VERMONT FEDERAL CREDIT UNION
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
Years ended March 31, 2020 and 2019

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
Years ended March 31, 2020 and 2019

CONTENT

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Vermont Federal Credit Union and Subsidiary, which comprise the consolidated statement of financial condition as of March 31, 2020, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 audit. We conducted our audit 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 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.

(Continued)

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, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Vermont Federal Credit Union and Subsidiary as of March 31, 2019, were audited by other auditors whose report dated June 28, 2019, expressed an unmodified opinion on those statements.

Crowe LLP

Crowe LLP

Boston, Massachusetts
June 17, 2020

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
March 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 40,368,632	$ 36,063,836
Debt Securities – available-for-sale	57,209,544	96,654,240
Other investments	22,634,000	21,941,000
Loans held-for-sale	957,500	828,601
Loans, net of allowance for loan losses of $2,032,409 in 2020 and $2,020,123 in 2019	469,882,853	410,430,994
Accrued interest receivable	1,394,935	1,453,181
Foreclosed and repossessed assets	12,000	32,750
Premises and equipment, net	14,990,142	15,646,562
NCUSIF deposit	5,045,750	4,673,959
Other assets	3,767,867	3,437,180
Total Assets	$ 616,263,223	$ 591,162,303
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' share and savings accounts	$ 551,052,314	$ 519,265,765
Borrowed funds	1,709,250	13,709,250
Accrued expenses and other liabilities	3,954,223	6,951,007
Total liabilities	556,715,787	539,926,022
Members' Equity		
Regular reserves	4,417,109	4,417,109
Undivided earnings	53,810,400	48,094,943
Accumulated other comprehensive income (loss)	1,319,927	(1,275,771)
Total Members' Equity	59,547,436	51,236,281
Total Liabilities and Members' Equity	$ 616,263,223	$ 591,162,303

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the years ended March 31, 2020 and 2019

	2020	2019
Interest income		
Interest on loans	$ 20,462,245	$ 17,786,020
Interest on debt securities and other investments	2,705,619	3,128,748
Total interest income	23,167,864	20,914,768
Interest expense		
Members' share and savings accounts	5,603,573	4,665,349
Borrowed funds	170,864	312,249
Total interest expense	5,774,437	4,977,598
Net interest income	17,393,427	15,937,170
Provision for loan losses	1,316,767	1,308,455
Net interest income after provision for loan losses	16,076,660	14,628,715
Non-interest income		
Service charges and fees	2,694,165	2,731,823
Card fees	3,843,531	3,628,316
Net gains on sales of loans	1,199,656	1,187,796
Net gain (loss) on sales of assets	38,105	(4,786)
Net gain (loss) on sales of debt securities	52,763	(9,149)
Other non-interest income	2,013,032	1,937,030
Total non-interest income	9,841,252	9,471,030
Non-interest expense		
Employee compensation and benefits	10,631,756	9,920,563
Occupancy	1,030,852	1,016,764
Operations	8,539,847	8,168,535
Total non-interest expense	20,202,455	19,105,862
Net income	$ 5,715,457	$ 4,993,883

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2020 and 2019

	2020	2019
Net income	$ 5,715,457	$ 4,993,883
Other Comprehensive Income		
Securities - available-for-sale		
Unrealized holding gain arising during the period	2,648,461	1,563,825
Reclassification for (gains) losses included in net income	(52,763)	9,149
Total Other Comprehensive Income	2,595,698	1,572,974
Total Comprehensive Income	$ 8,311,155	$ 6,566,857

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended March 31, 2020 and 2019

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, March 31, 2018	$ 4,417,109	$ 43,101,060	$ (2,848,745)	$ 44,669,424
Net income	-	4,993,883	-	4,993,883
Other Comprehensive Income	-	-	1,572,974	1,572,974
Balance, March 31, 2019	4,417,109	48,094,943	(1,275,771)	51,236,281
Net income	-	5,715,457	-	5,715,457
Other Comprehensive Income	-	-	2,595,698	2,595,698
Balance, March 31, 2020	$ 4,417,109	$ 53,810,400	$ 1,319,927	$ 59,547,436

See accompanying notes to consolidated financial statements.

VERMONT FEDERAL CREDIT UNION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 5,715,457	$ 4,993,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on debt securities, net	245,426	268,454
(Gain) Loss on sale of debt securities	(52,763)	9,149
Net gain on sale of loans	(1,199,656)	(1,187,796)
(Gain) Loss on sale of assets	(38,105)	4,786
Amortization of mortgage servicing rights	338,987	368,373
Capitalization of mortgage servicing rights	(284,586)	(299,204)
Change in valuation allowance of mortgage servicing rights	60,852	2,172
Provision for loan losses	1,316,767	1,308,455
Loans originated for sale	(48,483,533)	(45,269,110)
Proceeds from sale of loans	49,515,247	46,750,401
Depreciation and amortization	1,196,631	1,214,928
Net change in:		
Accrued interest receivable	58,246	(153,467)
Other assets	(330,687)	22,452
Accrued expenses and other liabilities	(2,996,784)	1,065,052
Net cash provided by operating activities	5,061,498	9,098,528
Cash flows from investing activities		
Purchase of available-for-sale debt securities	(2,530,313)	(1,999,698)
Proceeds from maturities and paydowns of available-for-sale debt securities	22,232,843	15,431,428
Proceeds from sale of available-for-sale debt securities	22,145,201	1,529,317
Proceeds from the sale of assets	413,145	580,103
Net change in other investments	(693,000)	(8,850,600)
Net change in loans	(61,199,126)	(56,382,482)
Increase in the NCUSIF deposit	(371,791)	(344,609)
Purchase of property and equipment	(540,211)	(7,614,949)
Net cash used by investing activities	(20,543,252)	(57,651,490)
Cash flows from financing activities		
Net change in members' share and savings accounts	31,786,549	41,395,686
Advances of borrowed funds	-	12,000,000
Repayments of borrowed funds	(12,000,000)	-
Net cash provided by financing activities	19,786,549	53,395,686
Increase (decrease) in cash and cash equivalents	4,304,796	4,842,724
Cash and cash equivalents - beginning of year	36,063,836	31,221,112
Cash and cash equivalents - end of year	$ 40,368,632	$ 36,063,836
Supplementary disclosures of noncash and cash flow information		
Dividends paid on members' share and savings accounts and see interest paid on borrowed funds	$ 5,802,301	$ 5,005,458
Transfers of loans to foreclosed and repossessed assets	$ 430,500	$ 371,400

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 insurance services, 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.

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.

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.

Interest Bearing Deposits in Other Financial Institutions: Interest bearing deposits in other financial institutions include certificates of deposit with original maturities greater than ninety days. These are stated at cost. The certificates of deposit all mature within one year.

Securities: Debt securities available-for-sale are carried at fair value with unrealized gains and losses excluded from earnings and reported in Other Comprehensive Income (Loss). Realized gains and losses on debt securities available-for-sale are included in Non-Interest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of debt securities are based on the specific identification method for debt securities. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each reporting period, the Credit Union evaluates all securities that have a decline in fair value below the amortized cost of the investments to determine whether or not the impairment is deemed to be other-than-temporary ("OTTI"). Declines in the fair value of individual available-for-sale debt 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 debt 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 Non-Interest Income.

The Credit Union did not record any other than temporary impairment during the years ended March 31, 2020 and 2019.

<u>Other Investments</u>: 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.

<u>Loans Held-for-Sale</u>: 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.

<u>Loans, Net</u>: 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.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Generally, 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.

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 consists of an allocated and general component, as further described below.

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings and watchlists, residential and commercial loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured 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 flow, the loan's estimated market value, or the estimated fair value of the underlying collateral if the loan is collateral dependent. An allowance is established when the discounted cash flow (or collateral value) of the impaired loan is lower than the carrying value of that loan.

Larger groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: consumer, residential real estate and commercial loans. Management uses a rolling average of historical losses based on a time frame (2 years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquency, impairment, and risk rating and credit score migration; trends in volume and terms; effects of changes in risk selections and underwriting standards, other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; local and national economic trends and conditions. The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are described below. For homogeneous portfolio segments, management utilizes delinquency reports and other loan reports to monitor credit quality of these loan segments.

The portfolio segments that are monitored based payment performance and their risk characteristics are described below:

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. These 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 below:

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Off-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 repossession or foreclosure 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 repossession or foreclosure, 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 Non-Interest Expense.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of the foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

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.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment, Net: Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. 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 expected terms of the related leases or estimated useful life, whichever is less. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

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. No impairment losses were recognized for the years ended March 31, 2020 and 2019.

NCUSIF Deposit and NCUSIF 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 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.

No NCUSIF premiums were assessed for the years ended March 31, 2020 and 2019 due to subsequent loss recovery settlements and gains recognized by the Fund in recent years. The Credit Union received a partial reimbursement of $60,320 and $0 from the NCUSIF during the years ended March 31, 2020 and 2019.

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' Share and Savings Accounts: Members' 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Accumulated other comprehensive income (loss), also recognized as a separate component of members' equity, includes unrealized gains and losses for available-for-sale securities

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: 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 $475,600 and $441,000 for the years ended March 31, 2020 and 2019, 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 $301,000 and $289,000 as of March 31, 2020 and 2019, respectively.

Advertising Costs: Advertising and promotion costs which totaled approximately $662,000 and $533,000 for the years ending March 31, 2020 and 2019, respectively, are expensed as incurred.

Fair Value: Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would be used in pricing an asset or liability.

Subsequent to initial recognition, the Credit Union may remeasure 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. Transfers between levels are recognized at the end of the reporting period.

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. For eligible entities, Topic 606 is now effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. 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, 2021, and interim periods within the fiscal year beginning after December 15, 2022. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU is effective for fiscal years beginning after December 15, 2022, and for interim periods within fiscal years beginning after December 15, 2022. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Credit Union is currently evaluating the impact this ASU will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall, (Subtopic 825-10)*. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to generally accepted accounting principles include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, the elimination of the requirement for non-public business entities to disclose the fair value of financial instruments measured at amortized cost and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Non-public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, except for the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost, which was adopted as of December 31, 2015 as permitted by the ASU and did not have an impact on the Credit Union's financial position or results of operations. On April 1, 2019 the Credit Union adopted the remaining provisions of ASU 2016-01. There was no material impact to the financial statements.

<u>Reclassifications</u>: Certain amounts from the 2019 financial statements have been reclassified to conform to the current year presentation.

<u>Subsequent Events</u>: In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through June 17, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Credit Union could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. Material adverse impacts may include all or a combination of valuation impairments on the Credit Union's, investments, loans or loan servicing rights.

(Continued)

NOTE 2 - SECURITIES AND OTHER INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2020				
U.S. Government and federal agency securities	$ 1,000,000	$ 4,890	$ -	$ 1,004,890
Federal agency mortgage-backed securities	25,412,067	546,317	(126,610)	25,831,774
Collateralized mortgage obligation securities - residential	20,123,862	697,606	-	20,821,468
Small business administration securities	9,353,688	197,724	-	9,551,412
Total	$ 55,889,617	$ 1,446,537	$ (126,610)	$ 57,209,544

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2019				
U.S. Government and federal agency securities	$ 7,496,565	$ -	$ (63,205)	$ 7,433,360
Federal agency mortgage-backed securities	36,985,639	19,799	(654,469)	36,350,969
Collateralized mortgage obligation securities - residential	26,979,748	14,030	(340,872)	26,652,906
Small business administration securities	26,468,059	22,714	(273,768)	26,217,005
Total	$ 97,930,011	$ 56,543	$ (1,332,314)	$ 96,654,240

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

	2020	2019
Proceeds	$ 22,145,201	$ 1,529,317
Gross Gains	144,843	-
Gross Losses	(92,080)	(9,149)

The amortized cost and fair value of securities, at March 31, 2020, 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.

(Continued)

NOTE 2 - SECURITIES AND OTHER INVESTMENTS (Continued)

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and federal agency securities		
Less than one year	$ -	$ -
One to five years	-	-
Five to ten years	1,000,000	1,004,890
After ten years	-	-
	1,000,000	1,004,890
Federal agency mortgage-backed securities, collateralized mortgage obligation securities-residential, and small business administration securities	54,889,617	56,204,654
Total	$ 55,889,617	$ 57,209,544

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, 2020				
U.S. Government and federal agency securities	$ -	$ -	$ -	$ -
Federal agency mortgage-backed securities	(24,477)	2,584,345	(102,133)	6,289,796
Collateralized mortgage obligation securities-residential	-	-	-	-
Small business administration securities	-	-	-	-
Total available-for-sale	$ (24,477)	$ 2,584,345	$ (102,133)	$ 6,289,796
March 31, 2019				
U.S. Government and federal agency securities	$ -	$ -	$ (63,205)	$ 7,433,360
Federal agency mortgage-backed securities	-	-	(654,469)	33,985,173
Collateralized mortgage obligation securities-residential	-	-	(340,872)	25,729,017
Small business administration securities	-	-	(273,768)	21,682,211
Total available-for-sale	$ -	$ -	$ (1,332,314)	$ 88,829,761

(Continued)

NOTE 2 - SECURITIES AND OTHER INVESTMENTS (Continued)

At March 31, 2020, the 21 securities with unrealized losses have depreciated 1.4% 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 for the years ending March 31, 2020 and 2019 are summarized as follows:

	2020	2019
Perpetual contributed capital accounts	$ 440,000	$ 440,000
FHLB of Boston stock	680,000	1,267,000
Certificates of deposit in other financial institutions	21,514,000	20,234,000
Total	$ 22,634,000	$ 21,941,000

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.

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, 2020 and 2019.

(Continued)

NOTE 3 - LOANS, NET

Loans consist of the following at March 31:

	2020	2019
Residential real estate		
Mortgage	$ 179,252,315	$ 131,306,810
Home equity	86,397,726	83,492,152
	265,650,041	214,798,962
Consumer		
Secured	101,803,023	99,576,840
Unsecured	38,757,467	37,087,412
	140,560,490	136,664,252
Commercial		
Real Estate	$ 60,263,998	$ 55,188,935
Other	5,506,698	5,685,086
	65,770,696	60,874,021
Total gross loans	471,981,227	412,337,235
Deferred net loan origination costs	(65,965)	113,882
Allowance for loan losses	(2,032,409)	(2,020,123)
Total	$ 469,882,853	$ 410,430,994

The Credit Union has purchased loan participations originated by various other financial institutions, which are secured by real estate and commercial properties. 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 $5,960,363 and $6,343,257 at March 31, 2020 and 2019, respectively.

Included in residential real estate and commercial real estate loans are adjustable rate loans that total approximately $18,817,000 and $22,971,000 at March 31, 2020 and 2019, respectively.

(Continued)

NOTE 3 - LOANS, NET (Continued)

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

	Residential Real Estate	Consumer	Commercial	Total
March 31, 2020				
Allowance for loan losses				
Balance at beginning of year	$ 233,623	$ 1,463,054	$ 323,446	$ 2,020,123
Provision for loan losses	249,666	1,004,163	62,938	1,316,767
Loans charged off	(255,990)	(1,270,010)	-	(1,526,000)
Recoveries of loans previously charged off	5,334	216,185	-	221,519
Balance at end of year	$ 232,633	$ 1,413,392	$ 386,384	$ 2,032,409
Ending balance, individually evaluated for impairment	$ 60,409	$ -	$ 54,680	$ 115,089
Ending balance, collectively evaluated for impairment	$ 172,224	$ 1,413,392	$ 331,704	$ 1,917,320
Total allowance for loan losses	$ 232,633	$ 1,413,392	$ 386,384	$ 2,032,409
Loans:				
Ending Balance: Individually valuated for Impairment	$ 954,115	$ -	$ 54,680	$ 1,008,795
Ending Balance: Collectively valuated for Impairment	$ 264,698,926	$ 140,560,490	$ 65,716,016	$ 470,972,432
Total Loans	$ 265,650,041	$ 140,560,490	$ 65,770,696	$ 471,981,227

(Continued)

NOTE 3 - LOANS, NET (Continued)

	Residential Real Estate	Consumer	Commercial	Total
March 31, 2019				
Allowance for loan losses				
Balance at beginning of year	$ 237,677	$ 1,211,282	$ 264,497	$ 1,713,456
Provision for loan losses	39,195	1,210,311	58,949	1,308,455
Loans charged off	(51,373)	(1,131,947)	-	(1,183,320)
Recoveries of loans previously charged off	8,124	173,408	-	181,532
Balance at end of year	$ 233,623	$ 1,463,054	$ 323,446	$ 2,020,123
Ending balance, individually evaluated for impairment	$ 146,623	$ -	$ 38,573	$ 185,196
Ending balance, collectively evaluated for impairment	$ 87,000	$ 1,463,054	$ 284,873	$ 1,834,927
Total allowance for loan losses	$ 233,623	$ 1,463,054	$ 323,446	$ 2,020,123
Loans:				
Ending Balance: Individually valuated for Impairment	$ 1,129,281	$ -	$ 85,734	$ 1,215,015
Ending Balance: Collectively valuated for Impairment	$ 213,669,681	$ 136,664,252	$ 60,788,287	$ 411,122,220
Total Loans	$ 214,798,962	$ 136,664,252	$ 60,874,021	$ 412,337,235

(Continued)

NOTE 3 - LOANS, NET (Continued)

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

	Commercial Credit Risk Profile by Risk Rating		
	Commercial Real Estate	Commercial Other	Total
March 31, 2020			
Risk Rating:			
Pass (1-3)	$ 53,558,554	$ 3,467,304	$ 57,025,858
Acceptable (4)	5,813,040	2,039,394	7,852,434
Special Mention (5)	892,404	-	892,404
Total	$ 60,263,998	$ 5,506,698	$ 65,770,696
March 31, 2019			
Risk Rating:			
Pass (1-3)	$ 49,108,313	$ 3,569,832	$ 52,678,145
Acceptable (4)	5,775,273	2,115,254	7,890,527
Special Mention (5)	219,615	-	219,615
Substandard (6)	85,734	-	85,734
Total	$ 55,188,935	$ 5,685,086	$ 60,874,021

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.

	Consumer and Residential Real Estate Credit Risk Profile by Payment Activity		
	Performing	Non-Performing	Total
March 31, 2020			
Residential Real Estate:			
Mortgage	$ 178,962,545	$ 289,770	$ 179,252,315
Home Equity	86,281,130	116,596	86,397,726
Consumer:			
Secured	101,285,377	517,646	101,803,023
Unsecured	38,402,789	354,678	38,757,467
Total	$ 404,931,841	$ 1,278,690	$ 406,210,531
March 31, 2019			
Residential Real Estate:			
Mortgage	$ 130,579,828	$ 726,982	$ 131,306,810
Home Equity	83,250,044	242,108	83,492,152
Consumer:			
Secured	98,587,034	989,806	99,576,840
Unsecured	36,746,591	340,821	37,087,412
Total	$ 349,163,497	$ 2,299,717	$ 351,463,214

(Continued)

NOTE 3 - LOANS, NET (Continued)

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

	Accruing Interest			Nonaccrual	
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	Total Loans
March 31, 2020					
Residential:					
Mortgage	$ 177,758,378	$ 1,204,167	$ -	$ 289,770	$ 179,252,315
Home Equity	85,988,544	271,105	21,481	116,596	86,397,726
Consumer:					
Secured	100,237,058	821,977	226,342	517,646	101,803,023
Unsecured	38,211,953	127,686	63,150	354,678	38,757,467
Commercial:					
Real Estate	60,209,318	-	-	54,680	60,263,998
Other	5,506,698	-	-	-	5,506,698
Total	$ 467,911,949	$ 2,424,935	$ 310,973	$ 1,333,370	$ 471,981,227

	Accruing Interest			Nonaccrual	
	Current	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	Total Loans
March 31, 2019					
Residential:					
Mortgage	$ 129,976,188	$ 547,486	$ 56,154	$ 726,982	$ 131,306,810
Home Equity	83,039,468	106,538	104,038	242,108	83,492,152
Consumer:					
Secured	97,697,043	573,439	316,552	989,806	99,576,840
Unsecured	36,474,266	146,147	126,178	340,821	37,087,412
Commercial:					
Real Estate	55,048,520	-	-	140,415	55,188,935
Other	5,685,086	-	-	-	5,685,086
Total	$ 407,920,571	$ 1,373,610	$ 602,922	$ 2,440,132	$ 412,337,235

(Continued)

NOTE 3 - LOANS, NET (Continued)

The following tables present information related to impaired loans:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
March 31, 2020				
With No Related Allowance:				
Residential:				
Mortgage	$ 289,770	$ 289,770	$ -	$ 329,593
Home Equity	260,802	260,802	-	247,633
With An Allowance Recorded:				
Residential:				
Mortgage	402,543	402,543	60,409	408,132
Home Equity				
Commercial:				
Other	54,680	54,680	54,680	70,207
Total Impaired Loans:				
Residential:				
Mortgage	692,313	692,313	60,409	737,725
Home Equity	260,802	260,802	-	297,633
Commercial:				
Other	54,680	54,680	54,680	70,207
Total	$ 1,008,795	$ 1,008,795	$ 115,089	$ 1,105,565

(Continued)

NOTE 3 - LOANS, NET (Continued)

	Unpaid Recorded Investment	Principal Balance	Average Related Allowance	Recorded Investment
March 31, 2019				
With No Related Allowance:				
Residential:				
Mortgage	$ 369,416	$ 369,416	$ -	$ 277,193
Home Equity	233,463	233,463	-	185,443
With An Allowance Recorded:				
Residential:				
Mortgage	$ 413,720	$ 413,720	$ 65,123	$ 470,253
Home Equity	112,682	112,682	81,500	68,275
Commercial:				
Other	85,734	85,734	38,573	688,777
Total Impaired Loans:				
Residential:				
Mortgage	$ 783,136	$ 783,136	$ 65,123	$ 747,446
Home Equity	346,145	346,145	81,500	253,718
Commercial:				
Other	85,734	85,734	38,573	688,777
Total	$ 1,215,015	$ 1,215,015	$ 185,196	$ 1,689,941

Interest income foregone on impaired loans was immaterial for the years ended March 31, 2020 and 2019.

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.

During both years ending March 31, 2020 and 2019, loans were modified for rate reductions, forgiveness of past due interest, capitalization of negative escrow and other costs, and extension of maturity dates. Management performs a discounted cash flow calculation to determine the amount of impairment reserve required on each of the trouble debt restructurings. Any reserve required is recorded through the provision for loan losses. Residential troubled debt restructurings as of March 31, 2020 and 2019 amounted to $490,602 and $511,644, respectively, and the reserves allocated were not material. There were no commercial troubled debt restructurings as of March 31, 2020 and 2019. There were no mortgage or home equity troubled debt restructurings performed during the year ending March 31, 2020, there was one home equity troubled debt restructured performed during the year ended March 31,2019 that amounted to $25,274.

(Continued)

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 $110,778,103 and $129,327,493 at March 31, 2020 and 2019, respectively. The unpaid principal balances of loans serviced for Fannie Mae were $124,421,458 and $113,410,133 at March 31, 2020 and 2019, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $1,286,259 and $1,185,390 at March 31, 2020 and 2019, respectively. These balances are included in accrued expenses and other liabilities on the statement of financial condition.

The balance of capitalized servicing rights, net of valuation allowances, is included in other assets and totaled $1,018,976 and $1,134,229 at March 31, 2020 and 2019, respectively. The fair values of these rights were $1,573,483 and $2,108,591 at March 31, 2020 and 2019, respectively. The fair value of servicing rights was determined using discount rates ranging from 10.00% to 14.00% and prepayment speeds ranging from 153.00% to 230.00%, 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 as of March 31:

	2020	2019
Mortgage servicing rights:		
Balance at beginning of year	$ 1,171,867	$ 1,241,036
Additions	284,586	299,204
Amortization	(338,987)	(368,373)
Disposals	-	-
Balance at end of year	1,117,466	1,171,867
Valuation allowances:		
Balance at beginning of year	(37,638)	(35,466)
Additions	(62,773)	(12,352)
Disposals	1,921	10,180
Balance at end of year	(98,490)	(37,638)
Mortgage servicing assets, net	$ 1,018,976	$ 1,134,229

(Continued)

NOTE 5 - PREMISES AND EQUIPMENT, NET

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

	2020	2019
Land	$ 3,221,814	$ 3,221,813
Buildings and Building Improvements	13,356,937	13,343,844
Data Processing Systems	5,773,011	5,541,996
Furniture and Equipment	2,274,367	2,273,544
Work-in-Progress	244,306	48,766
	24,870,435	24,429,963
Accumulated Depreciation	(9,880,293)	(8,783,401)
Total	$ 14,990,142	$ 15,646,562

Depreciation and amortization expense recognized related to premises and equipment during the years ended March 31, 2020 and 2019 was $1,196,631 and $1,214,928, 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 $142,760 and $140,002 for the years ended March 31, 2020 and 2019, respectively.

The required minimum rental payments under the terms of these noncancelable leases for the year ending March 31 at are as follows:

2021	$ 92,808
2022	40,160
2023	-
2024	-
2025 and Thereafter	-
	$ 132,968

Lessor Agreements: The Credit Union leases certain office facilities to various tenants under noncancelable operating leases expiring in various years. Rental income was $532,729 and $443,904 for the years ended March 31, 2020 and 2019, respectively. Future minimum lease payments receivable under these leases for the year ending March 31 are as follows:

2021	$ 391,513
2022	-
2023	-
2024	-
2025 and Thereafter	-
	$ 391,513

(Continued)

NOTE 6 - MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts at March 31 are as follows:

	2020	2019
Regular Shares Accounts	$ 113,893,655	$ 107,279,859
Share Draft Accounts	183,329,689	169,770,939
Money Market Accounts	105,458,931	97,869,721
Individual Retirement Accounts	4,717,899	4,250,894
Individual Retirement Account Certificates	34,232,252	34,638,097
Certificates of Deposit	109,419,888	105,456,255
Total	$ 551,052,314	$ 519,265,765

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $13,993,000 and $15,871,000 at March 31, 2020 and 2019, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $108,268 and $73,588 at March 31, 2020 and 2019, respectively.

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

No Contractual Maturity	$ 407,400,174
2021	71,229,402
2022	39,117,901
2023	14,058,529
2024	11,495,516
2025	7,750,792
Total	$ 551,052,314

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, 2020 and 2019, the Credit Union had an available line of credit of $8,000,000 with Tricorp Federal Credit Union and $1,500,000 with Alloya 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, 2020 and 2019.

The Credit Union participates in the Jobs for New England (JNE) program offered by the FHLB. As a result of their participation, the Credit Union has the ability to take out advances offered at 0% for up to 10 years. 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 $119,084,000 and $84,500,000 as of March 31, 2020 and 2019, respectively, and is determined and reviewed for continuation by the lender and the Credit Union on a periodic basis. As of March 31, 2020, and 2019, there were fixed-rate advances outstanding totaling $1,709,250 and $13,709,250, respectively.

(Continued)

NOTE 7 - BORROWED FUNDS (Continued)

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019. At such time the Credit Union has a need to request an advance, securities will be pledged.

Borrowed funds at December 31 consisted of the following:

	2020	2019
FHLB 2.44% 6/25/19 - 1 Year Term	$ -	$ 2,500,000
FHLB 2.68% 9/20/19 - 1 Year Term	-	2,250,000
FHLB 2.79% 11/4/19 - 1 Year Term	-	2,500,000
FHLB 2.68% 6/25/20 - 2 Year Term	-	2,500,000
FHLB 2.91% 9/21/20 - 2 Year Term	-	2,250,000
FHLB 0% - 2/15/22 - 5 Year Term	232,000	232,000
FHLB 0% - 3/1/22 - 5 Year Term	60,000	60,000
FHLB 0% - 5/4/22 - 5 Year Term	152,750	152,750
FHLB 0% - 6/1/27 - 10 Year Term	550,000	550,000
FHLB 0% - 6/30/27 - 10 Year Term	189,500	189,500
FHLB 0% - 2/14/28 - 10 Year Term	525,000	525,000
Total	$ 1,709,250	$ 13,709,250

The maturities of borrowed funds for the year ending March 31 are as follows:

2021	$ -
2022	292,000
2023	152,750
2024	-
2025	-
Thereafter	1,264,500
Total	$ 1,709,250

At March 31, 2020 and 2019, the Credit Union pledged home equity loans secured by 1-4 family properties with a carrying value of $119,084,000 and $84,500,000, respectively. There were no balances outstanding under this agreement at March 31, 2020 and 2019.

(Continued)

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, 2020, the most recent quarterly regulatory filing date, was 6.36%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of March 31, 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of March 31, 2020, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 6.36% 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, 2020						
Net worth	$ 58,227,509	9.44%	$ 39,194,341	6.36%	$ 39,194,341	6.36%
Risk-based net worth requirement	$ 39,194,341	6.36%	N/A	N/A	N/A	N/A
March 31, 2019						
Net worth	$ 52,512,052	8.88%	$ 40,494,618	6.85%	$ 40,494,618	6.85%
Risk-based net worth requirement	$ 40,494,618	6.85%	N/A	N/A	N/A	N/A

Because RBNWR at March 31, 2020, 6.36%, is less than the regulatory net worth ratio of 9.44%, 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.

(Continued)

NOTE 9 - RELATED PARTY TRANSACTIONS

Included in loans at March 31, 2020 and 2019, are loans to the Credit Union's board of directors, committee members, and senior executive management of $1,289,304 and $865,744, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits held by the Credit Union's board of directors, committee members, and senior executive management at March 31, 2020 and 2019 are $591,634 and $598,412, 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 whose contract amounts represent credit risk were outstanding at March 31:

Commitments to Grant Collateralized Loans		
Mortgage	$ 16,077,000	$ 3,181,000
Home Equity	1,398,200	1,016,000
Unfunded Unsecured Commitments Under Lines of Credit		
Home Equity	38,402,000	33,145,000
Commercial Real Estate	1,427,300	1,446,000
Commercial Other	3,394,100	3,688,000
Overdraft Protection	155,000	189,000
Lines of Credit	1,634,000	1,556,000
Student Loans	4,771,600	4,889,000
Credit Card Commitments	71,622,000	60,978,000
Other Unfunded Commitments	415,600	91,000
Commercial Other	58,500	60,580
Total	$ 139,355,300	$ 110,239,580

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.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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.

Loans sold to the FHLBB under the Mortgage Partnership Finance program are sold with recourse. Approximately $53,605,000 of limited recourse loans have been sold for the program through March 31, 2020. 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 $2,680,250. 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

Assets Measured at Fair Value on a Recurring Basis: The following tables present the balances of the assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
March 31, 2020				
Assets				
Available-for-Sale Securities:				
U.S. Government and federal agency securities	$ -	$ 1,004,890	$ -	$ 1,004,890
Federal agency mortgage backed securities	-	25,831,774	-	25,831,774
Federal agency collateralized mortgage obligation securities	-	20,821,468	-	20,821,468
Small business administration securities	-	9,551,412	-	9,551,412
Total assets	$ -	$ 57,209,544	$ -	$ 57,209,544
March 31, 2019				
Assets				
Available-for-Sale Securities:				
U.S. Government and federal agency securities	$ -	$ 7,433,360	$ -	$ 7,433,360
Federal agency mortgage backed securities	-	36,350,969	-	36,350,969
Federal agency collateralized mortgage obligation securities	-	26,652,906	-	26,652,906
Small business administration securities	-	26,217,005	-	26,217,005
Total assets	$ -	$ 96,654,240	$ -	$ 96,654,240

(Continued)

NOTE 11 - FAIR VALUE (Continued)

The following methods and assumptions were used by the Credit Union in estimating fair value disclosures.

Debt 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: The Credit Union may also be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower of cost or market accounting for write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of March 31, 2020 and 2019:

	Fair Value at:			
	Level 1	Level 2	Level 3	Impairment Losses
March 30, 2020				
Impaired Loans:				
Residential	$ -	$ -	$ 342,134	$ 60,409
Commercial	-	-	54,680	54,680
March 30, 2019				
Impaired Loans				
Residential	$ -	$ -	$ 379,779	$ 146,623
Commercial	-	-	47,161	38,573

(Continued)

NOTE 11 - FAIR VALUE (Continued)

Certain residential and commercial impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component of determining the allowance for loan losses. Fair value was measured using appraised values of collateral adjusted as necessary by management based on observable inputs for specific properties. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Impaired loans were discounted 12% in 2020 and 10% in 2019 and resulted in a Level 3 classification of the inputs for determining fair value.

Real estate held for sale included in other assets was adjusted to fair value based on a purchase and sales agreement less estimated costs to sell.