SEASONS FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

(With Independent Auditor's Report Thereon)

SEASONS FEDERAL CREDIT UNION

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Independent Auditor's Report

April 18, 2018

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, 2017 and 2016, 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 consolidated 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.

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, 2017 and 2016, 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, 2017 AND 2016

Assets	**2017**	**2016**
Cash and cash equivalents	$4,681,283	$7,182,177
Interest bearing deposits	895,000	1,492,000
Investment securities:		
Available-for-sale	6,135,082	6,913,494
Held-to-maturity	2,468	3,166
Loans held for sale	1,353,780	396,811
Loans to members, net of allowance for loan losses	130,855,586	127,447,112
Accrued interest receivable	408,758	419,380
Property and equipment	4,635,840	4,134,194
Prepaid and other assets	9,491,970	8,633,010
NCUSIF deposit	1,416,021	1,422,985
Total assets	$159,875,788	$158,044,329
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$142,857,742	$144,577,936
Borrowings	6,000,000	2,000,000
Accrued expenses and other liabilities	963,397	1,608,472
Total liabilities	149,821,139	148,186,408
Commitments and contingent liabilities		
Members' equity:		
Regular reserves	2,241,414	2,241,414
Undivided earnings	8,605,691	8,505,453
Equity acquired from business combination	1,033,234	1,033,234
Accumulated other comprehensive loss	(1,825,690)	(1,922,180)
Total members' equity	10,054,649	9,857,921
Total liabilities and members' equity	$159,875,788	$158,044,329

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Interest income:		
Loans to members	$6,687,779	$6,939,061
Investments	284,451	298,860
Total interest income	6,972,230	7,237,921
Interest expense:		
Members' shares and savings accounts	585,793	638,878
Borrowings	94,167	109,513
Total interest expense	679,960	748,391
Net interest income	6,292,270	6,489,530
Provision for loan losses	712,395	978,191
Net interest income after provision for loan losses	5,579,875	5,511,339
Non-interest income:		
Fees and charges	1,778,974	1,612,334
Other operating income	1,037,224	944,932
Gain on sale of loans	235,710	248,075
Total non-interest income	3,051,908	2,805,341
Non-interest expenses:		
Compensation and benefits	3,581,661	3,721,273
Office operations	2,866,239	2,628,540
Office occupancy	779,468	801,536
Loan servicing	599,517	604,139
Other	434,441	572,387
Outside services	270,219	287,833
Total non-interest expenses	8,531,545	8,615,708
Net income/(loss)	$100,238	($299,028)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Net income/(loss)	$100,238	($299,028)
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized holding (losses)/gains on available-for-sale investments	(90,154)	160,140
Net change in available-for-sale investments	(90,154)	160,140
Defined pension plan benefit:		
Net unrealized gains/(losses) on defined pension plan	81,973	(299,240)
Amortization of unrecognized net losses from changes in actuarial assumptions	104,671	108,065
Net change in defined benefit plan	186,644	(191,175)
Total other comprehensive income/(loss)	96,490	(31,035)
Comprehensive income/(loss)	$196,728	($330,063)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	Regular Reserve	Undivided Earnings	Equity Acquired from Business Combination	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2015	$2,241,414	$8,804,481	$1,033,234	($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
Net income	—	100,238	—	—	100,238
Other comprehensive income	—	—	—	96,490	96,490
Balance, September 30, 2017	$2,241,414	$8,605,691	$1,033,324	($1,825,690)	$10,054,649

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net income/(loss)	$100,238	($299,028)
Adjustments to net cash provided from operating activities:		
Provision for loan losses	712,395	978,191
Depreciation and amortization	476,999	380,170
Net amortization and accretion on investments	79,095	107,778
Gain on sale of loans	(120,389)	(128,371)
Capitalization of mortgage servicing rights	(115,321)	(119,704)
Changes in assets and liabilities:		
Prepaid and other assets	(672,316)	157,434
Accrued interest receivable	10,622	15,824
Loans held for sale	(875,820)	267,545
Accrued expenses and other liabilities	(645,075)	(685,627)
Total adjustments	(1,149,810)	973,240
Net cash (used in)/provided from operating activities	(1,049,572)	674,212

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

Cash Flows (Continued)

	2017	2016
Cash flows from investing activities:		
Net change in loans to members	(3,966,308)	(8,961,350)
Change in interest bearing deposits	597,000	297,000
Proceeds from repayment or maturity of available-for-sale investments	609,163	1,501,138
Proceeds from repayment of held-to-maturity investments	698	859
Change in NCUSIF deposit	6,964	(119,627)
Purchase of property and equipment	(978,645)	(778,608)
Net cash used in investing activities	(3,731,128)	(8,060,588)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	(1,720,194)	8,340,197
Proceeds from borrowings	6,000,000	—
Repayment of borrowings	(2,000,000)	(3,000,000)
Net cash provided from financing activities	2,279,806	5,340,197
Net change in cash and cash equivalents	(2,500,894)	(2,046,179)
Cash and cash equivalents - beginning	7,182,177	9,228,356
Cash and cash equivalents - ending	$4,681,283	$7,182,177

Supplemental Information

Interest paid	$680,417	$753,055

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 investments and unrealized gains and losses from changes in actuarial assumptions and amortization related to the defined benefit pension plan. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in 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 reported in 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 and corporate credit unions (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.

Investments

Investments are classified into the following categories: held-to-maturity and available-for-sale. Investments 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 investments to full maturity. Investments classified as available-for-sale are measured at fair value as of the consolidated statements 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.

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

Investments (Continued)

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

Federal Home Loan Bank (FHLB) Stock

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 in the consolidated statements of financial condition.

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 costs. 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.

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.

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

Loans to Members (Continued)

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 costs are deferred and amortized as an adjustment of loan yield over the estimated life of the loan. 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.

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 (HELOC), 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.

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

Allowance for Loan Losses (Continued)

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.

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, 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, 2017 and 2016, the historical loss time frame for each class was 12 months.

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.

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

Allowance for Loan Losses (Continued)

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.

The Credit Union evaluates the credit quality of loans in the consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

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.

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

Allowance for Loan Losses (Continued)

Loan Charge-off Policies (Continued)

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.

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 periodically reviewed for impairment.

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 reported in the 2016 consolidated financial statements have been reclassified to conform with the 2017 presentation. Total members' equity and net income are unchanged due to the reclassification.

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.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on December 31, 2021. Early application is permitted for annual periods beginning January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

Subsequent Events

Management has evaluated subsequent events through April 18, 2018, 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 present the amortized cost and estimated fair value of investments as of September 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$4,636,373	$83,193	($16,653)	$4,702,913
Asset-backed securities	578,355	—	(13,129)	565,226
Federal agency collateralized mortgage obligations	592,548	—	(19,937)	572,611
Private issue collateralized mortgage obligations	342,598	—	(48,266)	294,332
Total	$6,149,874	$83,193	($97,985)	$6,135,082

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Mortgage-backed securities	$2,468	$28	$—	$2,496

Note 2 - Investments (Continued)

The following tables present 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 amortized cost and estimated fair value of debt securities as of September 30, 2017, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities, federal agency and private issue collateralized mortgage obligations, and asset-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**
Mortgage-backed securities	$4,636,373	$4,702,913	$2,468	$2,496
Asset-backed securities	578,355	565,226	—	—
Federal agency collateralized mortgage obligations	592,548	572,611	—	—
Private issue collateralized mortgage obligations	342,598	294,332	—	—
Total	$6,149,874	$6,135,082	$2,468	$2,496

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2017, 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	$2,095,614	($16,653)	$—	$—	$2,095,614	($16,653)
Asset-backed securities	—	—	565,226	(13,129)	565,226	(13,129)
Federal agency collateralized mortgage obligations	—	—	572,611	(19,937)	572,611	(19,937)
Private issue collateralized mortgage obligations	—	—	294,332	(48,266)	294,332	(48,266)
Total	$2,095,614	($16,653)	$1,432,169	($81,332)	$3,527,783	($97,985)

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:						
Asset-backed securities	$—	$—	$694,529	($101)	694,529	($101)
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)
Total	$—	$—	$1,757,567	($62,300)	$1,757,567	($62,300)

Note 2 - Investments (Continued)

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).

Note 3 - Loans to Members

The composition of loans to members as of September 30, 2017 and 2016 is as follows:

	2017	2016
Consumer:		
Used auto	$52,427,842	$48,744,511
Unsecured	13,222,030	14,329,158
New auto	24,181,482	20,909,475
Other secured	351,335	356,526
	90,182,689	84,339,670
Real Estate:		
HELOC	21,717,892	22,767,957
Second mortgage	14,054,630	15,268,345
First mortgage	3,976,304	4,592,199
	39,748,826	42,628,501
	129,931,515	126,968,171
Net deferred fees and costs	1,857,069	1,551,710
	131,788,584	128,519,881
Less: Allowance for loan losses	(932,998)	(1,072,769)
Loans to members, net	$130,855,586	$127,447,112

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 September 30, 2017:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$824,882	$247,887	$1,072,769
Charge-offs	(1,018,043)	(80,976)	(1,099,019)
Recoveries	202,847	44,006	246,853
Provision for loan losses	809,275	(96,880)	712,395
Ending allowance	$818,961	$114,037	$932,998
Ending balance individually evaluated for impairment	$4,355	$71,350	$75,705
Ending balance collectively evaluated for impairment	814,606	42,687	857,293
Ending allowance	$818,961	$114,037	$932,998

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2017:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$355,803	$585,691	$941,494
Ending balance collectively evaluated for impairment	91,488,338	39,358,752	130,847,090
Total loans	$91,844,141	$39,944,443	$131,788,584

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 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	$1,161,570
Ending balance collectively evaluated for impairment	85,122,609	42,235,702	127,358,311
Total loans	$85,677,072	$42,842,809	$128,519,881

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, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Consumer:					
Used auto	$148,741	$148,741	$—	$197,549	$23,054
Unsecured	$96,598	$96,598	$—	$109,573	$13,751
New auto	$7,649	$7,649	$—	$9,972	$588
Real Estate:					
Second mortgage	$50,107	$50,107	$—	$46,929	$4,106
With an allowance recorded:					
Consumer:					
Used auto	$55,394	$55,394	$2,748	$70,196	$5,195
Unsecured	$47,421	$47,421	$1,607	$67,843	$6,404
Real Estate:					
Second mortgage	$535,584	$535,584	$71,350	$549,470	$21,979
Totals:					
Consumer	$355,803	$355,803	$4,355	$455,133	$48,992
Real Estate	585,691	585,691	71,350	596,399	26,085
Total	$941,494	$941,494	$75,705	$1,051,532	$75,077

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, 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
Real Estate:					
Second mortgage	$563,356	$563,356	$57,110	$565,496	$22,620
Totals:					
Consumer	$554,463	$554,463	$15,020	$644,596	$43,176
Real Estate	607,107	607,107	57,110	702,331	28,093
Total	$1,161,570	$1,161,570	$72,130	$1,346,927	$71,269

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, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	$571,490	$130,577	$324,419	$1,026,486	$52,232,082	$53,258,568
Unsecured	461,874	180,753	290,362	932,989	12,289,041	13,222,030
New auto	165,442	30,315	47,050	242,807	24,769,401	25,012,208
Other secured	—	—	—	—	351,335	351,335
	1,198,806	341,645	661,831	2,202,282	89,641,859	91,844,141
Real Estate:						
HELOC	248,691	149,558	756,990	1,155,239	20,719,321	21,874,560
Second mortgage	87,573	—	28,070	115,643	13,997,100	14,112,743
First mortgage	104,066	—	132,747	236,813	3,720,327	3,957,140
	440,330	149,558	917,807	1,507,695	38,436,748	39,944,443
Total	$1,639,136	$491,203	$1,579,638	$3,709,977	$128,078,607	$131,788,584

Loans on which the accrual of interest has been discontinued or reduced approximated $1,580,000 as of September 30, 2017. There were no loans 90 days or more past due and still accruing interest as of September 30, 2017.

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, 2016:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater 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:						
HELOC	191,017	15,958	285,490	492,465	22,445,031	22,937,496
Second mortgage	10,947	80,320	—	91,267	15,242,874	15,334,141
First mortgage	—	147,004	328,033	475,037	4,096,135	4,571,172
	201,964	243,282	613,523	1,058,769	41,784,040	42,842,809
Total	$1,887,712	$527,633	$1,416,298	$3,831,643	$124,688,238	$128,519,881

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)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for consolidated financial statement disclosure for the years ended September 30, 2017 and 2016. 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, 2017:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs which Subsequently Defaulted
Consumer:			
Used auto	3	$28,765	$—
Unsecured	1	15,237	—
Real Estate:			
Second mortgage	—	—	—
Total	4	$44,002	$—

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	$—

Note 3 - Loans to Members (Continued)

Consumer and Real Estate 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, 2017 and 2016:

	As of September 30, 2017		As of September 30, 2016	
	Performing Loans	**Nonperforming Loans**	**Performing Loans**	**Nonperforming Loans**
Consumer:				
Used auto	$52,934,149	$324,419	$49,052,336	$360,876
Unsecured	12,931,668	290,362	13,953,603	375,555
New auto	24,965,158	47,050	21,511,832	66,344
Other secured	351,335	—	356,526	—
	91,182,310	661,831	84,874,297	802,775
Real Estate:				
HELOC	21,117,570	756,990	22,652,006	285,490
Second mortgage	14,084,673	28,070	15,334,141	—
First mortgage	3,824,393	132,747	4,243,139	328,033
	39,026,636	917,807	42,229,286	613,523
Total	$130,208,946	$1,579,638	$127,103,583	$1,416,298

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of September 30, 2017 and 2016 by major classification as follows:

	2017	2016
Land and improvements	$127,391	$127,391
Building and improvements	3,844,966	3,372,529
Furniture and equipment	3,917,885	3,698,426
Leasehold improvements	1,814,349	1,591,924
	9,704,591	8,790,270
Less accumulated depreciation and amortization	(5,068,751)	(4,656,076)
	$4,635,840	$4,134,194

Depreciation and amortization charged to operations was approximately $477,000 and $380,000 for the years ended September 30, 2017 and 2016, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of September 30, 2017 and 2016:

	2017	2016
Share accounts	$58,286,009	$60,812,021
Share draft accounts	30,862,847	32,004,530
Money market accounts	14,539,120	15,144,726
Individual retirement accounts	1,924,140	2,016,940
Share and IRA certificates	37,245,626	34,599,719
	$142,857,742	$144,577,936

As of September 30, 2017, scheduled maturities of share and IRA certificates are as follows:

	2017
Within one year	$28,749,728
1 to 2 years	5,481,586
2 to 3 years	2,449,642
3 to 4 years	484,291
4 to 5 years	5,028
over 5 years	75,351
	$37,245,626

Note 5 - Members' Shares and Savings Accounts (Continued)

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $1,789,000 as of September 30, 2017.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union employees participate in a 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 1,000 hours of work during 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 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 401(k) pension expense was approximately $44,000 and $92,000 for the years ended September 30, 2017 and 2016, 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 $69,000 and $58,000 as of September 30, 2017 and 2016, 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 $2,534,000 and $1,600,000 as of September 30, 2017 and 2016, 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, 2017 and 2016, 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. The terms of the agreement call for pledging of investments held in safekeeping by the Federal Reserve Bank. As of September 30, 2017, there were no borrowings under this agreement. The carrying value of securities pledged as of September 30, 2017 was approximately $885,000.

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, 2017 and 2016, was approximately $11,963,000 and $8,876,000, respectively. The available borrowing capacity as of September 30, 2017 and 2016, was approximately $3,850,000 and $4,982,000, respectively. The following advances were outstanding under this line-of-credit agreement:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2017	2016
FHLB	Fixed	1.09%	Sept. 18, 2020	Balloon	$—	$2,000,000
FHLB	Fixed	1.34%	Oct. 30, 2017	Balloon	6,000,000	—
					$6,000,000	$2,000,000

The outstanding balances by maturity dates as of September 30, 2017 are as follows:

	2017
Within 1 year	$6,000,000

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of September 30, 2017:

Year ending September 30,	Amount
2018	$111,000
2019	113,000
2020	94,000
2021	56,000
2022	56,000
Thereafter	311,000
	$741,000

Net rent expense under operating leases, included in expenses, was approximately $210,000 and $226,000 for the years ended September 30, 2017 and 2016, 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, 2017, the total unfunded commitments under such lines of credit was approximately $25,534,000. 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, 2017 and 2016 was 5.41% and 5.33%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of September 30, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2017, 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, 2017		As of September 30, 2016	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$11,880,339	7.43%	$11,780,101	7.45%
Amount needed to be classified as "adequately capitalized"	$9,592,547	6.00%	$9,482,660	6.00%
Amount needed to be classified as "well capitalized"	$11,191,305	7.00%	$11,063,103	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

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

	Assets at Fair Value as of September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$4,702,913	$—	$4,702,913
Asset-backed securities	—	565,226	—	565,226
Federal agency collateralized mortgage obligations	—	572,611	—	572,611
Private issue collateralized mortgage obligations	—	294,332	—	294,332
Mortgage servicing rights	—	—	846,283	846,283
	$—	$6,135,082	$846,283	$6,981,365

	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-backed securities	—	694,529	—	694,529
Federal agency collateralized mortgage obligations	—	689,193	—	689,193
Private issue collateralized mortgage obligations	—	373,845	—	373,845
Mortgage servicing rights	—	—	801,379	801,379
	$—	$6,913,494	$801,379	$7,714,873

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 are summarized as follows:

	Assets at Fair Value as of September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$562,694	$562,694

	Assets at Fair Value as of September 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$664,489	$664,489

Note 11 - Changes in Accumulated Other Comprehensive Loss

The following table presents the changes in accumulated other comprehensive loss by component:

	For the years ended September 30, 2017 and 2016		
	Unrealized Gains/(Losses) Available-for-Sale Securities	**Defined-Benefit Plan Items**	**Total**
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)
Other comprehensive (loss)/income before reclassifications	(90,154)	81,973	(8,181)
Amounts reclassified from other comprehensive loss	—	104,671	104,671
Net other comprehensive income/(loss)	(90,154)	186,644	96,490
Balance, September 30, 2017	($14,792)	($1,810,898)	($1,825,690)

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

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

For the year ended September 30, 2017

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	$104,671	Compensation and employee benefits expense

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

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, 2017 and 2016:

	2017	2016
Mortgage loan portfolio serviced for:		
Federal Home Loan Mortgage Corporation (FHLMC)	$96,278,000	$100,870,000
Federal Home Loan Bank (FHLB)	3,170,000	4,098,000
	$99,448,000	$104,968,000
Custodial escrow balances:		
FHLMC	$727,000	$740,000
FHLB	25,000	31,000
	$752,000	$771,000

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2017 and 2016:

	2017	2016
Mortgage servicing rights, at fair value:		
Balance, beginning of year	$801,379	$925,985
Capitalization	115,321	119,704
Fair value adjustments	(70,417)	(244,310)
Balance, end of year	$846,283	$801,379

As of September 30, 2017 and 2016, 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 9.00% to 13.50% and prepayment speeds ranging from 11.16% to 22.14%, as of September 30, 2017 and 2016, respectively.

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, 2017 and 2016 and other key information for the plan as of and for the years ended September 30, 2017 and 2016:

	2017	2016
Net pension assets:		
Market value of assets	$8,668,933	$7,993,579
Projected benefit obligations (PBO)	(4,875,666)	(4,408,509)
Funded status	$3,793,267	$3,585,070

	2017	2016
Accumulated benefit obligation (ABO)	$4,275,887	$3,994,742

	2017	2016
Components of net periodic pension cost:		
Service cost	$296,844	$271,195
Interest cost	168,580	160,112
Expected return on plan assets	(591,648)	(539,372)
Amortization of transition obligation	711	711
Amortization of unrecognized net loss	103,960	107,354
Net periodic pension cost	($21,553)	$—

	2017	2016
Recognized in accumulated other comprehensive loss:		
Unrecognized net loss	$1,808,657	$1,994,590
Unrecognized transition obligation	2,241	2,952
	$1,810,898	$1,997,542

Note 13 - Defined Benefit Plan (Continued)

The assumptions used to develop the net period pension cost for the years ended September 30, 2017 and 2016 were as follows:

	2017	2016
Discount rate	4.00%	4.00%
Expected long-term rate of return on plan assets	7.50%	7.50%
Weighted-average rate of compensation increases	3.00%	2.50%
Amortization method	Straight-Line	Straight-Line

The assumptions used to develop the periodic benefit obligation as of September 30, 2017 and 2016 were as follows:

	2017	2016
Discount rate	4.00%	3.75%
Weighted-average rate of compensation increases	3.00%	2.50%

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, 2017:

Year ending September 30,	Amount
2018	$175,073
2019	231,844
2020	62,919
2021	33,550
2022	128,328
Thereafter	2,928,433
Total	$3,560,147

The Credit Union's weighted-average asset allocations as of September 30, 2017 and 2016 by asset category are as follows:

	2017	2016
Asset category:		
Equity securities	64.6%	67.0%
Fixed income	34.8%	32.9%
Cash and money market	0.6%	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, 2017			
	Level 1	Level 2	Level 3	Total
Equity securities	$5,600,131	$—	$—	$5,600,131
Fixed income	3,011,738	—	—	3,011,738
Cash and money market	—	57,064	—	57,064
	$8,611,869	$57,064	$—	$8,668,933

Note 13 - Defined Benefit Plan (Continued)

	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 14 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans aggregated approximately $479,000 and $533,000 as of September 30, 2017 and 2016, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately $688,000 and $696,000 as of September 30, 2017 and 2016, respectively.

* * * End of Notes * * *