VERMONT FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Vermont Federal Credit Union and Subsidiary
Burlington, Vermont

We have audited the accompanying consolidated financial statements of Vermont Federal Credit Union and Subsidiary, which comprise the consolidated statements of financial condition as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditors' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 Vermont Federal Credit Union and Subsidiary as of March 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
June 27, 2018

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	$ 31,221,112	$ 25,876,373
Securities - Available-for-Sale	110,319,916	119,568,080
Other Investments	13,090,400	18,641,200
Loans Held-for-Sale	1,131,668	1,286,830
Loans, Net of Allowance for Loan Losses of $1,713,456 in 2018 and $1,737,747 in 2017	355,728,367	309,521,716
Accrued Interest Receivable	1,299,714	1,213,657
Foreclosed and Repossessed Assets	236,667	121,351
Premises and Equipment, Net	9,246,541	9,849,582
NCUSIF Deposit	4,329,350	3,975,336
Other Assets	3,530,973	3,278,002
Total Assets	$ 530,134,708	$ 493,332,127
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 477,870,079	$ 443,930,330
Borrowed Funds	1,709,250	2,292,000
Accrued Expenses and Other Liabilities	5,885,955	5,257,082
Total Liabilities	485,465,284	451,479,412
MEMBERS' EQUITY		
Regular Reserves	4,417,109	4,417,109
Undivided Earnings	43,101,060	38,143,977
Accumulated Other Comprehensive Loss	(2,848,745)	(708,371)
Total Members' Equity	44,669,424	41,852,715
Total Liabilities and Members' Equity	$ 530,134,708	$ 493,332,127

See accompanying Notes to Consolidated Financial Statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest on Loans	$ 14,640,128	$ 12,987,297
Interest on Investments and Cash Equivalents	3,117,234	2,969,364
Total Interest Income	17,757,362	15,956,661
INTEREST EXPENSE		
Members' Share and Savings Accounts	3,663,458	3,469,836
Borrowed Funds	128,591	257,864
Total Interest Expense	3,792,049	3,727,700
NET INTEREST INCOME	13,965,313	12,228,961
PROVISION FOR LOAN LOSSES	893,853	1,052,050
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,071,460	11,176,911
NONINTEREST INCOME		
Service Charges and Fees	2,638,134	2,664,422
Card Fees	3,439,243	3,153,030
Net Gain on Sales of Loans	1,345,646	1,480,185
Other Noninterest Income	1,645,769	943,387
Net Loss on Sales of Assets	(930)	(7,629)
Net Gain on Sales of Investments	5,786	116,535
Total Noninterest Income	9,073,648	8,349,930
NONINTEREST EXPENSE		
Employee Compensation and Benefits	9,126,532	8,695,710
Occupancy	886,970	871,509
Operations	7,174,523	6,995,700
Total Noninterest Expense	17,188,025	16,562,919
NET INCOME	$ 4,957,083	$ 2,963,922

See accompanying Notes to Consolidated Financial Statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
NET INCOME	$ 4,957,083	$ 2,963,922
OTHER COMPREHENSIVE LOSS		
Securities - Available-For-Sale:		
Unrealized Holding Losses Arising During the Period	(2,134,588)	(2,242,020)
Reclassification for Gain on Sales of Investments	(5,786)	(116,535)
Subtotal	(2,140,374)	(2,358,555)
TOTAL COMPREHENSIVE INCOME	$ 2,816,709	$ 605,367

See accompanying Notes to Consolidated Financial Statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED MARCH 31, 2018 AND 2017

	Regular Reserves	Other Appropriated Undivided Earnings	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - MARCH 31, 2016	$ 4,417,109	$ 4,726,617	$ 30,453,438	$ 1,650,184	$ 41,247,348
Net Income	-	-	2,963,922	-	2,963,922
Other Comprehensive Loss	-	-	-	(2,358,555)	(2,358,555)
Transfers, Net	-	208,256	(208,256)	-	-
BALANCE - MARCH 31, 2017	4,417,109	4,934,873	33,209,104	(708,371)	41,852,715
Net Income	-	-	4,957,083	-	4,957,083
Other Comprehensive Loss	-	-	-	(2,140,374)	(2,140,374)
Transfers, Net	-	368,264	(368,264)	-	-
BALANCE - MARCH 31, 2018	$ 4,417,109	$ 5,303,137	$ 37,797,923	$ (2,848,745)	$ 44,669,424

See accompanying Notes to Consolidated Financial Statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 4,957,083	$ 2,963,922
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Premiums and Discounts on Securities, Net	385,218	687,985
Gain on Sales of Investments	(5,786)	(116,535)
Net Gain on Sales of Loans	(1,345,646)	(1,480,185)
Loss on Sales of Assets	930	7,629
Amortization of Mortgage Servicing Rights	383,448	464,802
Capitalization of Mortgage Servicing Rights	(331,209)	(335,038)
Change in Valuation Allowance of Mortgage Servicing Rights	(19,177)	23,700
Provision for Loan Losses	893,853	1,052,050
Loans Originated for Sale	(48,910,861)	(50,948,527)
Proceeds from Sale of Loans	50,411,669	54,160,209
Depreciation and Amortization	1,105,530	1,130,175
Net Change in:		
Accrued Interest Receivable	(86,057)	(27,176)
Other Assets	(286,033)	(217,212)
Accrued Expenses and Other Liabilities	628,873	1,410,500
Net Cash Provided by Operating Activities	7,781,835	8,776,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Available-for-Sale Investments	(20,023,496)	(28,879,346)
Proceeds from Maturities and Paydowns of Available-for-Sale Investments	19,925,007	29,634,954
Proceeds from Sale of Available-for-Sale Investments	6,826,847	31,897,104
Proceeds from the Sale of Assets	129,370	483,635
Net Change in Other Investments	5,550,800	(10,021,800)
Net Change in Loans	(47,346,120)	(42,628,564)
Increase in the NCUSIF Deposit	(354,014)	(279,228)
Purchase of Property and Equipment	(502,489)	(488,308)
Net Cash Used by Investing Activities	(35,794,095)	(20,281,553)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances of Borrowed Funds	1,417,250	292,000
Repayments of Borrowed Funds	(2,000,000)	(10,500,000)
Net Change in Members' Share and Savings Accounts	33,939,749	28,994,454
Net Cash Provided by Financing Activities	33,356,999	18,786,454
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,344,739	7,281,200
Cash and Cash Equivalents - Beginning of Year	25,876,373	18,595,173
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 31,221,112	$ 25,876,373
SUPPLEMENTARY DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Dividends Paid on Members' Share and Savings Accounts and Interest Paid on Borrowed Funds	$ 3,798,916	$ 3,768,923
Transfers of Loans to Foreclosed and Repossessed Assets	$ 245,616	$ 524,912

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Vermont Federal Credit Union is a federal-chartered cooperative association headquartered in Burlington, Vermont, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among, and creating a source of credit for its members.

Principles of Consolidation

The consolidated financial statements include the accounts of Vermont Federal Credit Union (the Credit Union) and its wholly owned subsidiary, Vermont Federal Financial Services, LLC (the CUSO), a credit union service organization that provides financial services, including selling insurance and investment products, to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of anyone who lives, works, worships, or attends school in the state of Vermont counties of Chittenden, Grand Isle, Franklin, Lamoille, Washington, or Addison. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members.

Uses 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, determination of the adequacy of the allowance for loan losses, and the valuation of mortgage servicing rights.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who reside in or are employed in the state of Vermont counties of Chittenden, Grand Isle, Franklin, Lamoille, Washington, and Addison. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside in Burlington, Vermont. However, the loan portfolio is well-diversified and the Credit Union does not have any significant concentrations of credit risk.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, Cash and Cash Equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Loss. Realized gains and losses on securities available-for-sale are included in Noninterest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Loss. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union’s intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Noninterest Income.

The Credit Union did not record any other than temporary impairment during the years ended March 31, 2018 and 2017.

Other Investments

Other investments are recorded at cost and evaluated for credit events resulting in other than temporary impairment. Other investments consist of permanent capital in corporate credit unions, Federal Home Loan Bank of Boston (FHLB) stock, and non-negotiable certificates of deposit in other financial institutions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-for-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

All sales are made without recourse, except for those loans sold to the FHLB under the Mortgage Partnership Finance Program, which are sold with limited recourse, consisting of maximum credit enhancement of 5% of the total loans that have been sold under the agreement.

Based upon favorable payment history, the Credit Union does not anticipate any losses on these residential loans and, accordingly, has not recorded a liability for the credit enhancement.

Loans, Net

The Credit Union grants residential real estate loans, commercial loans, and consumer loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union’s field of membership and the borrower’s ability to pay. In addition, the Credit Union purchases commercial and residential real estate loan participations originated by other credit unions, including loans made to faith-based organizations. These loan participations were purchased without recourse and are secured by real property. The originating credit union performs all servicing functions on these loans.

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 is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

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

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

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

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

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (two years). These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer – The Credit Union has identified auto loans, credit cards, student loans, and other unsecured loans in homogenous risk categories. Repayment is dependent on the credit quality of the individual borrower. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate – Generally these loans are smaller in size and are homogenous because they exhibit similar characteristics. The Credit Union has identified first mortgages, hybrid mortgages, and home equity loans in homogenous risk categories. Repayment is dependent on the credit quality of the borrower. Most loans are secured by the underlying collateral. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Commercial Real Estate – Commercial loans primarily consist of nonowner and owner occupied real estate loans. Commercial loans generally have terms of 15 years or less. Repayment is expected from the cash flows of the business. Loans are secured by the underlying collateral. Substantially all commercial loans are secured and backed by the personal guarantees of the owners of the business.

Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Commercial Other – These are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

The Credit Union assigns a risk rating to commercial loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into the following major categories, defined as follows:

Pass (1-3): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Acceptable (4): Loans possess unconventional origination, weakened operating performance, or the occurrence of negative events which create a risk of default. A watch loan is a loan that is currently protected by the paying capacity of the borrower or the collateral, with apparent weaknesses that may result in added credit risks, but is not yet in a lower loan grade. These loans are considered Pass loan for credit quality disclosures.

Special Mention (5): Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification. These loans are considered Pass loans for credit quality disclosures.

Substandard (6): Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (7): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss (8): Loans classified as Loss are considered uncollectible and anticipated to be charged off.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. During the years ended March 31, 2018 and 2017, the Credit Union accounted for all transfers of financial assets as sales.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Servicing

Servicing assets are recognized separately when servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into Noninterest Income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment of increased obligation based upon the fair value at each reporting date.

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the servicing right, and may result in reduction to noninterest income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing (Continued)

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with Noninterest Income on the consolidated statements of income.

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to foreclosure or repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in Noninterest Expense.

Premises and Equipment, Net

Land is carried at cost. Buildings and improvements, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is less.

Impairment of Long-Lived Assets

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% 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.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the fund related to the corporate credit union collapse. It was anticipated that the NCUA Board would assess annual premiums to repay these stabilization costs through the year 2021 at its discretion. No CCUSF premium was assessed in the years ended March 31, 2018 and 2017 due to subsequent loss recovery settlements and gains recognized by the fund in recent years. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF.

The NCUA Board unanimously approved at the February 15, 2018 open meeting a Share Insurance Fund equity distribution to all eligible financial institutions. In addition, the NCUA Board approved a final rule (Part 741) that amends the existing share Insurance Fund equity distributions related to the Corporate System Resolution Program. Under the final rule, the NCUA Board will effect a pro rata distribution to each eligible credit union. The final rule became effective March 25, 2018. As such, the Credit Union recorded Other Income in the amount of $271,469 and the related receivable which will be received in the third quarter of 2018.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss, also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity (Continued)

Reclassifications from Accumulated Other Comprehensive Loss for Securities – Available-for-Sale are reported as Noninterest Income, Net Gain on Sales of Investments, on the consolidated statements of income.

Income Taxes

The Credit Union is exempt, under Internal Revenue Code (IRC) 501(c)(14), from federal and state income taxes. The income from the CUSO, organized as an LLC, flows through to the Credit Union, and therefore is not subject to federal and state income taxes.

Retirement Plans

401(k) Plan – The Credit Union provides a Safe Harbor 401(k) plan, which covers substantially all of the Credit Union's employees who are at least 18 years of age. The Credit Union's safe harbor match of 3% begins after six months of employment. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation, as of the first day of their employment. The Credit Union makes discretionary matching contributions as approved by the board of directors. The Credit Union's contributions to the plan approximated $396,000 and $360,000 for the years ended March 31, 2018 and 2017, respectively.

Deferred Compensation Plan [Section 457(b)] – The Credit Union has a nonqualified deferred compensation plan for members of management. The Credit Union does not make contributions to this plan. The deferred compensation accounts are shown as both assets and liabilities on the Credit Union's consolidated financial statements and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation arrangement was $216,000 and $223,000 as of March 31, 2018 and 2017, respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $340,000 and $410,000 for the years ending March 31, 2018 and 2017, respectively, are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

In May 2014, the FASB approved ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitle in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Credit Union is currently evaluating the impact of the amended revenue recognition guidance on the Credit Union's consolidated financial statements.

In 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial condition and disclosing key information about leasing arrangements. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of the Credit Losses on Financial Instruments*. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Credit Union for the fiscal year beginning after December 15, 2020, and interim periods within the fiscal year beginning after December 15, 2021. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 on the consolidated financial statements.

In March 2017, the FASB approved ASC 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization and Purchased Callable Debt Securities*. The guidance requires the Credit Union to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through June 27, 2018, the date the consolidated financial statements were available to be issued.

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Available-for-Sale

The amortized cost and fair value of securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
March 31, 2018				
U.S. Government and Federal Agency Securities	$ 8,495,101	$ -	$ (209,591)	$ 8,285,510
Federal Agency Mortgage Backed Securities	44,742,497	4,061	(1,193,229)	43,553,329
Collateralized Mortgage Obligation Securities	32,140,149	11,807	(815,445)	31,336,511
Small Business Administration Securities	27,790,914	-	(646,348)	27,144,566
Total	$ 113,168,661	$ 15,868	$ (2,864,613)	$ 110,319,916
March 31, 2017				
U.S. Government and Federal Agency Securities	$ 7,496,663	$ -	$ (72,411)	$ 7,424,252
Federal Agency Mortgage Backed Securities	58,096,942	29,171	(470,765)	57,655,348
Collateralized Mortgage Obligation Securities	38,489,386	118,297	(254,138)	38,353,545
Small Business Administration Securities	16,193,460	19,054	(77,579)	16,134,935
Total	$ 120,276,451	$ 166,522	$ (874,893)	$ 119,568,080

Sales of securities available-for-sale resulted in gross gains of approximately $7,661 and $125,217, and gross losses of approximately $1,875 and $8,682 during the years ended March 31, 2018 and 2017, respectively.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Available-for-Sale (Continued)

The amortized cost and fair value of securities, at March 31, 2018, by contractual maturity, are shown below. Expected maturities 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	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities:		
Less Than One Year	$ -	$ -
One to Five Years	2,000,000	1,966,470
Five to Ten Years	6,495,101	6,319,040
After Ten Years	-	-
	8,495,101	8,285,510
Federal Agency Mortgage Backed Securities, Collateralized Mortgage Obligation Securities, and Small Busines Administration Securities	104,673,560	102,034,406
Total	$ 113,168,661	$ 110,319,916

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

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

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2018				
U.S. Government and Federal Agency Securities	$ (104,488)	$ 3,892,030	$ (105,103)	$ 4,393,480
Federal Agency Mortgage Backed Securities	(332,858)	14,182,631	(860,371)	28,489,281
Collateralized Mortgage Obligation Securities	(513,462)	23,192,233	(301,983)	7,486,563
Small Business Administration Securities	(585,643)	25,481,590	(60,705)	1,662,976
Total Available-for-Sale	$ (1,536,451)	$ 66,748,484	$ (1,328,162)	$ 42,032,300

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2017				
U.S. Government and Federal Agency Securities	$ (72,411)	$ 7,424,252	$ -	$ -
Federal Agency Mortgage Backed Securities	(441,467)	46,668,465	(29,298)	3,111,753
Collateralized Mortgage Obligation Securities	(192,763)	22,628,356	(61,375)	2,062,491
Small Business Administration Securities	(77,579)	12,845,551	-	-
Total Available-for-Sale	$ (784,220)	$ 89,566,624	$ (90,673)	$ 5,174,244

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

At March 31, 2018, the 62 securities with unrealized losses have depreciated 2.6% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows:

	March 31, 2018	March 31, 2017
Perpetual Contributed Capital Accounts	$ 400,100	$ 400,100
FHLB of Boston Stock	1,122,300	962,100
Certificates of Deposit in Other Financial Institutions	11,568,000	17,279,000
Total	$ 13,090,400	$ 18,641,200

Perpetual Contributed Capital Accounts

The Credit Union maintains perpetual contributed capital accounts with two corporate credit unions, Tricorp Federal Credit Union and Alloya Corporate Federal Credit Union. These are uninsured and can only be paid back to the Credit Union at the discretion of the respective corporate credit union.

These uninsured deposits are part of the corporate credit union's regulatory capital and are subject to impairment.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Boston (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

NOTE 2 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Other Investments (Continued)

Certificates of Deposit in Other Financial Institutions

The Credit Union holds non-negotiable certificates of deposit in other financial institutions. These are stated at cost. The certificates of deposit all mature within five years.

The Credit Union did not record impairment related to any other investments during the years ended March 31, 2018 and 2017.

NOTE 3 LOANS, NET

Loans consist of the following at March 31:

	2018	2017
Residential Real Estate:		
Mortgage	$ 110,442,685	$ 97,656,166
Home Equity	78,110,024	70,438,241
	188,552,709	168,094,407
Consumer:		
Secured	82,275,194	67,518,597
Unsecured	33,266,792	28,222,668
	115,541,986	95,741,265
Commercial:		
Real Estate	49,215,472	43,327,042
Other	4,005,441	3,994,605
	53,220,913	47,321,647
Total Gross Loans	357,315,608	311,157,319
Deferred Net Loan Origination Costs	126,215	102,144
Allowance for Loan Losses	(1,713,456)	(1,737,747)
Total	$ 355,728,367	$ 309,521,716

The Credit Union has purchased loan participations originated by various other financial institutions, which are secured by real estate and commercial property. These loan participations were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The total loan participations included in the commercial loans and residential mortgage real estate segments above totaled $4,707,368 and $4,741,920 at March 31, 2018 and 2017, respectively.

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union offers nontraditional hybrid mortgage loans to its members. Hybrid loans consist of loans that are fixed for an initial period of five or seven years and, after this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the real estate/commercial loan captions above, totaled approximately $20,573,000 and $17,666,000 at March 31, 2018 and 2017, respectively.

The allowance for loan losses and recorded investment in loans is as follows:

March 31, 2018	Residential Real Estate	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 372,811	$ 1,159,583	$ 205,353	$ 1,737,747
Provision (Credit) for Loan Losses	(24,206)	858,915	59,144	893,853
Loans Charged-Off	(145,028)	(983,804)	-	(1,128,832)
Recoveries of Loans Previously Charged-Off	34,100	176,588	-	210,688
Balance - End of Year	$ 237,677	$ 1,211,282	$ 264,497	$ 1,713,456
Ending Balance: Individually Evaluated for Impairment	$ 138,456	$ -	$ 38,755	$ 177,211
Ending Balance: Collectively Evaluated for Impairment	$ 99,221	$ 1,211,282	$ 225,742	$ 1,536,245
Total Allowance for Loan Losses	$ 237,677	$ 1,211,282	$ 264,497	$ 1,713,456
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 873,046	$ -	$ 1,291,819	$ 2,164,865
Ending Balance: Collectively Evaluated for Impairment	$ 187,679,663	$ 115,541,986	$ 51,929,094	$ 355,150,743
Total Loans	$ 188,552,709	$ 115,541,986	$ 53,220,913	$ 357,315,608

NOTE 3 LOANS, NET (CONTINUED)

March 31, 2017	Residential Real Estate	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 303,057	$ 1,136,436	$ 207,369	$ 1,646,862
Provision (Credit) for Loan Losses	131,899	922,167	(2,016)	1,052,050
Loans Charged-Off	(74,818)	(1,061,605)	-	(1,136,423)
Recoveries of Loans Previously Charged-Off	12,673	162,585	-	175,258
Balance - End of Year	$ 372,811	$ 1,159,583	$ 205,353	$ 1,737,747
Ending Balance: Individually Evaluated for Impairment	$ 263,545	$ -	$ -	$ 263,545
Ending Balance: Collectively Evaluated for Impairment	$ 109,266	$ 1,159,583	$ 205,353	$ 1,474,202
Total Allowance for Loan Losses	$ 372,811	$ 1,159,583	$ 205,353	$ 1,737,747
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 938,608	$ -	$ -	$ 938,608
Ending Balance: Collectively Evaluated for Impairment	$ 167,155,799	$ 95,741,265	$ 47,321,647	$ 310,218,711
Total Loans	$ 168,094,407	$ 95,741,265	$ 47,321,647	$ 311,157,319

The following tables show the commercial loan portfolio segments allocated by management's internal risk ratings:

March 31, 2018	Commercial Credit Risk Profile by Risk Rating		
Risk Rating:	Commercial Real Estate	Commercial Other	Total
Pass (1-5)	$ 49,215,472	$ 4,005,441	$ 53,220,913

March 31, 2017	Commercial Credit Risk Profile by Risk Rating		
Risk Rating:	Commercial Real Estate	Commercial Other	Total
Pass (1-5)	$ 43,327,042	$ 3,994,605	$ 47,321,647

NOTE 3 LOANS, NET (CONTINUED)

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

March 31, 2018	Consumer and Residential Real Estate Credit Risk Profile by Payment Activity		
	Performing	Nonperforming	Total
Residential Real Estate:			
Mortgage	$ 110,041,836	$ 400,849	$ 110,442,685
Home Equity	78,009,242	100,782	78,110,024
Consumer:			
Secured	80,822,925	1,452,269	82,275,194
Unsecured	33,179,557	87,235	33,266,792
Total	$ 302,053,560	$ 2,041,135	$ 304,094,695

March 31, 2017	Consumer and Residential Real Estate Credit Risk Profile by Payment Activity		
	Performing	Nonperforming	Total
Residential Real Estate:			
Mortgage	$ 97,174,830	$ 481,336	$ 97,656,166
Home Equity	70,276,542	161,699	70,438,241
Consumer:			
Secured	66,893,123	625,474	67,518,597
Unsecured	27,972,000	250,668	28,222,668
Total	$ 262,316,495	$ 1,519,177	$ 263,835,672

NOTE 3 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

March 31, 2018	Accruing Interest			Nonaccrual	
	Current	30-59 Days Past Due	60-89 More Past Due	90 Days or More Past Due	Total Loans
Residential:					
Mortgage	$ 108,993,987	$ 862,879	$ 184,970	$ 400,849	$ 110,442,685
Home Equity	77,737,141	211,593	60,508	100,782	78,110,024
Consumer:					
Secured	79,782,883	751,106	288,936	1,452,269	82,275,194
Unsecured	32,881,688	141,653	156,216	87,235	33,266,792
Commercial:					
Real Estate	49,215,472	-	-	-	49,215,472
Other	2,713,622	-	-	1,291,819	4,005,441
Total	$ 351,324,793	$ 1,967,231	$ 690,630	$ 3,332,954	$ 357,315,608

March 31, 2017	Accruing Interest			Nonaccrual	
	Current	30-59 Days Past Due	60-89 More Past Due	90 Days or More Past Due	Total Loans
Residential:					
Mortgage	$ 96,232,051	$ 804,689	$ 138,090	$ 481,336	$ 97,656,166
Home Equity	70,152,603	99,405	24,534	161,699	70,438,241
Consumer:					
Secured	65,779,567	933,157	180,399	625,474	67,518,597
Unsecured	27,883,874	63,306	24,820	250,668	28,222,668
Commercial:					
Real Estate	43,314,585	-	-	12,457	43,327,042
Other	3,994,605	-	-	-	3,994,605
Total	$ 307,357,285	$ 1,900,557	$ 367,843	$ 1,531,634	$ 311,157,319

The following tables present information related to impaired loans:

March 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential:				
Mortgage	$ 184,970	$ 184,970	$ -	$ 198,943
Home Equity	137,423	137,423	-	104,430
With An Allowance Recorded:				
Residential:				
Mortgage	$ 526,785	$ 526,785	$ 128,456	$ 533,122
Home Equity	23,868	23,868	10,000	69,333
Commercial:				
Other	1,291,819	1,291,819	38,755	645,910
Total Impaired Loans:				
Residential:				
Mortgage	$ 711,755	$ 711,755	$ 128,456	$ 732,065
Home Equity	161,291	161,291	10,000	173,763
Commercial:				
Other	1,291,819	1,291,819	38,755	645,910
Total	$ 2,164,865	$ 2,164,865	$ 177,211	$ 1,551,738

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans (Continued):

March 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential:				
Mortgage	$ 212,916	$ 212,916	$ -	$ 384,560
Home Equity	71,436	71,436	-	77,849
With An Allowance Recorded:				
Residential:				
Mortgage	$ 539,458	$ 539,458	$ 148,747	$ 657,001
Home Equity	114,798	114,798	114,798	86,398
Total Impaired Loans:				
Residential:				
Mortgage	$ 752,374	$ 752,374	$ 148,747	$ 1,041,561
Home Equity	186,234	186,234	114,798	164,247
Total	$ 938,608	$ 938,608	$ 263,545	$ 1,205,808

Interest income foregone on nonaccrual loans was immaterial for the years ended March 31, 2018 and 2017.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

There were no mortgage or home equity troubled debt restructurings performed during the years ended March 31, 2018 and 2017.

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The Credit Union services loans for both the Federal Home Loan Bank of Boston and Fannie Mae. The unpaid principal balances of loans serviced for the Federal Home Loan Bank of Boston were $138,575,721 and $136,043,862 at March 31, 2018 and 2017, respectively. The unpaid principal balances of loans serviced for Fannie Mae were $102,581,030 and $95,593,816 at March 31, 2018 and 2017, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,285,263 and $1,176,576 at March 31, 2018 and 2017, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in Other Assets and totaled $1,205,570 and $1,238,632 at March 31, 2018 and 2017, respectively. The fair values of these rights were $2,117,618 and $1,833,885 at March 31, 2018 and 2017, respectively. The fair value of servicing rights was determined using discount rates ranging from 11.00% to 15.00% and prepayment speeds ranging from 100.00% to 307.00%, depending upon the stratification of the specific right and a weighted average delinquency rate of 1.5%.

The following summarizes the activity pertaining to mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	March 31,	
	2018	2017
Mortgage Servicing Rights:		
Balance - Beginning of Year	$ 1,293,275	$ 1,423,039
Additions	331,209	335,038
Amortization	(383,448)	(464,802)
Disposals	-	-
Balance - End of Year	1,241,036	1,293,275
Valuation Allowances:		
Balance - Beginning of Year	(54,643)	(30,943)
Additions	(3,868)	(38,096)
Disposals	23,045	14,396
Amortization	-	-
Balance - End of Year	(35,466)	(54,643)
Mortgage Servicing Assets, Net	$ 1,205,570	$ 1,238,632

NOTE 5 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment is summarized as follows:

		March 31, 2018	March 31, 2017
Land		$ 1,721,813	$ 1,718,213
Buildings and Building Improvements	10 - 50 Yrs	7,629,233	7,644,546
Data Processing Systems	3 - 5 Yrs	5,373,781	5,602,025
Furniture and Equipment	3 - 10 Yrs	2,064,788	1,795,788
Construction-in-Progress		25,400	25,400
Total		16,815,015	16,785,972
Less: Accumulated Depreciation and Amortization		(7,568,474)	(6,936,390)
Total		$ 9,246,541	$ 9,849,582

Depreciation and amortization expense recognized related to premises and equipment during the years ended March 31, 2018 and 2017 was $1,105,530 and $1,130,175, respectively.

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space. Some of the leases contain renewal options for periods from less than one year to three years, and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. Rental expense was $168,251 and $140,452 for the years ended March 31, 2018 and 2017, respectively.

The required minimum rental payments under the terms of these noncancelable leases at are as follows:

Year Ending March 31,	Amount
2019	$ 87,741
2020	66,686
2021	65,559
2022	48,735
Total	$ 268,721

NOTE 5 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lessor Agreements

The Credit Union leases certain office facilities to various tenants under noncancelable operating leases expiring in various years. Rental income was $12,096 and $11,674 for the years ended March 31, 2018 and 2017, respectively. Future minimum lease payments receivable under these leases are as follows:

Year Ending March 31,	Amount
2019	$ 519,912
2020	529,112
2021	391,402
Total	$ 1,440,426

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	March 31, 2018	March 31, 2017
Regular Shares Accounts	$ 101,132,407	$ 92,459,399
Share Draft Accounts	156,316,575	133,512,405
Money Market Accounts	94,580,919	93,242,596
Individual Retirement Accounts	4,639,029	4,196,378
Individual Retirement Account Certificates	32,502,223	33,153,517
Certificates of Deposit	88,698,926	87,366,035
Total	$ 477,870,079	$ 443,930,330

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $14,002,000 and $14,812,000 at March 31, 2018 and 2017, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $71,420 and $77,233 at March 31, 2018 and 2017, respectively.

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of March 31, 2018, scheduled maturities of member's share and savings accounts are as follows:

Year Ending March 31, 2018	Amount
No Contractual Maturity	$ 356,668,930
0 - 1 Year Maturity	37,322,171
1 - 2 Year Maturity	37,240,396
2 - 3 Year Maturity	20,983,455
3 - 4 Year Maturity	12,501,119
4 - 5 Year Maturity	13,154,008
Total	$ 477,870,079

Member accounts are insured to at least $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 7 BORROWED FUNDS

At March 31, 2018 and 2017, the Credit Union had an available line of credit of $8,000,000 with Tricorp Federal Credit Union. The interest rates applied on any borrowing are determined on that borrowing date. Substantially all of the assets and earnings of the Credit Union are pledged as collateral on the line of credit, except those pledged on other lines. There were no balances outstanding on this line at March 31, 2018 and 2017.

The Credit Union has entered into an Advances, Pledge, and Security agreement with the Federal Home Loan Bank of Boston (FHLB) whereby a portion of the Credit Union's mortgage and home equity portfolio is pledged. The agreement provides for a maximum available borrowing account of approximately $83,718,000 and $52,729,000 as of March 31, 2018 and 2017, respectively, and is determined and reviewed for continuation by the lender and the Credit Union on a periodic basis. As of March 31, 2018 and 2017, there were fixed-rate advances outstanding totaling $1,709,250 and $2,292,000, respectively. The fixed-rate advances have interest rates of 0%.

The Credit Union has access to an Ideal Way line of credit with the FHLB. Interest is charged at a rate determined by the lender on a daily basis. There were no balances outstanding on this agreement at March 31, 2018 and 2017, respectively.

The Credit Union has the ability to borrow through the Federal Reserve Discount Window. The interest rates applied on any borrowing are determined on that borrowing date. The line has no expiration date, but is subject to review and change by the issuing institution. At March 31, 2018 and 2017, the Credit Union has not pledged securities as collateral to the Federal Reserve. Therefore, the line is not active and there is no available line of credit. There were no balances outstanding on this line at March 31, 2018 and 2017. At such time the Credit Union has a need to request an advance, securities will be pledged.

NOTE 7 BORROWED FUNDS (CONTINUED)

Borrowed funds consisted of the following:

	March 31, 2018	March 31, 2017
FHLB 3.99% - 1/30/19 - 11.5 Year Term	$ -	$ 2,000,000
FHLB 0.00% - 2/15/22 - 5 Year Term	232,000	232,000
FHLB 0.00% - 3/1/22 - 5 Year Term	60,000	60,000
FHLB 0.00% - 5/4/22 - 5 Year Term	152,750	-
FHLB 0.00% - 6/1/27 - 10 Year Term	550,000	-
FHLB 0.00% - 6/30/27 - 10 Year Term	189,500	-
FHLB 0.00% - 2/14/28 - 10 Year Term	525,000	-
Total	$ 1,709,250	$ 2,292,000

The maturities of borrowed funds are as follows:

Year Ending March 31,	Amount
2022	$ 292,000
2023	152,750
Thereafter	1,264,500
Total	$ 1,709,250

NOTE 8 REGULATORY NET WORTH REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 ratio as of March 31, 2018, the most recent quarterly regulatory filing date, was 7.28%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of March 31, 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

NOTE 8 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of March 31, 2018, the most recent call reporting period, the NCUA categorized the Credit Union initially as “well capitalized” under the regulatory frame work for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 7.28% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Credit Union’s actual capital amounts and ratios are also presented in the table.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2018						
Net Worth	$ 47,518,169	8.96%	$ 38,593,807	7.28%	$ 38,593,807	7.28%
Risk-Based Net Worth Requirement	$ 38,593,807	7.28%	N/A	N/A	N/A	N/A
March 31, 2017						
Net Worth	$ 42,561,086	8.63%	$ 35,865,246	7.27%	$ 35,865,246	7.27%
Risk-Based Net Worth Requirement	$ 35,865,246	7.27%	N/A	N/A	N/A	N/A

Because RBNWR at March 31, 2018, 7.28%, is more than the regulatory net worth ratio of 7.00%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance of total assets, as permitted by regulation.

NOTE 9 RELATED PARTY TRANSACTIONS

Included in Loans, Net at March 31, 2018 and 2017, are loans to the Credit Union’s board of directors, committee members, and senior executive staff of $1,036,278 and $1,193,462, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union’s board of directors, committee members, and senior executive staff held by the Credit Union at March 31, 2018 and 2017 are $620,183 and $762,587, respectively.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	March 31,	
	2018	2017
Commitments to Grant Collateralized Loans		
Mortgage	$ 2,417,000	$ 3,975,000
Home Equity	31,688,000	25,291,000
Commercial Real Estate	1,251,000	533,000
Commercial Other	1,816,000	1,150,000
Unfunded Unsecured Commitments Under Lines of Credit		
Overdraft Protection	186,000	186,000
Lines of Credit	1,519,000	1,472,000
Student Loans	6,729,000	6,148,000
Credit Card Commitments	51,692,000	41,399,000
Other Unfunded Commitments	51,000	70,000
Commercial Other	53,000	46,000
Total	$ 97,402,000	$ 80,270,000

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 and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Consolidated Statement of Financial Condition Activities (Continued)

Loans sold to the FHLBB under the Mortgage Partnership Finance program are sold with recourse. Approximately $61,662,000 of limited recourse loans have been sold for the program through March 31, 2018. Under the agreement, the Credit Union has a maximum credit enhancement of 5% of the total loans that have been sold under the agreement, or approximately $3,083,100. Based upon a favorable payment history, the Credit Union does not anticipate recognizing any losses on these residential loans and, accordingly, has not recorded a liability for the credit enhancement.

Legal Contingencies

The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition of the Credit Union.

NOTE 11 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 – Summary of Significant Accounting Policies.

The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

March 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 8,285,510	$ -	$ 8,285,510
Federal Agency Mortgage Backed Securities	-	43,553,329	-	43,553,329
Collateralized Mortgage Obligation Securities	-	31,336,511	-	31,336,511
Small Business Administration Securities	-	27,144,566	-	27,144,566
Total Assets	$ -	$ 110,319,916	$ -	$ 110,319,916

NOTE 11 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

March 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 7,424,252	$ -	$ 7,424,252
Federal Agency Mortgage Backed Securities	-	57,655,348	-	57,655,348
Collateralized Mortgage Obligation Securities	-	38,353,545	-	38,353,545
Small Business Administration Securities	-	16,134,935	-	16,134,935
Total Assets	$ -	$ 119,568,080	$ -	$ 119,568,080

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

NOTE 11 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended March 31, 2018 and 2017 consisted of the following:

	Fair Value at March 31, 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 1,665,261	$ 177,211
Foreclosed Assets	-	-	202,967	-
Servicing Rights	-	-	1,205,570	-

	Fair Value at March 31, 2017			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 390,711	$ 263,545
Foreclosed Assets	-	-	115,851	-
Servicing Rights	-	-	1,238,632	23,700

The following table's present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	Fair Value at March 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 1,665,261	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	202,967	Appraisal	Appraisal Adjustment	5%-10%
Servicing Rights	1,205,570	Valuation	Estimation of Value	Not Meaningful

	Fair Value at March 31, 2017			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 390,711	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	115,851	Appraisal	Appraisal Adjustment	5%-10%
Servicing Rights	1,238,632	Valuation	Estimation of Value	Not Meaningful

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows.

NOTE 11 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Impaired Loans (Continued)

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Foreclosed Assets

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Servicing Rights

Mortgage servicing rights assets are recognized on relative fair value, which is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Mortgage servicing rights assets are evaluated for impairment based upon the fair value of the rights as compared to amortized costs. Impairment is determined using Level 3 inputs by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If it is later determined that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

NOTE 12 SUBSEQUENT EVENTS

In May 2018, the Credit Union purchased an office building in South Burlington for approximately $7 million. The Credit Union plans to use this building for their future operations center and a branch.