SEASONS FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015
(With Independent Auditor's Report Thereon)

SEASONS FEDERAL CREDIT UNION

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Independent Auditor's Report

January 31, 2017

To the Supervisory Committee and Board of Directors
of Seasons Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Seasons Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of September 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive operations, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DoerenMayhew

To the Supervisory Committee and Board of Directors
of Seasons Federal Credit Union

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seasons Federal Credit Union and its subsidiary, as of September 30, 2016 and 2015, 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.

Doeren Mayhew

Doeren Mayhew
Miami, FL

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 2016 AND 2015

Assets	**2016**	**2015**
Cash and cash equivalents	$7,182,177	$9,228,356
Interest bearing deposits	1,492,000	1,789,000
Investment securities:		
Available-for-sale	6,913,494	8,362,270
Held-to-maturity	3,166	4,025
Loans held for sale	396,811	565,160
Loans to members, net of allowance for loan losses	127,447,112	119,315,074
Accrued interest receivable	419,380	435,204
Property and equipment	4,134,194	3,735,756
NCUSIF deposit	1,422,985	1,303,358
Prepaid and other assets	8,633,010	8,981,619
Total assets	$158,044,329	$153,719,822
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$144,577,936	$136,237,739
Borrowings	2,000,000	5,000,000
Accrued expenses and other liabilities	1,608,472	2,294,099
Total liabilities	148,186,408	143,531,838
Commitments and contingent liabilities		
Members' equity:		
Regular reserves	2,241,414	2,241,414
Undivided earnings	8,505,453	8,804,481
Equity acquired in business combination	1,033,234	1,033,234
Accumulated other comprehensive loss	(1,922,180)	(1,891,145)
Total member's equity	9,857,921	10,187,984
Total liabilities and members' equity	$158,044,329	$153,719,822

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	**2015**
Interest income:		
Loans to members	$6,939,061	$6,773,367
Investment securities	298,860	393,648
Total interest income	7,237,921	7,167,015
Interest expense:		
Members' shares and savings accounts	638,878	498,148
Borrowings	109,513	11,391
Total interest expense	748,391	509,539
Net interest income	6,489,530	6,657,476
Provision for loan losses	978,191	1,359,331
Net interest income after provision for loan losses	5,511,339	5,298,145
Non-interest income:		
Fees and charges	1,612,334	1,601,693
Other income	944,932	975,096
Gain on sale of loans	148,879	220,362
Total non-interest income	2,706,145	2,797,151
Non-interest expenses:		
Compensation and benefits	3,721,273	3,711,533
Office operations	2,628,540	2,512,627
Office occupancy	801,536	797,634
Loan servicing	604,139	686,834
Other	473,191	583,501
Outside services	287,833	318,269
Total non-interest expenses	8,516,512	8,610,398
Net loss	($299,028)	($515,102)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Net loss	($299,028)	($515,102)
Other comprehensive loss:		
Available-for-sale investment securities:		
Net unrealized holding gains on available-for-sale investment securities	160,140	314,544
Reclassification adjustment for net securities gains and losses included in net income	—	—
Net change in available-for-sale securities:	160,140	314,544
Defined pension plan benefit:		
Net unrealized losses on defined pension plan	(299,240)	(859,349)
Amortization of unrecognized net losses from changes in actuarial assumptions	108,065	23,943
Net change in defined benefit plan	(191,175)	(835,406)
Total other comprehensive loss	(31,035)	(520,862)
Comprehensive loss	($330,063)	($1,035,964)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	Regular Reserve	Undivided Earnings	Equity Acquired from Business Combination	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2014	$2,241,414	$9,319,583	$1,033,234	($1,370,283)	$11,223,948
Net loss	—	(515,102)	—	—	(515,102)
Other comprehensive loss	—	—	—	(520,862)	(520,862)
Balance, September 30, 2015	2,241,414	8,804,481	1,033,324	(1,891,145)	10,187,984
Net loss	—	(299,028)	—	—	(299,028)
Other comprehensive loss	—	—	—	(31,035)	(31,035)
Balance, September 30, 2016	$2,241,414	$8,505,453	$1,033,324	($1,922,180)	$9,857,921

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Net loss	($299,028)	($515,102)
Adjustments to net cash provided from operating activities:		
Provision for loan losses	978,191	1,359,331
Depreciation and amortization	380,170	412,528
Amortization of investment premiums/discounts	107,778	199,100
Gain on sale of loans	(148,879)	(220,362)
Changes in assets and liabilities:		
Net change in accrued expenses and other liabilities	(685,627)	57,381
Net change in loans held for sale	168,349	45,839
Net change in prepaid and other assets	157,434	(1,240,310)
Net change in accrued interest receivable	15,824	(7,219)
Total adjustments	973,240	606,288
Net cash provided from operating activities	674,212	91,186

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Cash Flows (Continued)

	2016	2015
Cash flows from investing activities:		
Net change in loans to members	(8,961,350)	(14,740,777)
Net change in interest bearing deposits		
Proceeds from repayment or maturity of available-for-sale investment securities	1,501,138	4,150,209
Proceeds from repayments or maturity of held-to-maturity investment securities	859	1,076
Net change in NCUSIF deposit	(119,627)	(51,848)
Purchases of property and equipment	(778,608)	(229,009)
Net cash used in investing activities	(8,060,588)	(8,734,349)
Cash flows from financing activities:		
Net increase in members' shares and savings accounts	8,340,197	7,485,845
Proceeds from borrowings	—	5,000,000
Payments on borrowings	(3,000,000)	(5,000,000)
Net cash provided from financing activities	5,340,197	7,485,845
Net change in cash and cash equivalents	(2,046,179)	(1,157,318)
Cash and cash equivalents - beginning	9,228,356	10,385,674
Cash and cash equivalents - ending	$7,182,177	$9,228,356

Office Operations

Supplemental Information

Interest paid	$753,055	$509,539

See accompanying notes to the consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Seasons Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the accounts of its wholly owned credit union service organization (CUSO), Solstice Insurance Agency, a division of Seasons Federal Credit Union. The CUSO provides insurance brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

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 that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the actuarial valuation of the assets and liabilities related to the defined benefit pension plan. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the State of Connecticut. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) relates to the change in the unrealized gain/loss on available-for-sale securities and unrealized gains and losses from changes in actuarial assumptions and amortization related to the defined benefit pension plan. When available-for-sale securities are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain/(loss) on sale of investment securities reported on the consolidated statements of operations. Amortization of the unrealized gain or loss related to the defined benefit pension plan are reclassified from accumulated other comprehensive income/(loss) to compensation and benefits expense on the consolidated statements of operations.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing) with an original maturity of 90 days or less. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured as no deposit to one individual institution exceeds $250,000.

Investment Securities

Investments are classified into the following categories: held-to-maturity and available-for-sale. Investment securities classified as held-to-maturity are measured at amortized cost. This classification is based upon the Credit Union's intent and ability to hold these investment securities to full maturity. Investment securities classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment by a method which approximates the interest method.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of operations. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Credit Union does not intend to sell these securities, and (iv) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank (FHLB)

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The FHLB stock is included in prepaid and other assets.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value in the aggregate. All sales are made without recourse.

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans to Members (Continued)

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Generally, loan fees charged to members are recognized in income when received and direct loan origination costs are recognized as a charge to expense when incurred. However, certain loan origination fees and cost are deferred and amortized as an adjustment of loan yield over the estimated life of the loan using a method that approximates the interest method. Credit card fees and costs are recognized in income and expense when incurred.

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

<u>Allowance for Loan Losses</u> (Continued)

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into Consumer and Real Estate segments. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into four classes: Used auto, Unsecured, New auto, and Other secured. Real estate loans are divided into three classes: Home equity line of credit, Second mortgage, and First mortgage. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The allowance consists of specific, and general components. The specific component covers impaired loans, and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

<u>Consumer and Real Estate Segment Allowance Methodology</u>

For loans not individually evaluated, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2016 and 2015, the historical loss time frame for each class was 12 months.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Impaired Loans

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

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and residential loan portfolio comprises secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's special assets department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis.

Consumer:

- A non-performing loan that is more than 180 days past due;
- Management judges the asset to be uncollectible;
- Where additional collection efforts are non-productive regardless of the number of days delinquent;
- A "skip" where the Credit Union has had no contact for 90 days;
- An estimated loan loss, where the Credit Union has repossessed, but not yet sold, collateral on hand;
- A loan of a deceased person where the loss is determined;

Real Estate:

- A foreclosed real estate loan upon the determination of the amount of the estimated loan loss. The loss is estimated by calculating the difference between the loan balance and a reasonable estimate of the fair market value of the collateral less liquidation costs.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

NCUSIF Deposit

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

Perpetual Contributed Capital

As a requirement of membership, the Credit Union maintains a Perpetual Contributed Capital (PCC) account with Alloya Corporate Federal Credit Union (ACFCU) of $86,970. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. The PCC is uninsured and cannot be withdrawn without NCUA approval. The PCC has a perpetual maturity and a noncumulative dividend. The PCC is included with other assets in the consolidated statements of financial condition.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote.

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(14)(a) and 501(c)(1)(a)(I). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, no interest or penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions.

Reclassification

Certain amounts as reported in the 2015 consolidated financial statements have been reclassified to conform with the 2016 presentation.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU). The changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Credit Union is currently evaluating the impact of the ASU.

Entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The ASU also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value. Entities that are not public business entities can early adopt the provision permitting the omission of fair value disclosures for financial instruments at amortized cost. Early adoption of these provisions can be elected for all financial statements of fiscal years and interim periods that have not yet been made available for issuance. Accordingly, the Credit Union has removed the disclosures related to the fair value of these financial instruments.

Subsequent Events

Management has evaluated subsequent events through January 31, 2017, the date the consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investments

The following tables presents the amortized cost and estimated fair value of investments as of September 30, 2016:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$5,018,265	$137,662	$—	$5,155,927
Asset-backed securities	694,630	—	(101)	694,529
Federal agency collateralized mortgage obligations	694,195	—	(5,002)	689,193
Private issue collateralized mortgage obligations	431,042	—	(57,197)	373,845
Total	$6,838,132	$137,662	($62,300)	$6,913,494

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Mortgage-backed securities	$3,166	$47	$—	$3,213

Note 2 - Investments (Continued)

The following tables present the amortized cost and estimated fair value of investments as of September 30, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$5,425,901	$64,028	($16,690)	$5,473,239
Asset-backed securities	1,684,269	—	(42,343)	1,641,926
Federal agency collateralized mortgage obligations	801,913	—	(10,743)	791,170
Private issue collateralized mortgage obligations	534,965	—	(79,030)	455,935
Total	$8,447,048	$64,028	($148,806)	$8,362,270

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Mortgage-backed securities	$4,025	$43	$—	$4,068

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of September 30, 2016, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		*Held-to-maturity*	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
1 to 5 years	$699,497	$705,052	$—	$—
5 to 10 years	2,881,554	3,003,212	3,166	3,213
Greater than 10 years	3,257,081	3,205,230	—	—
Total	$6,838,132	$6,913,494	$3,166	$3,213

Information pertaining to investments with gross unrealized losses as of September 30, 2016 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Federal agency collateralized mortgage obligations	$—	$—	$689,193	($5,002)	$689,193	($5,002)
Private issue collateralized mortgage obligations	—	—	373,845	(57,197)	373,845	(57,197)
Asset-backed securities	—	—	694,529	(101)	694,529	(101)
Total	$—	$—	$1,757,567	($62,300)	$1,757,567	($62,300)

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2015 aggregated by investment category and length of time that individual investments have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$3,413,462	($16,690)	$—	$—	$3,413,462	($16,690)
Federal agency collateralized mortgage obligations	—	—	791,170	(10,743)	791,170	(10,743)
Private issue collateralized mortgage obligations	—	—	455,935	(79,030)	455,935	(79,030)
Asset-backed securities	—	—	1,641,926	(42,343)	1,641,926	(42,343)
Total	$3,413,462	($16,690)	$2,889,031	($132,116)	$6,302,493	($148,806)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

The principal balances of private issue collateralized mortgage obligations are not guaranteed. Unrealized losses on these securities are periodically evaluated for other-than-temporary impairment (OTTI). As of September 30, 2016, OTTI on private-issue collateralized mortgage obligations was immaterial for recognition.

Securities with a book value of approximately $1,368,000 and $1,720,000 have been pledged as collateral to secure advances from the FHLB and Federal Reserve Bank as of September 30, 2016 and 2015, respectively.

Note 3 - Loans to Members

The composition of loans to members as of September 30, 2016 and 2015 is as follows:

	2016	2015
Consumer:		
Used auto	$48,744,511	$41,574,437
Unsecured	14,329,158	15,857,006
New auto	20,909,475	16,678,870
Other secured	356,526	337,967
	84,339,670	74,448,280
Real Estate:		
Home equity line of credit	22,767,957	24,487,548
Second mortgage	15,268,345	14,991,910
First mortgage	4,592,199	5,397,241
	42,628,501	44,876,699
	126,968,171	119,324,979
Net deferred fees and costs	1,551,710	1,110,268
	128,519,881	120,435,247
Less: Allowance for loan losses	(1,072,769)	(1,120,173)
Loans to members, net	$127,447,112	$119,315,074

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended and as of September 30, 2016:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$732,046	$388,127	$1,120,173
Charge-offs	(990,260)	(198,428)	(1,188,688)
Recoveries	161,413	1,680	163,093
Provision for loan losses	921,683	56,508	978,191
Ending allowance	$824,882	$247,887	$1,072,769
Ending balance individually evaluated for impairment	$15,020	$57,110	$72,130
Ending balance collectively evaluated for impairment	809,862	190,777	1,000,639
Ending allowance	$824,882	$247,887	$1,072,769

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2016:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$554,463	$607,107	$554,463
Ending balance collectively evaluated for impairment	85,122,609	42,235,701	127,358,310
Total loans	$85,677,072	$42,842,808	$128,519,880

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the ALL and a summary of the ALL by portfolio segment as of and for the year ended and as of September 30, 2015:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$511,481	$214,524	$726,005
Charge-offs	(979,133)	(399,928)	(1,379,061)
Recoveries	258,236	155,662	413,898
Provision for loan losses	941,462	417,869	1,359,331
Ending allowance	$732,046	$388,127	$1,120,173
Ending balance individually evaluated for impairment	$34,531	$65,000	$99,531
Ending balance collectively evaluated for impairment	697,515	323,127	1,020,642
Ending allowance	$732,046	$388,127	$1,120,173

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2015:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$734,727	$797,555	$1,532,282
Ending balance collectively evaluated for impairment	74,599,593	44,303,372	118,902,965
Total loans	$75,334,320	$45,100,927	$120,435,247

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Consumer:					
Used auto	$246,357	$246,357	$—	$271,191	$13,532
Unsecured	$122,547	$122,547	$—	$70,693	$8,073
New auto	$12,296	$12,296	$—	$77,200	$3,088
Real Estate:					
Second mortgage	$43,751	$43,751	$—	$136,835	$5,473
With an allowance recorded:					
Consumer:					
Used auto	$84,998	$84,998	$7,568	$113,082	$5,643
Unsecured	$88,265	$88,265	$7,452	$112,430	$12,840
New auto	$—	$—	$—	$—	$—
Real Estate:					
Second mortgage	$563,356	$563,356	$57,110	$565,496	$22,620
Totals:					
Consumer	$554,463	$554,463	$15,021	$644,595	$43,176
Real Estate	607,107	607,107	57,110	702,331	28,093
Total	$1,161,570	$1,161,570	$72,131	$1,346,926	$71,269

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Consumer:					
Used auto	$296,025	$296,025	$—	$197,178	$9,839
Unsecured	$18,839	$18,839	$—	$19,172	$1,956
New auto	$142,103	$142,103	$—	$73,449	$2,938
Real Estate:					
Second mortgage	$229,919	$229,919	$—	$250,146	$10,006
With an allowance recorded:					
Consumer:					
Used auto	$141,165	$141,165	$13,175	$108,360	$5,407
Unsecured	$136,595	$136,595	$21,356	$115,936	$11,825
New auto	$—	$—	$—	$—	$—
Real Estate:					
Second mortgage	$567,636	$567,636	$65,000	$49,614	$1,985
Totals:					
Consumer	$734,727	$734,727	$34,531	$514,094	$31,965
Real Estate	797,555	797,555	65,000	299,759	11,990
Total	$1,532,282	$1,532,282	$99,531	$813,853	$43,955

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2016:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	$804,997	$138,796	$360,876	$1,304,669	$48,108,543	$49,413,212
Unsecured	608,841	125,834	375,555	1,110,230	13,218,928	14,329,158
New auto	271,910	19,721	66,344	357,975	21,220,201	21,578,176
Other secured	—	—	—	—	356,526	356,526
	1,685,748	284,351	802,775	2,772,874	82,904,198	85,677,072
Real Estate:						
Home equity line of credit	191,017	15,958	285,490	492,466	22,445,030	22,937,496
Second mortgage	10,947	80,320	—	91,267	15,242,873	15,334,140
First mortgage	—	147,004	328,033	475,037	4,096,135	4,571,172
	201,964	243,282	613,523	1,058,769	41,784,039	42,842,808
Total	$1,887,712	$527,633	$1,416,298	$3,831,643	$124,688,237	$128,519,880

Loans on which the accrual of interest has been discontinued or reduced approximated $1,416,000 as of September 30, 2016. There were no loans 90 days or more past due and still accruing interest as of September 30, 2016.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2015:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	$819,181	$251,156	$307,185	$1,377,522	$40,641,137	$42,018,659
Unsecured	139,570	58,247	274,691	472,508	15,382,094	15,854,602
New auto	34,252	59,925	—	94,177	17,028,915	17,123,092
Other secured	—	—	—	—	337,967	337,967
	993,003	369,328	581,876	1,944,207	73,390,113	75,334,320
Real Estate:						
Home equity line of credit	116,933	—	240,425	357,358	24,305,025	24,662,383
Second mortgage	40,101	—	39,622	79,723	14,988,535	15,068,258
First mortgage	—	—	—	—	5,370,286	5,370,286
	157,034	—	280,047	437,081	44,663,846	45,100,927
Total	$1,150,037	$369,328	$861,923	$2,381,288	$118,053,959	$120,435,247

Loans on which the accrual of interest has been discontinued or reduced approximated $862,000 as of September 30, 2015. There were no loans 90 days or more past due and still accruing interest as of September 30, 2015.

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for financial statement disclosure for the years ended September 30, 2016, and 2015. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval.

The following table presents TDR activity by class of loans as of September 30, 2016:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs which subsequently defaulted
Consumer:			
Used auto	4	$53,080	$—
Unsecured	2	5,898	—
Real Estate:			
Second mortgage	—	—	—
Total	6	$58,978	$—

The following table presents TDR activity by class of loans as of September 30, 2015:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs which subsequently defaulted
Consumer:			
Used auto	52	$800,801	$—
Unsecured	24	330,721	
Real Estate:			
Second mortgage	3	407,344	—
Total	79	$1,538,866	$—

Note 3 - Loans to Members (Continued)

Consumer and Real Esate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a nonperforming status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of September 30, 2016 and 2015:

	As of September 30, 2016		As of September 30, 2015	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Consumer:				
Used auto	$49,052,336	$360,876	$41,711,474	$307,185
Unsecured	13,953,603	375,555	15,579,911	274,691
New auto	21,511,832	66,344	17,123,092	—
Other secured	356,526	—	337,967	—
	84,874,297	802,775	74,752,444	581,876
Real Estate:				
Home equity line of credit	22,652,006	285,490	24,421,958	240,425
Second mortgage	15,334,140	—	15,028,636	39,622
First mortgage	4,243,139	328,033	5,370,286	—
	42,229,285	613,523	44,820,880	280,047
Total	$127,103,582	$1,416,298	$119,573,324	$861,923

Note 4 - Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization, and are summarized as of September 30, 2016 and 2015 by major classification as follows:

	2016	2015
Land and improvements	$127,391	$127,391
Building and improvements	3,372,529	3,363,754
Furniture and equipment	3,698,426	2,926,547
Leasehold improvements	1,591,924	1,590,191
	8,790,270	8,007,883
Less accumulated depreciation and amortization	(4,656,076)	(4,272,127)
	$4,134,194	$3,735,756

Depreciation and amortization charged to operations was approximately $380,000 and $413,000 for the years ended September 30, 2016 and 2015, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of September 30, 2016 and 2015:

	2016	2015
Share accounts	$60,812,021	$59,781,530
Share draft accounts	32,004,530	29,699,953
Money market accounts	15,144,726	15,400,747
Individual retirement accounts	2,016,940	2,404,524
Share and IRA certificates	34,599,719	28,950,985
	$144,577,936	$136,237,739

As of September 30, 2016, scheduled maturities of share and IRA certificates are as follows:

	2016
Within one year	$23,517,516
1 to 2 years	4,518,194
2 to 3 years	4,099,046
3 to 4 years	2,311,372
4 to 5 years	152,462
over 5 years	1,129
	$34,599,719

The aggregate amounts of members' time deposit accounts in denominations of $250,000 or more as of September 30, 2016 was approximately $1,768,000.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union employees participate in a Safe Harbor 401(k) plan. All full-time employees of the Credit Union are eligible to participate upon attaining 21 years of age. All part-time employees of the Credit Union are eligible to participate upon completing one year of service and 21 years of age. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in all their voluntary contributions. The Credit Union makes a safe harbor matching contribution up to 4% of an employees' compensation each year. Participants are immediately 100% vested in the safe harbor matching contributions. The Credit Union may also make a discretionary matching contribution each year at the discretion of the Board of Directors. The Credit Union's discretionary matching contributions vest in equal percentages (20% per year) beginning with the completion of two years of service and become fully vested at the completion of six years of service. The safe harbor 401(k) pension expense was approximately $92,000 and $80,000 for the years ended September 30, 2016 and 2015, respectively.

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for a senior executive. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities on the Credit Union's consolidated statements of condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation under this plan is classified as prepaid and other assets and was approximately $58,000 and $44,000 as of September 30, 2016 and 2015, respectively.

The Credit Union has entered into a split dollar insurance agreement which is collateral assignment arrangement between the Credit Union and a senior executive. The agreement involves a method of paying for insurance coverage for the executive by splitting the elements of the life insurance policy. Under this agreement, the executive is the owner of the policy and makes a collateral assignment to the Credit Union in return for a loan equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The loan balance under this agreement is classified as prepaid and other assets and was approximately $1,600,000 and $1,334,000 as of September 30, 2016 and 2015, respectively.

Note 7 - Borrowed Funds

Alloya Federal Credit Union

The Credit Union has a line of credit with Alloya Federal Credit Union. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under this line-of-credit agreement. The agreement provides for a credit limit of $4,000,000 with interest charged at a rate determined by the lender on a periodic basis. As of September 30, 2016 and 2015, there were no outstanding borrowings under this agreement.

Federal Reserve Bank of Boston's Discount Window

The Credit Union established a credit availability agreement with the Federal Reserve Bank of Boston during the year ended September 30, 2016. The terms of the agreement call for pledging of investments held in safekeeping by the Federal Reserve Bank. As of September 20, 2016, there were no borrowings under this agreement. The carrying value of securities pledged as of September 30, 2016 was approximately $925,000.

Note 7 - Borrowed Funds (Continued)

Federal Home Loan Bank of Boston (FHLB)

The Credit Union is a member of the FHLB and it has an open-end loan agreement with FHLB which the Credit Union may borrow funds. Borrowings require a security interest in certain mortgage collateral and securities held in safekeeping at the FHLB. The collateral value of mortgages and securities pledged as of September 30, 2016 and 2015, was approximately $8,876,000 and $11,936,000, respectively. The available borrowing capacity as of September 30, 2016 and 2015, was approximately $4,982,000 and $4,019,000, respectively. During the year ended September 30, 2016, the Credit Union prepaid $3,000,000 of its advance and recognized a prepayment penalty of approximately $57,000. The following advances were outstanding under this line-of-credit agreement:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2016	2015
FHLB	Fixed	1.09%	Sept. 18, 2020	Balloon	$2,000,000	$5,000,000

The outstanding balances by maturity dates as of September 30, 2016 are as follows:

	2016
3 to 4 years	$2,000,000

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum noncancellable lease obligations approximate the following as of September 30, 2016:

Year ending September 30,	Amount
2017	$109,000
2018	111,000
2019	113,000
2020	94,000
2021	56,000
Thereafter	367,000
	$850,000

Net rent expense under operating leases, included in expenses, was approximately $226,000 and $222,000 for the years ended September 30, 2016 and 2015, respectively.

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2016, the total unfunded commitments under such lines of credit was approximately. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's 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-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of September 30, 2016 and 2015 was 5.33% and 5.27%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%.

Management believes, as of September 30, 2016 and 2015, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2016, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category. For regulatory purposes, the Credit Union is required to add the retained earnings of Middlesex Healthcare Federal Credit Union (MHFCU) at the time of merger to its retained earnings to calculate the regulatory net worth ratio. MHFCU's retained earnings at the time of merger was $1,033,234.

Note 9 - Regulatory Capital (Continued)

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of September 30, 2016		As of September 30, 2015	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$11,780,101	7.45%	$12,079,129	7.86%
Amount needed to be classified as "adequately capitalized"	$9,482,660	6.00%	$9,223,189	6.00%
Amount needed to be classified as "well capitalized"	$11,063,103	7.00%	$10,760,388	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Note 10 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis (see Note 12 for reconciliation of MSRs)

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$5,155,927	$—	$5,155,927
Asset-back securities	—	694,529	—	694,529
Federal agency collateralized mortgage obligations	—	689,193	—	689,193
Private-issue collateralized mortgage obligations	—	373,845	—	373,845
MSRs	—	—	801,379	801,379
	$—	$6,913,494	$801,379	$7,714,873

	Assets at Fair Value as of September 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$5,473,239	$—	$5,473,239
Asset-back securities	—	1,641,926	—	1,641,926
Federal agency collateralized mortgage obligations	—	791,170	—	791,170
Private-issue collateralized mortgage obligations	—	455,935	—	455,935
MSRs	—	—	925,985	925,985
	$—	$8,362,270	$925,985	$9,288,255

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

Assets measured at fair value on a non-recurring basis:

	Assets at Fair Value as of September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$1,161,570	$1,161,570

	Assets at Fair Value as of September 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$1,532,282	$1,532,282

Note 11 - Changes in Accumulated Other Comprehensive Income/(Loss)

The following table presents the changes in accumulated other comprehensive income/(loss) by component:

	For the years ended September 30, 2016 and 2015		
	Unrealized Gains/(Losses) on Available-for-Sale Securities	Defined-Benefit Plan Items	Total
Balance, September 30, 2014	($399,322)	($970,961)	($1,370,283)
Other comprehensive income/(loss) before reclassifications	314,544	(859,349)	(544,805)
Amounts reclassified from other comprehensive loss	—	23,943	23,943
Net other comprehensive income/loss	314,544	(835,406)	(520,862)
Balance, September 30, 2015	(84,778)	(1,806,367)	(1,891,145)
Other comprehensive income/(loss) before reclassifications	160,140	(299,240)	(139,100)
Amounts reclassified from other comprehensive loss	—	108,065	108,065
Net other comprehensive income/(loss)	160,140	(191,175)	(31,035)
Balance, September 30, 2016	$75,362	($1,997,542)	($1,922,180)

Note 11 - Changes in Accumulated Other Comprehensive Income/(Loss) (Continued)

The following tables provide the reclassifications out of accumulated other comprehensive loss by component:

For the year ended September 30, 2016

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	$108,065	Compensation and employee benefits expense

For the year ended September 30, 2015

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	$23,943	Compensation and employee benefits expense

Note 12 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans and the related custodial escrow balances approximate the following as of September 30, 2016 and 2015:

	2016	2015
Mortgage loan portfolio serviced for:		
Federal Home Loan Mortgage Corporation (FHLMC)	$100,870,000	$105,023,000
Federal Home Loan Bank (FHLB)	4,098,000	4,699,000
	$104,968,000	$109,722,000
Custodial escrow balances:		
FHLMC	$740,000	$1,149,000
FHLB	31,000	59,000
	$771,000	$1,208,000

Note 12 - Loan Servicing (Continued)

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2016 and 2015:

	2016	2015
Mortgage servicing rights:		
Balance, beginning of year	$925,985	$1,067,483
Capitalization	119,704	108,466
Fair value adjustments	(244,310)	(249,964)
Balance, end of year	$801,379	$925,985

	2016	2015
Fair value of mortgage servicing rights	$801,379	$925,985

As of September 30, 2016 and 2015, the fair value of mortgage servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The fair value of servicing rights was determined using average discount rates ranging from 9.20% to 11.20% and prepayment speeds ranging from 11.16% to 22.14%, as of September 30, 2016.

Note 13 - Defined Benefit Plan

The Credit Union sponsors a defined benefit pension plan that covers substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation rates near retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future.

The following sets forth the funded status of the plan included in the accompanying consolidated statements of financial condition as of September 30, 2016 and 2015 and other key information for the plan as of and for the year ended September 30, 2016 and 2015:

	2016	2015
Net pension asset:		
Market value of assets	$7,993,579	$6,579,226
Projected benefit obligations (PBO)	4,408,509	3,659,029
Funded status	$3,585,070	$2,920,197

	2016	2015
Accumulated benefit obligation (ABO)	$3,994,742	$3,239,293

	2016	2015
Components of net periodic pension cost:		
Service cost	$271,195	$256,192
Interest cost	160,112	142,793
Expected return on plan assets	(539,372)	(525,933)
Amortization of prior service cost	711	711
Amortization of unrecognized net loss	107,354	23,232
Net periodic pension cost	$—	($103,005)

	2016	2015
Recognized in accumulated other comprehensive loss:		
Unrecognized net loss	$1,994,590	$1,802,704
Unrecognized transition obligation	2,952	3,663
	$1,997,542	$1,806,367

Note 13 - Defined Benefit Plan (Continued)

The assumptions used to develop the net period pension cost for the year ended September 30, 2016 and 2015 were as follows:

	2016	2015
Discount rate	3.75%	4.50%
Expected long-term rate of return on plan assets	7.50%	7.50%
Weighted-average rate of compensation increases	2.50%	3.00%
Amortization method	Straight-Line	Straight-line

The assumptions used to develop the periodic benefit obligation as of September 30, 2016 and 2015 were as follows:

	2016	2015
Discount rate	3.75%	4.50%
Weighted-average rate of compensation increases	2.50%	3.00%

The discount rate is determined annually by Credit Union management based on historical data provided by its actuary.

The long-term rate of return on assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The Credit Union's Board of Directors has established an investment policy for the Benefit Plan. The general investment principles of the policy require that investments be made solely in the interest of the beneficiaries, that the Benefit Plan be invested with care, skill, prudence, and diligence, that the Benefit Plan be reasonably diversified to reduce the risk of large losses, that the Board of Directors may employ one or more investment managers to attain plan objectives, and that cash is to be employed productively at all times. The investment management policy of the Benefit Plan requires the investment managers to preserve capital, ensure that the risk is commensurate with the given investment style and objectives, and to adhere to the investment management styles for which the investment manager is hired. The goals of each investment manager are to meet or exceed the market index or benchmark selected by the Board of Directors and to display an overall level of risk in the portfolio that is consistent with the established benchmark.

Note 13 - Defined Benefit Plan (Continued)

The following table sets forth the expected benefit payments as of September 30, 2016:

Year ending September 30,	Amount
2017	$209,853
2018	35,617
2019	229,908
2020	116,828
2021	33,329
Thereafter	2,181,380
Total	$2,806,915

The Credit Union's weighted-average asset allocations as of September 30, 2016 and 2015 by asset category are as follows:

	2016	2015
Asset category:		
Equity securities	67.0%	60.8%
Fixed income	32.9%	39.1%
Cash and money market	0.1%	0.1%
	100.0%	100.0%

The fair value of the Credit Union's pension plan assets by asset class are as follows: (the three levels of input used to measure fair value are more fully described in Note 10: Fair Value Measurements):

	Assets at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Equity securities	$5,358,864	$—	$—	$5,358,864
Fixed income	2,627,621	—	—	2,627,621
Cash and money market	—	7,094	—	7,094
	$7,986,485	$7,094	$—	$7,993,579

Note 13 - Defined Benefit Plan (Continued)

	Assets at Fair Value as of September 30, 2015			
	Level 1	Level 2	Level 3	Total
Equity securities	$3,997,539	$—	$—	$3,997,539
Fixed income	2,575,108	—	—	2,575,108
Cash and money market	—	6,579	—	6,579
	$6,572,647	$6,579	$—	$6,579,226

* * * End of Notes * * *