	920,555,230	7.36%
Other secured loans	21,262,685	3.72%	28,872,083	4.17%
	7,005,357,140	7.57%	5,975,158,631	6.60%
	31,925,851,891	4.71%	27,299,033,441	4.55%
Less allowance for loan losses	(329,668,934)		(332,529,945)	
<b>Total loans</b>	<b>\$ 31,596,182,957</b>		<b>\$ 26,966,503,496</b>	

The Credit Union approves lines of credit to members through home equity, credit card, construction loans and reverse mortgages. At June 30, 2023, in addition to the actual advances made on such loans, Credit Union members have additional lines of credit available on home equity, credit card, consumer, construction loans and reverse mortgages of approximately \$2,202,000,000, \$2,213,000,000, \$441,000,000, \$3,000,000 and \$800,000 respectively (\$1,727,000,000, \$1,962,000,000, \$400,000,000, \$152,000,000 and \$1,000,000 respectively, at June 30, 2022). The Credit Union has \$131 million of first mortgage loans in the process of being closed at June 30, 2023 (\$244 million at June 30, 2022).

The Credit Union does not enter into forward commitments to sell and deliver fixed rate mortgage loans to outside investors. During 2023 and 2022 the Credit Union did not originate first mortgage loans for sale on the secondary market. Net deferred fees are shown as a reduction in the balance of mortgage loans and are amortized into interest income as an adjustment in yield over the lives of the loans using the effective interest method. The total net deferred fees at June 30, 2023 were \$132.0 million (\$116.0 million at June 30, 2022). Direct loan origination costs on home equity and consumer loans are recognized in expenses when incurred.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 5 - ALLOWANCE FOR LOAN LOSSES**

Management has established an allowance for loan losses that estimates losses inherent in the loan portfolio. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes that the principal and interest are uncollectible. Any recoveries of previously charged off loans are recorded to the allowance to offset the charge-off.

A summary of the activity in the allowance for loan losses by portfolio segment for the years ended June 30, 2023 and 2022 are as follows:

<b>2023</b>	<b>Real Estate Loans</b>	<b>Personal Loans</b>	<b>Total</b>
<b>Allowance for loan losses:</b>			
Beginning balance	\$ 63,242,614	\$ 269,287,331	\$ 332,529,945
Provision (Credit) for loan losses	(13,524,233)	151,024,233	137,500,000
Charge-offs	(1,534,260)	(160,446,828)	(161,981,088)
Recoveries	319,031	21,301,046	21,620,077
<b>Ending balance</b>	<b>\$ 48,503,152</b>	<b>\$ 281,165,782</b>	<b>\$ 329,668,934</b>

<b>2022</b>	<b>Real Estate Loans</b>	<b>Personal Loans</b>	<b>Total</b>
<b>Allowance for loan losses:</b>			
Beginning balance	\$ 70,640,126	\$ 327,534,205	\$ 398,174,331
Provision (Credit) for loan losses	(6,936,613)	6,936,613	-
Charge-offs	(1,125,735)	(83,189,683)	(84,315,418)
Recoveries	664,836	18,006,196	18,671,032
<b>Ending balance</b>	<b>\$ 63,242,614</b>	<b>\$ 269,287,331</b>	<b>\$ 332,529,945</b>

Net loan charge-offs represent 0.44% and 0.24% of total loans outstanding at June 30, 2023 and 2022 respectively.

The Credit Union loan portfolio consists of large groups of smaller-balance homogeneous loans that are primarily collectively evaluated for impairment. Loans classified as TDRs are individually evaluated for impairment. The following table displays the allowance for loan losses by segment and method of evaluation for impairment:

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 5 – ALLOWANCE FOR LOAN LOSSES – Continued**

<b>2023</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
Ending balance:			
Individually evaluated for impairment	\$ 5,117,538	\$ 48,898,668	\$ 54,016,206
Collectively evaluated for impairment	43,385,614	232,267,114	275,652,728
<b>Ending balance</b>	<u>\$ 48,503,152</u>	<u>\$ 281,165,782</u>	<u>\$ 329,668,934</u>

<b>2022</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
Ending balance:			
Individually evaluated for impairment	\$ 6,475,992	\$ 23,542,017	\$ 30,018,009
Collectively evaluated for impairment	56,766,622	245,745,314	302,511,936
<b>Ending balance</b>	<u>\$ 63,242,614</u>	<u>\$ 269,287,331</u>	<u>\$ 332,529,945</u>

A summary of unpaid principal balance, net of deferred fees, for loans by portfolio segment and method of evaluation for impairment for the years ended June 30, 2023 and 2022 are as follows:

<b>2023</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
<b>Loans to members:</b>			
Individually evaluated for impairment	\$ 400,596,465	\$ 87,660,551	\$ 488,257,016
Collectively evaluated for impairment	24,519,898,286	6,917,696,589	31,437,594,875
<b>Ending balance</b>	<u>\$ 24,920,494,751</u>	<u>\$ 7,005,357,140</u>	<u>\$ 31,925,851,891</u>

<b>2022</b>	<u><b>Real Estate Loans</b></u>	<u><b>Personal Loans</b></u>	<u><b>Total</b></u>
<b>Loans to members:</b>			
Individually evaluated for impairment	\$ 437,863,118	\$ 60,694,680	\$ 498,557,798
Collectively evaluated for impairment	20,886,011,692	5,914,463,951	26,800,475,643
<b>Ending balance</b>	<u>\$ 21,323,874,810</u>	<u>\$ 5,975,158,631</u>	<u>\$ 27,299,033,441</u>

**Impaired Loans**

A loan is impaired when it is probable, based on current information and events, that the Credit Union will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 5 – ALLOWANCE FOR LOAN LOSSES – Continued**

the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral less selling costs instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred origination loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the period. Interest is credited to interest income when received, under the cash basis method. The average balances are calculated based on the year-end balances of the loans for the period reported.

Impaired loans by loan class with a specific reserve recorded as of June 30, 2023 and 2022 are as follows:

<b>2023</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>Real Estate</b>					
First mortgage	\$ 393,481,317	\$ 391,325,765	\$ 5,091,155	\$ 447,028,717	\$ 17,311,017
Home equity	9,302,322	9,270,700	26,383	9,593,215	923,322
<b>Personal Loans</b>					
Vehicle	51,846,210	51,677,418	19,271,469	45,746,303	7,314,461
Consumer	26,172,288	25,965,299	19,609,365	25,461,045	5,502,388
Credit card	10,017,834	10,017,834	10,017,834	10,017,834	1,043,722
<b>Total</b>	<b>\$ 490,819,971</b>	<b>\$ 488,257,016</b>	<b>\$ 54,016,206</b>	<b>\$ 537,847,114</b>	<b>\$ 32,094,910</b>

<b>2022</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>Real Estate</b>					
First mortgage	\$ 431,891,564	\$ 429,358,660	\$ 6,466,024	\$ 499,323,154	\$ 18,612,487
Home equity	8,519,381	8,504,458	9,968	9,884,107	279,254
<b>Personal Loans</b>					
Vehicle	34,203,573	34,080,989	6,190,489	39,646,395	1,131,799
Consumer	20,980,549	20,830,333	11,568,170	24,749,802	1,773,628
Credit card	5,783,358	5,783,358	5,783,358	5,783,358	368,444
<b>Total</b>	<b>\$ 501,378,425</b>	<b>\$ 498,557,798</b>	<b>\$ 30,018,009</b>	<b>\$ 579,386,816</b>	<b>\$ 22,165,612</b>

**Troubled Debt Restructured Loans**

A summary of loan modifications classified as troubled debt restructurings by class during the years ended June 30, 2023 and 2022 are as follows:

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 5 – ALLOWANCE FOR LOAN LOSSES – Continued**

<b>2023</b>	<b>Number of Modifications</b>	<b>Pre-Modification Outstanding Balance</b>	<b>Post-Modification Outstanding Balance</b>
<b>Real Estate</b>			
First mortgage	594	\$ 73,484,275	\$ 73,484,275
Home equity	11	235,010	235,010
<b>Personal Loans</b>			
Vehicle	324	3,972,300	3,972,300
Consumer	108	1,018,082	1,018,082
Credit card	510	3,140,727	3,140,727
Other secured	-	-	-
<b>Total</b>	<b>1,547</b>	<b>\$ 81,850,394</b>	<b>\$ 81,850,394.00</b>

<b>2022</b>	<b>Number of Modifications</b>	<b>Pre-Modification Outstanding Balance</b>	<b>Post-Modification Outstanding Balance</b>
<b>Real Estate</b>			
First mortgage	572	\$ 72,045,791	\$ 72,045,791
Home equity	34	901,443	901,443
<b>Personal Loans</b>			
Vehicle	1,405	17,689,019	17,689,019
Consumer	722	6,134,473	6,134,473
Credit card	423	2,289,661	2,289,661
Other secured	-	-	-
<b>Total</b>	<b>3,156</b>	<b>\$ 99,060,387</b>	<b>\$ 99,060,387.00</b>

The table below shows a summary of loan modifications that occurred during the past year and have since defaulted on the loan payment. SECU defines “default” as becoming 90 or more days past due.

	<b>For the Year Ended 6/30/2023</b>		<b>For the Year Ended 6/30/2022</b>	
	<b>Number of Loans</b>	<b>Loan Amounts</b>	<b>Number of Loans</b>	<b>Loan Amounts</b>
<b>Real estate</b>				
First mortgage	17	\$ 2,584,734	7	\$ 1,219,037
Home equity	11	235,010	14	225,602
<b>Personal Loans</b>				
Vehicle	324	3,972,300	172	1,415,172
Consumer	108	1,018,082	55	335,250
Credit card	28	172,880	9	44,303
<b>Total</b>	<b>488</b>	<b>\$ 7,983,006</b>	<b>257</b>	<b>\$ 3,239,364</b>

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5 - ALLOWANCE FOR LOAN LOSSES – Continued**

**Delinquent Loans and Loan Balances**

The table below provides an age analysis of past due loans by class at June 30, 2023 and 2022.

<b>2023</b>	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days or Greater</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans to Members</b>
<b>Real Estate</b>						
First mortgage	\$ 534,995,263	\$ 194,131,618	\$ 199,560,804	\$ 928,687,685	\$ 22,101,900,464	\$ 23,030,588,149
Home equity	5,183,469	3,331,494	3,687,002	12,201,965	1,877,704,637	1,889,906,602
<b>Personal Loans</b>						
Vehicle	75,954,917	37,232,625	40,768,638	153,956,180	3,698,292,035	3,852,248,215
Consumer	28,279,772	16,663,143	14,498,568	59,441,483	2,012,144,569	2,071,586,052
Credit card	13,940,025	7,880,966	8,178,014	29,999,005	1,030,261,183	1,060,260,188
Other secured	163,018	54,963	5,694	223,675	21,039,010	21,262,685
<b>Total</b>	<b>\$ 658,516,464</b>	<b>\$ 259,294,809</b>	<b>\$ 266,698,720</b>	<b>\$ 1,184,509,993</b>	<b>\$ 30,741,341,898</b>	<b>\$ 31,925,851,891</b>

<b>2022</b>	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days or Greater</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans to Members</b>
<b>Real Estate</b>						
First mortgage	\$ 390,056,755	\$ 131,712,862	\$ 174,325,883	\$ 696,095,500	\$ 19,452,989,621	\$ 20,149,085,121
Home equity	3,015,591	1,960,995	2,037,021	7,013,607	1,167,776,082	1,174,789,689
<b>Personal Loans</b>						
Vehicle	60,572,905	25,574,321	23,295,042	109,442,268	3,269,213,012	3,378,655,280
Consumer	21,058,553	9,960,827	6,928,663	37,948,043	1,609,127,995	1,647,076,038
Credit card	11,885,608	5,075,133	3,467,164	20,427,905	900,127,325	920,555,230
Other secured	98,914	7,609	26,345	132,868	28,739,215	28,872,083
<b>Total</b>	<b>\$ 486,688,326</b>	<b>\$ 174,291,747</b>	<b>\$ 210,080,118</b>	<b>\$ 871,060,191</b>	<b>\$ 26,427,973,250</b>	<b>\$ 27,299,033,441</b>

Loans are placed in non-accrual status if they are past due for a period of 90 days or more. Interest is not accrued or recognized as income on loans 90 days or greater delinquent. The Credit Union had no loans that were 90 days and greater for which the loans were accruing interest at June 30, 2023 and 2022.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5 - ALLOWANCE FOR LOAN LOSSES – Continued**

A summary of non-accrual loans by class at June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
<b>Real Estate</b>		
First mortgage	\$ 199,560,804	\$ 174,325,883
Home equity	3,687,002	2,037,021
<b>Personal Loans</b>		
Vehicle	40,768,638	23,295,042
Consumer	14,498,568	6,928,663
Credit card	8,178,014	3,467,164
Other secured	5,694	26,345
<b>Total</b>	<u>\$ 266,698,720</u>	<u>\$ 210,080,118</u>
Foregone interest on non-accrual loans	\$ 5,905,283	\$ 6,505,189

**Real Estate and Personal Loan Credit Quality Indicators**

As part of the on-going monitoring of the credit quality of the real estate and personal loan portfolios, management tracks certain credit quality indicators based on whether the loans are performing or non-performing. To differentiate these categories, management tracks loan performance and when loans become 90 days or more past due, the loans are classified as non-performing. The delinquency reports enable lending personnel and Credit Union management to monitor the loan portfolio.

The real estate credit risk profile based on payment activity by class at June 30, 2023 and 2022 is as follows:

<u>2023</u>	<u>First Mortgage</u>	<u>Home Equity</u>	<u>Total</u>
Performing	\$ 22,831,027,345	\$ 1,886,219,600	\$ 24,717,246,945
Non-performing	199,560,804	3,687,002	203,247,806
<b>Total</b>	<u>\$ 23,030,588,149</u>	<u>\$ 1,889,906,602</u>	<u>\$ 24,920,494,751</u>
<u>2022</u>	<u>First Mortgage</u>	<u>Home Equity</u>	<u>Total</u>
Performing	\$ 19,974,759,238	\$ 1,172,752,668	\$ 21,147,511,906
Non-performing	174,325,883	2,037,021	176,362,904
<b>Total</b>	<u>\$ 20,149,085,121</u>	<u>\$ 1,174,789,689</u>	<u>\$ 21,323,874,810</u>

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**NOTE 5 - ALLOWANCE FOR LOAN LOSSES – Continued**

The personal loan credit risk profile based on payment activity by class at June 30, 2023 and 2022 is as follows:

<b><u>2023</u></b>	<b><u>Vehicle</u></b>	<b><u>Consumer</u></b>	<b><u>Credit Card</u></b>	<b><u>Other Secured</u></b>	<b><u>Total</u></b>
Performing	\$ 3,811,479,577	\$ 2,057,087,484	\$ 1,052,082,174	\$ 21,256,991	\$ 6,941,906,226
Non-performing	40,768,638	14,498,568	8,178,014	5,694	63,450,914
<b>Total</b>	<b>\$ 3,852,248,215</b>	<b>\$ 2,071,586,052</b>	<b>\$ 1,060,260,188</b>	<b>\$ 21,262,685</b>	<b>\$ 7,005,357,140</b>

  

<b><u>2022</u></b>	<b><u>Vehicle</u></b>	<b><u>Consumer</u></b>	<b><u>Credit Card</u></b>	<b><u>Other Secured</u></b>	<b><u>Total</u></b>
Performing	\$ 3,355,360,238	\$ 1,640,147,375	\$ 917,088,066	\$ 28,845,738	\$ 5,941,441,417
Non-performing	23,295,042	6,928,663	3,467,164	26,345	33,717,214
<b>Total</b>	<b>\$ 3,378,655,280</b>	<b>\$ 1,647,076,038</b>	<b>\$ 920,555,230</b>	<b>\$ 28,872,083</b>	<b>\$ 5,975,158,631</b>

**NOTE 6 – REAL ESTATE OWNED AND COLLATERAL IN LIQUIDATION**

The Credit Union records real estate acquired through foreclosure (real estate owned) at the lower of cost or fair value and includes such amounts in Other Assets on the Consolidated Balance Sheets. Real estate owned is written down to estimated fair value as of the date of foreclosure through a charge against the allowance for loan loss account. The fair value of these properties is an estimate of management based on the marketability of properties under current and projected economic conditions. During fiscal year 2023, \$6,097,219 was transferred from the loan portfolio to real estate owned; \$6,413,562 was transferred during fiscal year 2022. The lower of cost or fair value of real estate owned at June 30, 2023 is \$1,815,032 (\$2,011,197 at June 30, 2022). The valuation allowance has a balance of \$459,996 at June 30, 2023 (\$533,276 at June 30, 2022). The balance of net real estate owned at June 30, 2023 represents 0.01% of the total loan portfolio (0.01% at June 30, 2022).

The Credit Union sold real estate owned properties to its wholly-owned property management company, SECU\*RE, totaling \$5.4 million during fiscal year 2023 (\$5.8 million in fiscal year 2022). The transfer price for the properties is the estimated fair value as determined through independent market appraisals.

The Credit Union records vehicles acquired through repossession at the lower of cost or fair value and include such amounts in Other Assets on the Consolidated Balance Sheets. Collateral in liquidation is written down to the estimated fair value as of the date of repossession through a charge against the allowance for loan loss account. The lower of cost or fair value of collateral in liquidation at June 30, 2023 is \$2,941,823 (\$2,665,605 at June 30, 2022). The valuation allowance has a balance of \$3,501,486 at June 30, 2023 (\$1,813,429 at June 30, 2022).

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**NOTE 7 - DEPOSIT FOR FEDERAL INSURANCE OF MEMBER ACCOUNTS**

The share deposits of members of the Credit Union are insured by the NCUA to a maximum of \$250,000 per ownership interest through the National Credit Union Share Insurance Fund (NCUSIF or Fund). The NCUSIF is a national cooperative insurance fund administered by the NCUA and funded by credit unions. All federally insured credit unions, including corporate credit unions, invest monies in the NCUSIF to provide the protection of federal deposit insurance on member accounts. The required investment is one percent of the insurable share balances of each institution as determined semi-annually on June 30 and December 31. These investments and the earnings that they provide are used to cover insurance losses of federally insured credit unions and for the operation of the Fund and the NCUA. The NCUA can also raise monies to maintain the financial soundness of the Fund by levying premium assessments against all federally insured credit unions. From 1985 through 2008, due to the financial strength of the Share Insurance Fund, the NCUA Board waived assessing an insurance premium every year except 1992.

The accumulation of the funds in the NCUSIF helps assure credit unions of the soundness of their cooperative federal deposit insurance program. The NCUA insurance fund is the only federal deposit insurance fund that establishes balance sheet reserves for anticipated future losses for all problem institutions. The fund is monitored by the NCUA to ensure proper equity ratios are maintained. The investment in federal insurance of accounts is an asset of the Credit Union and would be refunded to SECU if insurance coverage were terminated, if insurance coverage were obtained from another source or if the operations of the Share Insurance Fund were transferred from the NCUA Board. The outstanding balance of this investment is \$426,400,072 at June 30, 2023 (\$430,577,265 at June 30, 2022).

**NOTE 8 - PROPERTY AND EQUIPMENT**

	<u>2023</u>	<u>2022</u>
Land	\$ 292,654,707	\$ 285,603,165
Buildings	1,159,091,446	1,086,064,875
Construction in progress	6,325,661	9,983,364
Leasehold improvements	7,415,897	7,207,477
Computer, office equipment, and furnishings	617,282,995	578,753,788
	<u>2,082,770,706</u>	<u>1,967,612,669</u>
Less accumulated depreciation and amortization	(835,364,116)	(755,032,993)
	<u>\$ 1,247,406,590</u>	<u>\$ 1,212,579,676</u>

The net investment in land, buildings and construction in progress represents 2.25% of total Credit Union assets at June 30, 2023 and 2.02% at June 30, 2022. At June 30, 2023, the estimated additional cost to complete buildings under construction is approximately \$7.4 million. SECU owns and occupies nine operations center buildings in the Raleigh, North

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**NOTE 8 - PROPERTY AND EQUIPMENT - Continued**

Carolina (Wake County) area and two Member Services Support center buildings in Rocky Mount, North Carolina (Nash County) and Greensboro, North Carolina (Guilford County) . In addition to the owned and occupied operations centers, SECU also leases a Member Services Support center located in Asheville, North Carolina (Buncombe County) and leases two Data Processing Centers.

During fiscal year 2023, SECU occupied three new branch office buildings. Two branches opened during fiscal year 2023: China Grove and Raleigh – Midtown Market Ave. SECU acquired property for future use in Wake County. SECU owns 274 branch office buildings and occupies rental space at two branch office locations. These facilities are in communities that span the State of North Carolina. SECU provides services and pays business real and personal property taxes in all 100 counties of North Carolina. In 2023 the Credit Union paid \$13.9 million in property taxes (\$13.7 million in 2022).

The Credit Union also leases space to tenants in an office building and a branch location. The rental terms range from one to ten years. The leases provide for the payment of fixed base rents payable monthly in advance. During fiscal year 2021 and 2020, the Credit Union entered into leasing agreements for its building in Chapel Hill. Lease payments commenced during fiscal year 2021.

Future base rental revenue under these non-cancelable operating leases for the years ending June 30 is as follows. The table below is inclusive of all rental revenue to be generated by the Credit Union and its consolidating subsidiaries.

<u>Year</u>	<u>Lease Payments</u>
2024	\$ 13,042,841
2025	1,961,184
2026	1,681,884
2027	1,681,884
Thereafter	5,678,810
	<u>\$ 24,046,603</u>

Leasing commissions associated with the acquisition of tenants are capitalized and amortized on a straight-line basis over the terms of the related leases. During the years ended June 30, 2023 and 2022, there were no capitalized commission amounts relating to successful leasing activities.

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**NOTE 9 - MEMBER SHARE DEPOSITS**

Following is a summary of member share account balances at June 30, 2023 and 2022:

	<b>2023</b>		<b>2022</b>	
	<b>Amount</b>	<b>Weighted Average Yield</b>	<b>Amount</b>	<b>Weighted Average Yield</b>
Share accounts	\$ 7,884,901,090	0.11%	\$ 8,629,582,492	0.10%
Individual retirement share accounts	3,659,704,727	1.53%	4,030,674,087	0.46%
Money market share accounts	18,940,988,763	0.82%	24,624,745,742	0.16%
Share term certificates	7,415,838,871	2.05%	4,491,870,243	1.17%
	<u>\$ 37,901,433,451</u>	0.91%	<u>\$ 41,776,872,564</u>	0.30%

Share and deposit amounts up to \$250,000 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding \$250,000 totaled \$3.1 billion at June 30, 2023 (\$4.1 billion at June 30, 2022). The amount of share term certificates that exceeded \$250,000 was \$1.43 billion at June 30, 2023 (\$695.6 million at June 30, 2022). The Credit Union does not solicit nor does it accept commercial deposits, governmental deposits, business deposits or brokered deposits.

Maturities of share term certificates, for the years ending June 30 are as follows:

<b>Year</b>	<b>Amount Maturing</b>
2024	\$ 5,327,533,923
2025	1,666,531,030
2026	109,319,647
2027	69,790,149
2028	241,775,174
2029 and thereafter	888,948
	<u>\$ 7,415,838,871</u>

**NOTE 10 - SHORT TERM BORROWINGS**

At June 30, 2023 SECU has lines of credit available for use in the amounts of \$13.26 billion (\$11.75 billion at June 30, 2022 ) from the Federal Home Loan Bank of Atlanta and \$924 million (\$954 million at June 30, 2022 ) from the Federal Reserve Bank of Richmond. First mortgage loans of the Credit Union totaling \$19.4 billion at June 30, 2023 (\$16.1 billion at June 30, 2022 ) secure these lines of credit. At June 30, 2023 and 2022 the Credit Union had no outstanding obligations from borrowed funds. Funds required for operations are primarily obtained through the growth of member deposits, the receipt of loan payments or the redemption of securities owned by the Credit Union.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 11 – COMMITMENTS**

The Credit Union leases certain office space and computer equipment under various lease arrangements. The leases for office space and computer equipment are classified as operating leases.

The total rental expense under operating leases during the year ended June 30, 2023 was \$12,239,257 (\$15,587,533 in 2022). Minimum future lease payments by year under non-cancelable operating leases at June 30, 2023 are as follows:

Year	Operating Leases
2024	\$ 931,849
2025	995,840
2026	1,215,531
2027	1,236,841
2028 and thereafter	28,380,483
Total Undiscounted lease payments	32,760,544
Less: Imputed Interest	(1,656,115)
Total Lease liabilities	\$ 31,104,429

Right of use lease assets and lease liabilities were calculated using a weighted average discount rate (incremental borrowing rate) of 1.85% at June 30, 2023.

In the normal course of business, the Credit Union may be subject to legal actions. At June 30, 2023 and June 30, 2022, there were no such actions which, in management's opinion, were material to the financial condition of the Credit Union.

**NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated Other Comprehensive Loss (AOCL) represents the balance of items recognized through other comprehensive loss. The components of AOCL include the valuation adjustments for securities available for sale, gains and losses associated with postretirement benefits and prior service costs associated with postretirement benefits. The following table presents the components of AOCL and the changes that occurred during the years ended June 30, 2023 and 2022. In addition, the table identifies the line item component of the consolidated statements of income and undivided earnings that was impacted by reclassifications of AOCL during the year.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE LOSS - Continued**

<u>2023</u>	Unrealized net losses on available for sale securities	Unrecognized postretirement (loss)/income	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
<b>Balance at June 30, 2022</b>	\$ (882,288,964)	\$ (11,938,594)	\$ (894,227,558)	
Unrealized net losses on available for sale securities:				
Unrealized holding losses on securities available for sale arising during the period	(258,209,545)	-	(258,209,545)	
Postretirement benefit plan:				
Net gain	-	40,008,754	40,008,754	
Prior Service Cost		(13,080,372)	(13,080,372)	
Reclassification included in net income:				
Amortization of net gain	-	(1,311,874)	(1,311,874)	Other operating expenses
Amortization of prior service cost	-	1,912,568	1,912,568	Other operating expenses
Curtailement Recognition		3,448,449	3,448,449	Other operating expenses
Net change in AOCI	(258,209,545)	30,977,525	(227,232,020)	
<b>Balance at June 30, 2023</b>	\$ (1,140,498,509)	\$ 19,038,931	\$ (1,121,459,578)	

<u>2022</u>	Unrealized net losses on available for sale securities	Unrecognized postretirement loss	Total	Line item component on consolidated statement of income and undivided earnings impacted by AOCL reclassification
<b>Balance at June 30, 2021</b>	\$ (109,620,466)	\$ (13,261,237)	\$ (122,881,703)	
Unrealized net losses on available for sale securities:				
Unrealized holding losses on securities available for sale arising during the period	(772,668,498)	-	(772,668,498)	
Postretirement benefit plan:				
Net loss	-	(710,091)	(710,091)	
Reclassification included in net income:				
Amortization of net loss		416,199	416,199	Other operating expenses
Amortization of prior service cost	-	1,616,535	1,616,535	Other operating expenses
Net change in AOCI	(772,668,498)	1,322,643	(771,345,855)	
<b>Balance at June 30, 2022</b>	\$ (882,288,964)	\$ (11,938,594)	\$ (894,227,558)	

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 13 - EMPLOYEE BENEFITS**

SECU employs 7,652 full-time and 538 part-time employees in operations and branch locations located in all 100 counties of North Carolina. Full-time Credit Union employees participate in a 401(k) defined contribution plan administered by an independent investment provider. The contributions of plan participants are matched by the Credit Union at rates established by the Board of Directors. The retirement plan is fully funded and has no associated past service liability. For the years ended June 30, 2023 and 2022, the cost of the retirement plan (\$51,922,083 and \$45,942,501, respectively) is included in Salaries and Employee Benefits in the consolidated statements of income and undivided earnings.

SECU provides a non-qualified deferred compensation plan as allowed under Internal Revenue Code Section 457(b) to certain employees defined as highly compensated. This plan offers a before-tax savings opportunity to participants. The annual deferral amount allowed mirrors the 401(k) plan and contributions are invested by participants through the same options provided within the 401(k) plan. Contributions are not matched by the Credit Union. There is no expense to the Credit Union.

The President/Chief Executive Officer is responsible for the day-to-day operations of the Credit Union in accordance with the bylaws of SECU and federal and North Carolina rules, regulations and laws applicable to state-chartered credit unions. The President serves at the pleasure of the Board of Directors. The Board has executed a formal employment contract with the President which is subject to renewal annually. The compensation of the President is set by the Board of Directors and is also determined annually. Periodic studies of the market value of the position are determined through independent third-party compensation experts who benchmark the position to the marketplace. The President receives the same life, medical and dental insurance, long term disability and 401(k) benefits that are available to all SECU employees through a cafeteria benefits plan.

The Credit Union has a self-funded insurance plan for employee health and medical expenses. Contributions by employees fund a reserve from which medical claims are paid. Required employee contributions are calculated based on actual employee claims experience over a twelve-month history in order to reasonably estimate and fund the reserve for 100% of the projected annual insurance claims. Additionally, the Credit Union has purchased stop-loss insurance coverage to provide protection against individual claims exceeding \$750,000. In addition to covering the exposure to potential loss prior to stop-loss insurance coverage the balance of funds on deposit in the reserve is available to pay insurance claims incurred but not yet reported, claims in the process of settlement and unanticipated significant claims over several periods. At June 30, 2023, the balance of the employee medical reserve was \$12,132,391 (\$10,068,856 at June 30, 2022). These funds are maintained in a deposit account at the Credit Union.

The Credit Union recognizes postretirement benefit expenses and liabilities on the accrual rather than cash basis. Qualifying SECU retirees are eligible for a fixed allowance toward medical insurance based on a years-of-service, age-at-retirement formula. The Credit Union has invested monies to fully fund a reserve to meet the estimated obligation for these future postretirement payments.

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 13 - EMPLOYEE BENEFITS – Continued**

At June 30, 2023, the balance of the postretirement benefit reserve was \$166,266,629 (\$156,044,867 at June 30, 2022). These funds are maintained in a deposit account at the Credit Union.

Information relating to the postretirement plan at June 30 is presented in the following tables:

	<u>2023</u>	<u>2022</u>
Amounts recognized at June 30:		
Accumulated benefit obligations	\$ 113,669,877	\$ 137,371,978
Fair value of plan assets	<u>166,266,629</u>	<u>156,044,867</u>
Plan assets in excess of benefit obligations included in other assets	\$ 52,596,752	\$ 18,672,889
Assumptions used to determine benefit obligations:		
Weighted average discount rate	4.97%	4.22%
Assumed health care cost trend rate:		
Initial rate	8.00%	8.00%
Ultimate rate	4.75%	5.00%
Year ultimate rate reached	2031	2030

Information relating to the net periodic benefit costs, contributions and benefits paid is shown in the following table:

	<u>2023</u>	<u>2022</u>
Amounts recognized for years ended June 30:		
Service costs	\$ 4,908,083	\$ 10,373,390
Interest Cost	5,175,394	4,719,601
Expected Return on Assets	(6,806,391)	(6,391,431)
Amortization of Net (Gain)/Loss	(1,311,874)	416,199
Amortization of Prior Service Cost	1,912,568	1,616,535
Curtailment Recognition	<u>3,448,449</u>	<u>-</u>
Net Postretirement Benefit Cost	\$ 7,326,229	\$ 10,734,294
Employer contributions	10,265,578	11,049,288
Participant contributions		
Benefits paid	\$ 2,563,619	\$ 2,700,025
Assumptions used to determine net periodic benefit cost:		
Weighted average discount rate	4.22%	3.03%
Expected long-term rate of return on assets	4.25%	4.25%
Assumed health care cost trend rate:		
Initial rate	7.50%	7.50%
Ultimate rate	5.00%	4.85%
Year ultimate rate reached	2029	2029

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 13 - EMPLOYEE BENEFITS – Continued**

The discount rate, expected rate of return on plan assets and health care cost trend rate are assumptions which significantly affect postretirement accounting. Relatively small changes in these rates can substantially change the recorded postretirement expense and accrued liability. Management believes the discount rate, expected rate of return on plan assets and health care cost trend rate used in determining the year-end postretirement amounts are reasonable based on currently available information.

The amounts recognized in accumulated other comprehensive loss and amortized through other comprehensive income (loss) are shown below:

	<u>2023</u>	<u>2022</u>
Amounts recognized at June 30:		
Net gain	\$ 41,338,896	\$ 2,642,016
Prior service cost	(22,299,965)	(14,580,610)
Accumulated other comprehensive income/(loss)	<u>\$ 19,038,931</u>	<u>\$ (11,938,594)</u>
Amounts recognized for years ended June 30:		
Net gain (loss)	\$ 40,008,754	\$ (710,091)
Prior Service Cost	(13,080,372)	-
Amortization of net (gain)/loss	(1,311,874)	416,199
Amortization of prior service cost	1,912,568	1,616,535
Curtailment Recognition	<u>3,448,449</u>	-
Total recognized in other comprehensive loss	<u>\$ 30,977,525</u>	<u>\$ 1,322,643</u>

Since 2015, the Credit Union has received a full valuation of postretirement benefits which resulted in the recognition of prior service cost. The estimated prior service costs for the postretirement benefit that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is \$1,884,730.

The expected contributions of the Credit Union for the next fiscal year beginning July 1, 2023 are \$0 at June 30, 2023. The following table estimates the net benefits to be paid out over the next ten fiscal years:

<u>Year</u>	<u>Net Postretirement Benefits</u>
2024	\$ 4,248,007
2025	4,454,945
2026	4,814,745
2027	5,203,116
2028	5,550,099
2027-2033	<u>31,602,514</u>
	<u>\$ 55,873,426</u>

**STATE EMPLOYEES' CREDIT UNION**  
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**NOTE 14 – RELATED PARTY TRANSACTIONS**

Members of the Board of Directors, Audit Committee and senior management of the Credit Union have outstanding loans and deposits at the Credit Union. At June 30, 2023 the outstanding balances included 430 loans totaling \$33.8 million (984 loans totaling \$50.6 million at June 30, 2022) and deposits totaling \$20.2 million (\$63.4 million at June 30, 2022). The aggregate principal advances and principal repayment are not significant. Loans were made at the same terms as those available to all other members of the Credit Union. Employees are eligible to receive a 1% discount on fixed rate loans. Deposit accounts earned interest at the same rates provided to all other members of the Credit Union. Members of the Board of Directors, Audit and Loan Review Committees, as volunteers, serve without compensation.

**NOTE 15 – REGULATORY NET WORTH REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation).

Effective January 1, 2022, the NCUA adopted the risk-based capital calculation which applies only to federally-insured, natural person credit unions with quarter-end total assets exceeding \$500 million who do not qualify for, or opt into, the complex credit union leverage ratio (CCULR) framework described in §702.104(d).

As of June 30, 2023, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. In addition, the credit union, if complex, must maintain a minimum risk-based capital ratio of 10% or greater. There are no conditions or events since that notification that management believes have changed the institution's category.

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**NOTE 15 – REGULATORY NET WORTH REQUIREMENTS – continued**

The Credit Union's actual capital amounts and ratios are also presented in the table following:

	<u>Actual</u>		<u>To be Adequately Capitalized Under Prompt Corrective Action Provision</u>		<u>To be Well Capitalized Under Prompt Corrective Action Provision</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b><u>2023</u></b>						
Net Worth	\$ 5,194,750,423	10.47%	\$ 2,977,127,012	6.00%	\$ 3,473,314,847	7.00%
Risk-Based Capital	\$ 5,098,019,285	21.79%	\$ 3,969,502,682	8.00%	\$ 4,961,878,353	10.00%
<b><u>2022</u></b>						
Net Worth	\$ 4,607,796,674	8.82%	\$ 3,133,138,767	6.00%	\$ 3,655,328,562	7.00%
Risk-Based Capital	\$ 4,509,749,354	23.78%	\$ 4,177,518,356	8.00%	\$ 5,221,897,945	10.00%

In performing its calculation of total assets for fiscal year ending June 30, 2023, the Credit Union used the ending asset balance as permitted by the regulation (average of the current and three preceding calendar quarter-end balances was used for 2022).

**NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles require the disclosure of certain information regarding the fair value of instruments recognized in the consolidated balance sheets. Estimates of fair value for financial instruments may be determined through quoted market prices, if available or alternative valuation techniques which include the present value of estimated future cash flows. Fair value estimates involve the use of assumptions, which are subjective and can significantly alter the estimated fair values.

Generally accepted accounting principles establish a hierarchy for inputs used in measuring fair values that maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. The standard defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets, and;

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

Fair value of assets measured on a recurring basis at June 30, 2023 and 2022 are as follows:

<b>2023</b>	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 9,114,024,490	\$ 9,114,024,491	\$ -	\$ -
Agency/GSE Mortgage-Backed Securities	\$ 4,673,246,879	\$ -	\$ 4,673,246,879	\$ -
<b>Equity Investments</b>				
Exchange-traded bond fund	\$ 16,192,992	\$ 16,192,992	\$ -	\$ -
<b>2022</b>				
<b>AFS Investments</b>				
U.S. Treasury Securities	\$ 9,312,929,688	\$ 9,312,929,688	\$ -	\$ -
Agency/GSE Mortgage-Backed Securities	\$ 3,469,160,275	\$ -	\$ 3,469,160,275	\$ -
<b>Equity Investments</b>				
Exchange-traded bond fund	\$ 11,259,590	\$ 11,259,590	\$ -	\$ -

U.S. Treasury securities and Agency/GSEs non-debenture instruments are reported at fair value. The fair values are based upon quoted prices in an active market and reflect unrealized gains and losses on the securities.

The exchange-traded bond fund is also reported at fair value. The fair value is based upon quoted prices in an active market and reflects unrealized gains and losses on the exchange-traded bond fund.

Under certain circumstances, the Credit Union makes adjustments to fair value for assets on a nonrecurring basis. The following table presents the assets carried on the consolidated balance sheet in the fair value hierarchy at June 30, 2023 and 2022 for which a nonrecurring change in fair value has been recorded:

<b>2023</b>	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Loans to members	\$ 434,240,810	\$ -	\$ -	\$ 434,240,810
Real estate owned	\$ 1,815,032	\$ -	\$ -	\$ 1,815,032
<b>2022</b>				
Loans to members	\$ 468,539,789	\$ -	\$ -	\$ 468,539,789
Real estate owned	\$ 2,011,197	\$ -	\$ -	\$ 2,011,197

**STATE EMPLOYEES' CREDIT UNION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2023 AND 2022**

**NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued**

At June 30, 2023, individual loans with unpaid balances of \$488 million (\$498.5 million at June 30, 2022) are carried at their fair value of \$434.2 million (\$468.5 million at June 30, 2022), resulting in an allowance for loan losses of \$54.0 million (\$30.0 million at June 30, 2022).

Amounts applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions.

At June 30, 2023 real estate owned with outstanding balances of \$2.3 million (\$2.5 million at June 30, 2022) are carried at their fair value of \$1.8 million ( \$2.0 million at June 30, 2022), resulting in a valuation allowance of \$460,000 at June 30, 2023 (\$533,000 at June 30, 2022). The amount of the write down is determined by using the appraised value of the underlying collateral less costs to sell.

**NOTE 17 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 11, 2023 the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2023 but prior to September 11, 2023 that provided additional evidence about conditions that existed at June 30, 2023 have been recognized in the consolidated financial statements for the year ended June 30, 2023.

## REPORT OF MANAGEMENT

*Management is responsible for the preparation, presentation, accuracy, and consistency of the financial information contained in this Annual Report. The consolidated financial statements and accompanying notes, prepared in accordance with generally accepted accounting principles, are considered by management to fairly present the financial position and results of operations of the Credit Union.*

*Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The controls are monitored by a staff of internal auditors employed by the Credit Union. The controls are also reviewed and tested by state regulatory authorities, federal examiners, and selectively tested by independent certified public accounting firms.*

*The Audit Committee of the Board of Directors meets periodically with management, internal auditors, and external auditors to review the quality of financial reporting, compliance with internal accounting controls, and the nature, extent, timing, and results of audits and examinations. At least one member of the Audit Committee is considered a financial expert. The Audit Committee recommends the selection of an independent certified public accounting firm which conducts an annual audit of the consolidated financial statements of the Credit Union. The Audit Committee also reviews Internal Audit Department reports on compliance with internal policies, procedures, by-laws, and governing statutes - both state and federal.*

*The Board of Directors oversees the performance of management. The Board meets no less frequently than monthly to review the financial condition and results of operation of the Credit Union. The Board considers many issues relevant to the operation of the Credit Union some of which include: quality of member service, types of deposit and loan services, interest rates, investments, policies, facilities and other service delivery methods, capital accumulation, and current financial trends. Additionally, Standing Committees comprised of Board members regularly meet to address specific areas of Credit Union operations.*

*The Credit Union Division of the State of North Carolina conducts an annual examination of the Credit Union to verify compliance with regulatory statutes and capital requirements and to confirm that assets are being properly safeguarded. The NCUA, a federal agency, conducts an annual insurance review to assure that the operation of the Credit Union continues to contribute to the safety and soundness of the NCUA Share Insurance Fund.*

*Independent certified public accountants retained by the Board of Directors of the Credit Union audit the consolidated financial statements in accordance with generally accepted auditing standards. Their opinion on the consolidated financial statements is based on auditing procedures which include reviewing specific internal controls and performing selected tests of transactions and records. These auditing procedures are designed to provide a reasonable level of assurance that the consolidated financial statements are fairly presented in all material respects. The auditors have free and independent access to the Audit Committee and meet with the Committee, Board of Directors, and management to consider matters relating to financial statement presentation, internal controls, audit procedures, and the appropriateness of Credit Union policies and procedures.*

*Management fully supports the independent reviews by each of these groups and is committed to ensuring that Credit Union operations and financial reporting are conducted responsibly, accurately, with integrity, and with the goal of helping our members improve their economic circumstances and achieve financial success.*

## **Board of Directors**

Members of the Board of Directors are as follows:

Chris Ayers, Chair  
Alice Garland, Vice Chair  
Mona Moon, Secretary/Treasurer  
Bob Brinson  
Mark Fleming  
Jennifer Haygood  
Ben McLawhorn  
Thomas Parrish IV  
Jo Anne Sanford  
Stelfanie Williams  
McKinley Wooten, Jr.

## **Contact Information**

The mailing address and phone numbers of the State Employees' Credit Union are:

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Raleigh, NC 27611-7665

Call Center 1-888-732-8562

The SECU website address is:

[www.ncsecu.org](http://www.ncsecu.org)

The SECU email address is:

[info@ncsecu.org](mailto:info@ncsecu.org)