

2022 ANNUAL REPORT





MESSAGE FROM THE CHAIRMAN

This year has been an interesting one for the credit union movement in general. The dramatic change of direction for inflation and interest rates at the start of 2022 was quite a turning point, after so many years of low inflation and negative interest rates. It's a mixed development for financial institutions. On the one hand, higher interest rates are very tough on members' mortgages and other large-ticket items. On the other hand, negative interest rates were difficult for credit unions to manage, given the number of funds that were required to be maintained at negative rates for liquidity purposes. The large number of rate increases by the Federal Reserve has for the first time in a very long time benefited those members who rely on investment income to supplement retirement.

On March 29, 2022, we successfully migrated the core data system from the in-house JHA Symitar to JHA EASE's data center. This move was to reduce the expense of maintaining the IBM equipment, as well as a disaster hot site in Missouri. With EASE, we now have multi-sites should a disaster occur. On August 3, 2022, we moved from JHA NetTeller to JHABanno, a more robust mobile/internet branch that has allowed members to manage their accounts easier and with more protection. In the last quarter, we began moving plastic cards to the new MasterCard 8-digit bin numbers. Our goal is to have all cards upgraded by the mid-first quarter of 2023.

On December 1, 2022, we completed the merger with Engineers FCU serving the Army Corp of Engineers into Telcoe FCU. We are happy that Cheryl Epperson has joined the Telcoe staff. Cheryl managed Engineers FCU for 16 years. In the first quarter of 2023, the new branch will open at 1400 Bowman Road, replacing the 12th and University leased location.

Telcoe's core value of giving back to the community is a vital part of our culture. Last year, our primary funding went to Arkansas Children's Hospital CMN program, Festival of Star's Christmas Toy Drive, and Habitat of Central Arkansas.

The Credit Union was named in the top 100 Healthiest Credit Unions nationwide again this year by bankdash.com. Bauer Financial gave Telcoe a 5 Star Rating, marking 130 plus straight quarters we have received this rating.

Our youth is very important as they will be our primary members and leaders in the coming years. We were happy again to award scholarships to six students.

On behalf of the Board of Directors and CEO, we would like to thank our management team, employees, Supervisory Committee, community partners, and most importantly, our members for your continued trust in Telcoe Federal Credit Union.

SUPERVISORY COMMITTEE REPORT

Telcoe Federal's Supervisory Committee is a Board appointed volunteer organization that works on behalf of the membership as the "eyes, ears and voice" of the Member. The Supervisory Committee works to:

- Monitor the financial health of the Credit Union.
- Monitor the controls, policies, and systems put in place by the Credit Union to mitigate financial, operational, and compliance risks.
- Investigate perceived violations of credit union rules and policies, unethical behavior, or complaints there were not fully resolved to Member satisfaction through regular credit union channels.

The Committee performs vital activities on behalf of the members:

- Oversees Internal Audit (IA) – The Committee oversees and meets with the IA to review the internal audit planning process, the results of ongoing and completed audits, process on activities, management's responses, and addressing IA's recommendations. The adequacy of resources, executive support, and items the IA function needs to execute its mission.
- Engages External Audits and Monitors Examinations – To provide a fresh look at our financial statements and related internal controls, the Committee ensures rotation of audit staff with the audit firm. This year Nearman, Maynard & Vallez CPA's report was excellent and found no discrepancies.
- Federal Examiners completed to our examination on December 16, 2021. Telcoe received a CODE ONE, no issues were found. Credit Unions with Code One ratings are examined. The next scheduled examination is scheduled for February 2023.
- In 2022, Trace Security performed Internal and External Penetration tests to breach firewalls and other password securities installed. An IT Audit was performed by Trace Security on November 30, 2022. Its suggestions to increase the security of remote staff and wireless access to the Credit Union are being implemented.

The Committee would like to thank you, the members, for supporting Telcoe Federal Credit Union. Likewise, we commend the Credit Union's volunteer Board for their diligence and guidance in the Credit Union's oversight and their support of the Committee and its activities.

Your Supervisory Committee is working in the best interest of you, the Telcoe Federal members. If you have a question relating to the financial soundness or management of this organization, please do not hesitate to contact us: P.O. Box 15063, Little Rock, AR 72221.



STATEMENT OF FINANCIAL CONDITION

ASSETS	2022	2021	% Change
Loans (Net of Allowance for Loan Losses)	\$128,532,659.00	\$122,356,592.00	5.05%
Cash	\$1,417,187.00	\$1,392,466.00	1.78%
Investments	\$301,790,061.00	\$319,067,702.00	-5.42%
Land and Buildings	\$4,289,197.00	\$3,996,220.00	7.33%
Other Assets	\$4,347,074.00	\$4,020,219.00	8.13%
TOTAL ASSETS	\$440,376,178.00	\$450,833,199.00	-2.32%
LIABILITIES			
Accounts Payable	\$2,464,917.00	\$2,028,832.00	21.49%
Members' Shares and Savings Accounts	\$380,011,015.00	\$354,461,825.00	7.21%
Regular Reserve and Undivided Earnings	\$2,777,535.00	\$2,777,535.00	0.00%
Unrealized Gain (Loss) on Investments	(\$38,626,486.00)	\$770,735.00	-5111.64%
Undivided Earnings	\$93,749,197.00	\$90,794,272.00	3.25%
TOTAL LIABILITIES, DEPOSITS, EQUITY	\$440,376,178.00	\$450,833,199.00	-2.32%

STATEMENT OF OPERATIONS

INCOME	2022	2021	% Change
Interest on Loans	\$4,840,217.00	\$4,773,921.44	1.39%
Income from Investments	\$5,846,357.00	\$4,246,261.76	37.68%
Other Income	\$2,318,844.00	\$3,382,122.40	-31.44%
TOTAL GROSS INCOME	\$13,005,418.00	\$12,402,305.60	4.86%
EXPENSES			
Employee Compensation and Benefits	\$2,237,907.00	\$2,022,929.55	10.63%
Office Occupancy	\$388,535.00	\$407,006.87	-4.54%
Office Operations	\$630,555.00	\$723,913.93	-12.90%
Advertising and Promotions	\$304,253.00	\$279,839.01	8.72%
Loan Servicing	\$143,037.00	\$146,168.46	-2.14%
Professional and Outside Services	\$1,265,456.00	\$783,422.52	61.53%
Provision for Loan Losses	—	\$3,000.00	-100.00%
Federal Operating Fee	\$60,285.00	\$87,470.12	-31.08%
Miscellaneous	\$14,360.00	\$106,049.58	-86.46%
TOTAL OPERATING EXPENSES	\$5,044,388.00	\$4,559,800.04	10.63%
Dividends to Members	\$5,101,899.00	\$2,661,873.78	91.67%
Reserves & Undivided Earnings	\$2,859,131.00	\$5,180,631.78	-44.81%
TOTAL DISTRIBUTION	\$13,005,418.00	\$12,402,305.60	4.86%

NOTES TO FINANCIAL STATEMENTS

01



LOANS TO MEMBERS

Telcoe maintains line of credit loans and Mastercards for the use of its members. Unused lines of credit issued to members were \$3,885,893 December 31, 2022.

Open-end revolving lines of credit	\$7,044,639
Lines of credit used	\$3,158,746
Remaining unused lines of credit ¹	\$3,885,893

¹ Unused credit card lines of credit equal \$2,584,589 and unused non-credit card lines of credit were \$2,048,985.

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CARD NETWORK SETTLEMENT DEPOSITS

Debit Cards

Telcoe has made a required cash deposit to JHA Payment Processing Solutions in order to facilitate timely settlement of funds with card processing networks. At December 31, 2022 that deposit was for \$186,281.88.

The amount of the deposit is based on peak signature settlements over a defined time and may be adjusted by JHA Payment Processing Solutions after written notice to Telcoe.

Credit Cards

Telcoe has made a required cash deposit to PSCU (Payment Solutions for Credit Unions) in order to facilitate timely settlement of funds with card processing networks. At December 31, 2022 that deposit was for \$14,000.

The amount of the deposit is based on peak signature settlements over a defined time and may be adjusted by PSCU on a quarterly basis.

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NON-QUALIFIED PENSION PLANS

Non-Qualified Pension Plan

The Credit Union maintains a non-qualified pension plan for a select group of Management. Participants are eligible based on approval by the Credit Union's Board of Directors. Under this plan, the Credit Union makes periodic contributions. The participant's benefit is the ending value of the contributions, as well as any earnings on those investments. The liability related to this plan approximated \$1,173,309 as of December 31, 2022.

457(f) Deferred Compensation Plan

The Credit Union maintains a non-qualified pension plan for a select group of Management. Participants are eligible based on approval by the Credit Union's Board of Directors. The plan's assets are available to creditors in the event of the Credit Union's liquidation. The liability related to this plan approximated \$68,523 as of December 31, 2022.

457(f) Plan

The Credit Union maintains a non-qualified pension plan for a select group of Management. Participants are eligible based on approval by the Credit Union's Board of Directors. The plan's assets are comprised of life insurance contracts on the plan's participants and are available to creditors in the event of the Credit Union's liquidation. The asset related to this plan approximated \$2,796,678 as of December 31, 2022.

Split Dollar Life Insurance

The Credit Union has split-dollar life insurance plans for a select group of Management. The Credit Union has secured interest in these plans to the extent of premiums advances on behalf of these key employees. The vested interest in this split-dollar plan totaled approximately \$1,283,015 as of December 31, 2022.

BOARD OF DIRECTORS

Bob Ellis, Chairman
Bill White, Vice Chairman
Cliff Smith, Secretary/Treasurer
Odessa Darrough
Jimmy Dunahoo
Steve Rakes
Rick Stobaugh

SUPERVISORY COMMITTEE

Odessa Darrough, Chairman
Shelly Cheatham
Mike Lands
Lynn Martin
Kathy Qualls, Internal Auditor

STAFF

Sarah S. Mosley, President & CEO
Michele Beasley, Vice President Consumer Lending & Marketing
Tony Birk, Consumer Lending
Larry Johnson, Vice President Technology
Tonya Mosley, Vice President Accounting & Finance
Karla Walls, Vice President Mortgage Lending
Stacy Briggs, Card Services
Jacob Treat, Projects



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