

**SEASONS
FEDERAL CREDIT UNION**

**Independent Auditors' Report
and
Consolidated Financial Statements**

September 30, 2022 and 2021



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**SEASONS
FEDERAL CREDIT UNION**

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September 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Seasons Federal Credit Union

Opinion

We have audited the accompanying consolidated financial statements of Seasons Federal Credit Union and its subsidiary (the "Credit Union"), which comprise the statement of financial position as of September 30, 2022, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Credit Union as of September 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Seasons Federal Credit Union and its subsidiary as of September 30, 2021, were audited by other auditors whose report dated January 26, 2022, expressed an unmodified opinion on those consolidated statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Hartford, Connecticut
January 25, 2023

**SEASONS
FEDERAL CREDIT UNION**

Consolidated Statements of Financial Condition

September 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 7,139,247	\$ 13,127,838
Interest bearing deposits	5,217,000	4,728,000
Debt securities, available-for-sale	11,255,048	14,239,757
Investment in Federal Home Loan Bank of Boston, at cost	164,500	69,300
Loans held for sale	-	1,572,125
Loans to members, net	128,678,550	112,495,803
Accrued interest receivable	356,221	313,586
Property and equipment, net	3,382,036	3,484,819
NCUSIF deposit	1,541,233	1,505,037
Defined benefit pension plan asset	5,507,676	4,514,168
Prepaid expenses and other assets	8,502,740	8,477,966
	\$ 171,744,251	\$ 164,528,399
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	\$ 161,310,657	\$ 154,805,086
Accounts payable and accrued expenses	1,864,334	1,461,909
Advances from Federal Home Loan Bank of Boston	1,500,000	-
	164,674,991	156,266,995
Total liabilities		
Members' equity	7,069,260	8,261,404
Total liabilities and members' equity	\$ 171,744,251	\$ 164,528,399

The accompanying notes are an integral part of the consolidated financial statements.

**SEASONS
FEDERAL CREDIT UNION**

Consolidated Statements of Income

For the years ended September 30, 2022 and 2021

	2022	2021
Interest income		
Interest on loans	\$ 5,153,058	\$ 4,985,562
Interest on investments	277,427	375,005
Total interest income	5,430,485	5,360,567
Interest expense		
Dividends on shares	(167,795)	(400,505)
Interest on borrowed funds	(24,572)	(13,582)
Total interest expense	(192,367)	(414,087)
Net interest income	5,238,118	4,946,480
Benefit/(provision) for loan losses	2,824	(868,638)
Net interest income after provision for loan losses	5,240,942	4,077,842
Non-interest income		
Member service fees and charges	1,636,930	1,571,266
Credit and debit card interchange fees	980,423	932,032
Other non-interest income	1,070,621	652,684
Mortgage servicing income net of fair value adjustments	101,765	195,161
	3,789,739	3,351,143
Operating expenses		
Compensation and benefits	3,903,262	3,567,285
Office operations	2,361,155	2,275,729
Professional and outside services	222,970	213,381
Office occupancy	671,780	642,374
Loan servicing	510,471	562,104
Other	321,972	222,417
Total operating expenses	7,991,610	7,483,290
Net income/(loss)	\$ 1,039,071	\$ (54,305)

The accompanying notes are an integral part of the consolidated financial statements.

**SEASONS
FEDERAL CREDIT UNION**

Consolidated Statements of Comprehensive Income

For the years ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net income/(loss)	<u>\$ 1,039,071</u>	<u>\$ (54,305)</u>
Other comprehensive (loss)/income:		
Net change in debt securities, available-for-sale	<u>(1,609,325)</u>	<u>(45,019)</u>
Defined benefit pension plan:		
Net change in defined benefit pension plan	(763,274)	1,446,942
Amortization of unrecognized net losses from changes in actuarial assumptions	<u>141,384</u>	<u>247,558</u>
Net change in defined benefit pension plan	<u>(621,890)</u>	<u>1,694,500</u>
Other comprehensive income/(loss)	<u>(2,231,215)</u>	<u>1,649,481</u>
Comprehensive income/(loss)	<u><u>\$ (1,192,144)</u></u>	<u><u>\$ 1,595,176</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**SEASONS
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Consolidated Statements of Changes in Members' Equity

For the years ended September 30, 2022 and 2021

	Regular Reserve	Undivided Earnings	Equity Acquired from Business Combination	Accumulated Other Comprehensive Income	Total
Balance, October 1, 2020	\$ -	\$ 9,992,925	\$ 1,033,234	\$ (4,359,931)	\$ 6,666,228
Net (loss)	-	(54,305)	-	-	(54,305)
Other comprehensive income	-	-	-	1,649,481	1,649,481
Transfers, net	24,724	(24,724)	-	-	-
Balance, September 30, 2021	<u>24,724</u>	<u>9,913,896</u>	<u>1,033,234</u>	<u>(2,710,450)</u>	<u>8,261,404</u>
Net income	-	1,039,071	-	-	1,039,071
Other comprehensive (loss)	-	-	-	(2,231,215)	(2,231,215)
Balance, September 30, 2022	<u>\$ 24,724</u>	<u>\$10,952,967</u>	<u>\$ 1,033,234</u>	<u>\$ (4,941,665)</u>	<u>\$ 7,069,260</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SEASONS
FEDERAL CREDIT UNION**

Statements of Cash Flows

For the years ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income/(loss)	\$ 1,039,071	\$ (54,305)
(Benefit)/provision for loan losses	(2,824)	868,638
Depreciation	393,297	373,526
Amortization of premiums on securities	49,832	171,530
Adjustments to reconcile net income/(loss) to net cash from operating activities:		
(Increase)/decrease in assets:		
Loans held for sale	1,572,125	(1,222,625)
Accrued interest receivable	(42,635)	46,384
Defined benefit pension plan asset	(993,508)	(1,827,897)
Prepaid expenses and other assets	(24,774)	(1,133,527)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	402,425	(152,285)
Net cash from operating activities	2,393,009	(2,930,561)
Cash flows from investing activities:		
Purchase of debt securities, available-for-sale	(2,502,813)	(3,943,237)
Proceeds from calls and repayments of debt securities, available-for-sale	3,206,475	4,301,367
Net change in interest bearing deposits	(489,000)	8,183,000
Net change in Federal Home Loan Bank of Boston	(95,200)	(24,200)
Net change in loans to members	(16,179,923)	(7,830,557)
Net change in NCUSIF deposit	(36,196)	(136,628)
Purchase of property and equipment	(290,514)	(208,488)
Net cash from investing activities	(16,387,171)	341,257
Cash flows from financing activities:		
Proceeds from Federal Home Loan Bank	1,500,000	-
Net change in members' shares and savings accounts	6,505,571	1,003,882
Net cash from financing activities	8,005,571	1,003,882
Net change in cash and cash equivalents	(5,988,591)	(1,585,422)
Cash and cash equivalents at beginning of year	13,127,838	14,713,260
Cash and cash equivalents at end of year	\$ 7,139,247	\$ 13,127,838
Supplemental disclosures:		
Cash paid for dividends on member shares and other interest	\$ 198,562	\$ 381,583

The accompanying notes are an integral part of the consolidated financial statements.

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Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Seasons Federal Credit Union (the “Credit Union”) is chartered under the Federal Credit Union Act and is administratively responsible to the National Credit Union Administration (“NCUA”). The Credit Union provides a variety of financial services, principally related to holding deposits and for making loans to members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union’s Charter and Bylaws.

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

Date of Management’s Review and Subsequent Events Measurement Date – The Credit Union monitored and evaluated subsequent events for footnote disclosures or adjustments required in its consolidated financial statements for the year ended September 30, 2022 through January 25, 2023, the date on which consolidated financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements – 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 income and expenses during the reporting period. Estimates that are particularly critical and are susceptible to change are the assumptions for the allowance for loan losses. Actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the consolidated statements of financial condition and the statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from financial institutions. Amounts due from financial institutions may, at times, exceed federally insured limits.

Concentration of Credit Risk – Most of the Credit Union's business activity is primarily with its members who reside in Middlesex county of Connecticut. The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in these counties of Connecticut.

Interest Bearing Deposits – Investments in this category do not meet the definition of a debt or equity security under accounting pronouncements. These investments are certificates of deposit that management has elected to classify as investments. These deposits are recorded at cost.

Investments – The Credit Union’s investments are classified and accounted for as follows:

Available-for-Sale: Debt securities which the Credit Union anticipates that the securities could be sold in response to rate changes, liquidity risks, availability of, and the yield on, alternative investments and other market and economic factors. These securities are reported at fair value.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrealized gains and losses on debt securities, available-for-sale are recognized as direct increases or decreases in accumulated other comprehensive income. The cost of debt securities sold is recognized using specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Debt securities are reviewed regularly for other-than-temporary impairment. An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an other-than-temporary impairment write-down is recorded in earnings, while the remaining portion of the impairment loss is recognized in other comprehensive income/(loss), provided the Credit Union does not intend to sell the underlying debt security and it is more likely than not that the Credit Union will not be required to sell the debt security prior to recovery. In determining whether a credit loss exists and the period over which the fair value of the debt security is expected to recover management considers the following factors: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, any external credit ratings, the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities, the level of credit enhancement provided by the structure and the Credit Union's ability and intent to hold the debt security for a period sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank of Boston – In order for the Credit Union to be able to borrow from the Federal Home Loan Bank of Boston (“FHLB”), it is required to purchase shares of FHLB stock. The value of the stock is recorded at cost and is listed separately on the consolidated Statements of Financial Condition.

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

Loans to Members – Loans are reported at their recorded investment, which is the outstanding principal balance net of any unearned income, such as deferred fees or costs, allowance for charge-offs and unamortized premiums or discounts on purchased loans. Interest on loans is recognized over the term of the loan and is calculated using the effective-interest method on principal amounts outstanding. When principal or interest is delinquent for 90 days or more, the Credit Union evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level determined by management to be the best estimate of losses incurred in the loan portfolio as of the date of the consolidated financial statements. The allowance is increased or decreased by a provision reflected in operations, which represents an estimate of losses that occurred during the period and a change in estimated losses recorded in prior periods. Loan losses are charged against the allowance when management believes the collectability of principal is unlikely. Recoveries of charged off loans are credited to the allowance.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The determination of the adequacy of the allowance for loan losses by management is based on an assessment of risk elements in the portfolio, identified factors affecting specific loans and available information about the current economic environment in which the Credit Union and its borrowers operate. Management reviews overall portfolio quality through an evaluation of individual performing and impaired loans, the risk characteristics of each component of the loan portfolio, an analysis of current levels and trends in charge offs, delinquency and non-accruing loan data, and the credit risk profile of each component of the portfolio, among other factors.

The allowance for loan losses consists of a formula allowance, based on a variety of factors including historical loss experience, for various loan portfolio classifications, and a valuation allowance for loans identified as impaired. An additional unallocated reserve may also be provided to reflect the complexity of the lending portfolio, and the degree of estimation involved in assessing the overall adequacy of the allowance for loan losses. The allowance is an estimate, and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

Impaired Loans – A loan is considered to be impaired when it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans, as defined, may be measured based on the present value of expected future cash flows, discounted at the loan's original effective interest rate, or on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measurement of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the allowance for loan losses.

Troubled Debt Restructurings – In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring (“TDR”). Modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures impairment on the restructuring as previously noted for impaired loans.

Servicing Rights – Servicing rights are recognized as separate assets when rights are acquired through purchase of the right to service loans or through sale of loans for which rights to service the loan are retained. Servicing rights resulting from the sale of loans originated by the Credit Union are initially measured at fair value at the date of transfer. Servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The balance is included within prepaid and other assets in the consolidated statements of financial condition. Loans serviced for others are not included on the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage loans serviced for others was approximately \$76,461,000 and \$76,491,000 at September 30, 2022 and 2021, respectively.

Property and Equipment – Land is carried at cost. Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and leasehold amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the respective leases. Maintenance and repairs are expensed, and major improvements and renovations are capitalized. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are included in current operations.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Property Owned – Properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis, or fair value less the cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed.

Members' Share and Savings Accounts – Members' shares are the savings accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve – The Credit Union is required by regulation to maintain a statutory reserve, (“regular reserve”). This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends. Credit unions that are classified as "well capitalized" (net worth ratio of 7% or higher) are not required to make statutory transfers to the regular reserve. The regular reserve has been established at the discretion of the Board of Directors to protect the interest of the members. The Board may, at times, change the reserved amount for specific requirements.

Comprehensive Income/(Loss) – Comprehensive income consists of net income and other comprehensive income/(loss) that includes unrealized gains and losses on debt securities available-for-sale and changes in actuarial assumptions and amortization related to the defined benefit pension plan.

Fair Value – Certain assets of the Credit Union are accounted for at fair value. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities at fair value.

Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Assets and liabilities whose value is calculated by the use of pricing models and/or discounted cash flow methodologies utilizing significant unobservable inputs, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following methods and assumptions were used to estimate the fair value of the Credit Union's assets measured at fair value:

Securities – Fair values for securities is based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Mortgage Servicing Rights – The Credit Union periodically measures the fair value of its mortgage servicing assets. The fair value of these assets is determined based upon an independent third-party valuation. The valuation of these assets is derived using a discounted cash flow analysis in conjunction with a proprietary valuation model. As such, mortgage servicing assets are included within the Level 3 of the valuation hierarchy.

Impaired Loans – Periodically, the Credit Union records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs or specific allowances of the uncollectible portions of those loans. Nonrecurring adjustments include impairment amounts for collateral-dependent loans calculated based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or other assumptions. Estimates of fair value based on collateral are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

National Credit Union Share Insurance Fund (“NCUSIF”) Deposit and Insurance Premiums – The deposit in the NCUSIF is in accordance with NCUA regulations, which requires the maintenance of a deposit by each federally insured credit union in an amount equal to one percent of its insured members' shares, less any reportable impairment. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board. The Credit Union is also required to pay an annual insurance premium equal to one-twelfth of one percent of total insured member's share, unless the payments are waived or reduced by the NCUA Board. During 2022 under NCUA regulations it was determined that there were sufficient funds in the Constitution Asset Management Estate to make distributions to previous holders of the Membership Capital Account, due to the liquidation of the Constitution Corporate Credit Union in 2010. Distributions of \$535,184 were received and recorded in other non-interest income on the consolidated statement of operations.

Revenue Recognition – Revenue is recorded when earned, which is generally over the period services are provided and no contingencies exist. Member service fees, charges and other includes such fees as card interchange income, insufficient funds, overdrafts, and NCUSIF insurance premium refunds.

Advertising – The Credit Union directly expenses costs associated with advertising as they are incurred.

Federal and State Income Taxes – The Credit Union is exempt, by statute, from federal and state income taxes.

Reclassifications – Certain amounts reported in the 2021 consolidated financial statements have been reclassified to conform with the 2022 presentation. Reclassification adjustments did not affect total members' equity or net income.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements – The following section includes changes in accounting principles and potential effects of new accounting pronouncements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU is intended to improve financial reporting about leasing transactions and the key provision impacting the Credit Union is the requirement for a lessee to record a right-to-use asset and a liability representing the obligation to make lease payments for long-term operating leases. The ASU will be effective for the Credit Union on October 1, 2022. Management does not expect that the adoption of this ASU will have a significant impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. This ASU is effective for the Credit Union beginning on October 1, 2023. Management is currently evaluating the impact of adopting this ASU on the consolidated financial statements.

NOTE 2 – INTEREST BEARING DEPOSITS

Interest bearing deposits consist of certificates of deposit held in various financial institutions, which are individually insured up to \$250,000. The interest-bearing deposits outstanding as of September 30, 2022 bear interest at rates ranging from 0.45% to 3.35%. The book values of interest-bearing deposits as of September 30, 2022, by remaining contractual maturity, are shown below:

Less than one year	\$ 747,000
Between one and three years	2,976,000
Between three and five years	1,246,000
After five years	248,000
	<u>\$ 5,217,000</u>

NOTE 3 – DEBT SECURITIES, AVAILABLE-FOR-SALE

The amortized cost and estimated fair value of securities available-for-sale are as follows at September 30:

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage backed securities	\$ 5,083,875	\$ -	\$ (727,640)	\$ 4,356,235
Federal agency collateralized mortgage obligations	2,587,058	-	(179,850)	2,407,208
U.S. agency securities	4,750,000	-	(553,800)	4,196,200
Asset-backed securities	204,143	-	(18,560)	185,583
Private issue collateralized mortgage obligations	152,327	-	(42,505)	109,822
	<u>\$ 12,777,403</u>	<u>\$ -</u>	<u>\$ (1,522,355)</u>	<u>\$ 11,255,048</u>

NOTE 3 – DEBT SECURITIES, AVAILABLE-FOR-SALE (CONTINUED)

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage backed securities	\$ 7,035,298	\$ 21,002	\$ (16,242)	\$ 7,040,058
Federal agency collateralized mortgage obligations	3,423,792	113,752	-	3,537,544
U.S. agency securities	3,250,000	1,380	(12,422)	3,238,958
Asset-backed securities	263,587	6,105	-	269,692
Private issue collateralized mortgage obligations	180,110	-	(26,605)	153,505
	<u>\$ 14,152,787</u>	<u>\$ 142,239</u>	<u>\$ (55,269)</u>	<u>\$ 14,239,757</u>

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, are as follows at September 30:

	2022		
	Fair Value	Unrealized Losses Less Than 12 Months	Unrealized Losses Greater Than 12 Months
Mortgage backed securities	\$ 4,356,236	\$ (258,117)	\$ (469,524)
Federal agency collateralized mortgage obligations	2,407,208	(179,850)	-
U.S. agency securities	4,196,200	(171,743)	(382,056)
Asset-backed securities	185,582	(18,560)	-
Private issue collateralized mortgage obligations	109,822	-	(42,505)
	<u>\$ 11,255,048</u>	<u>\$ (628,270)</u>	<u>\$ (894,085)</u>

	2021		
	Fair Value	Unrealized Losses Less Than 12 Months	Unrealized Losses Greater Than 12 Months
Mortgage backed securities	\$ 4,170,037	\$ (16,242)	\$ -
U.S. agency securities	2,737,578	(12,422)	-
Private issue collateralized mortgage obligations	153,505	-	(26,605)
	<u>\$ 7,061,120</u>	<u>\$ (28,664)</u>	<u>\$ (26,605)</u>

The majority of the Credit Union's securities are issued by the U.S. Government and its Agencies. Therefore, the unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. The decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Private issued securities are considered to be acceptable credit risks. Based upon evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for the securities is temporary. The Credit Union does not have the intent to sell these securities and it is not more-likely-than-not that the Credit Union will be required to sell these securities prior to their anticipated recovery.

NOTE 3 – DEBT SECURITIES, AVAILABLE-FOR-SALE (CONTINUED)

The amortized cost and estimated fair value of investments classified as available-for-sale by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Between one and five years	\$ 3,750,000	\$ 3,375,934
Between five and ten years	1,000,000	820,266
Total	<u>4,750,000</u>	<u>4,196,200</u>
Mortgage backed securities	5,083,875	4,356,235
Federal agency collateralized mortgage obligations	2,587,058	2,407,208
Asset-backed securities	204,143	185,583
Private issue collateralized mortgage obligations	152,327	109,822
	<u>\$ 12,777,403</u>	<u>\$ 11,255,048</u>

Mortgage backed securities do not have an expected maturity date. Borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 4 – LOANS TO MEMBERS

The composition of loans to members is as follows as of September 30:

	2022	2021
Residential real estate	\$ 47,016,550	\$ 44,081,007
Consumer	81,466,259	68,394,725
	<u>128,482,809</u>	<u>112,475,732</u>
Less: Allowance for loan losses	(546,614)	(716,368)
Deferred loan origination costs, net	742,355	736,439
	<u>\$128,678,550</u>	<u>\$112,495,803</u>

A summary of the changes in mortgage servicing rights are as follows for the years ended September 30:

	2022	2021
Balance, beginning of year, net	\$ 472,131	\$ 420,924
Servicing assets recognized	154,544	222,737
Amortization of servicing assets	(49,832)	(171,530)
Balance, end of year	<u>\$ 576,843</u>	<u>\$ 472,131</u>

NOTE 4 – LOANS TO MEMBERS (CONTINUED)

Certain officers and directors of the Credit Union have incurred indebtedness in the form of loans as members. A summary of the changes in loans made to officers and directors is as follows for the years ended September 30:

	2022	2021
Balance, beginning of the year	\$ 533,788	\$ 565,801
New loans	212,386	4,568
Repayments	(57,800)	(36,581)
Balance, end of the year	<u>\$ 688,374</u>	<u>\$ 533,788</u>

NOTE 5 – ALLOWANCE FOR LOAN LOSS

To calculate the allowance for loan losses, management segregates the loan portfolio into segments which are defined as the level at which the Credit Union develops and documents a systematic method for determining its allowance for loan losses. The Credit Union's loans are segmented into the following segments:

Residential Real Estate – Residential real estate loans consist of fixed rate mortgages and home equity lines of credit.

Consumer – Consumer loans consist of new and used automobiles, both direct and indirect, as well as recreational vehicles, unsecured loans, and to a lesser extent share secured and student loans.

Historical loss percentages are applied to each portfolio segment to determine the allowance for loan losses. At September 30, 2022 and 2021, the historical loss percentages were based on average charge offs for the previous 24 months and 12 months, respectively.

Based on the Credit Union's analysis of impaired loans, the Credit Union applies additional loss amounts to specific loan balances, where there is a possibility that the full amount of the loan will not be recovered. The Credit Union has applied these additional loss estimations based on the ability of the borrower to repay and collateral.

The following tables presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended September 30:

	2022		
	Residential Real Estate	Consumer	Total
Allowance for loan loss:			
Beginning balance	\$ 33,630	\$ 682,738	\$ 716,368
Charge-offs	-	(445,291)	(445,291)
Recoveries	4,750	273,611	278,361
(Benefit)/provision for loan losses	34,756	(37,580)	(2,824)
Ending balance	<u>\$ 73,136</u>	<u>\$ 473,478</u>	<u>\$ 546,614</u>
Loan balance evaluated collectively for impairment	\$ 46,605,035	\$ 81,290,004	\$ 127,895,039
Loan balance evaluated individually for impairment	411,515	176,255	587,770
Total loan balances	<u>\$ 47,016,550</u>	<u>\$ 81,466,259</u>	<u>\$ 128,482,809</u>

NOTE 5 – ALLOWANCE FOR LOAN LOSS (CONTINUED)

	2021		
	Residential Real Estate	Consumer	Total
Allowance for loan loss:			
Beginning balance	\$ 108,876	\$ 462,098	\$ 570,974
Charge-offs	(5,978)	(879,188)	(885,166)
Recoveries	5,198	156,724	161,922
(Benefit)/provision for loan losses	(74,466)	943,104	868,638
Ending balance	<u>\$ 33,630</u>	<u>\$ 682,738</u>	<u>\$ 716,368</u>
Loan balance evaluated collectively for impairment	\$ 43,731,992	\$ 68,378,296	\$ 112,110,288
Loan balance evaluated individually for impairment	<u>349,015</u>	<u>16,429</u>	<u>365,444</u>
Total loan balances	<u>\$ 44,081,007</u>	<u>\$ 68,394,725</u>	<u>\$ 112,475,732</u>

Loan Portfolio Delinquency Analysis – The Credit Union assesses credit quality based on the contractual aging status of loans and payment activity. The following tables set forth certain information with respect to loan portfolio delinquencies by loan class and amount as of September 30:

	2022				
	0 - 30 days	31 - 60 days	60-89 days	90 days +	Total loans
Residential real estate	\$ 46,686,564	\$ 238,327	\$ 9,774	\$ 81,885	\$ 47,016,550
Consumer	80,826,871	410,814	62,446	166,128	81,466,259
Total	<u>\$127,513,435</u>	<u>\$ 649,141</u>	<u>\$ 72,220</u>	<u>\$ 248,013</u>	<u>\$128,482,809</u>
Residential real estate	\$ 43,923,399	\$ -	\$ 65,145	\$ 92,463	\$ 44,081,007
Consumer	68,064,908	256,550	69,355	3,912	68,394,725
Total	<u>\$111,988,307</u>	<u>\$ 256,550</u>	<u>\$ 134,500</u>	<u>\$ 96,375</u>	<u>\$112,475,732</u>

Loans on Nonaccrual Status – The Credit Union places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred or the loans reach a certain number of days past due. All loans are placed on nonaccrual status once they are greater than 90 days past due. The Credit Union considers these loans to be “non-performing” loans. Payment activity is reviewed by management on a monthly basis to determine how loans are performing.

When the Credit Union places a loan on nonaccrual status, the Credit Union reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, the Credit Union returns a loan to accrual status when all delinquent interest and principal becomes current under the terms of the loan agreement.

NOTE 5 – ALLOWANCE FOR LOAN LOSS (CONTINUED)

The Credit Union has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the member's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable. The following table represents the loans by class on nonaccrual status as of September 30:

	2022	2021
	Carrying Amount	Carrying Amount
Residential real estate	\$ 81,885	\$ 92,463
Consumer	166,128	3,912
Total	<u>\$ 248,013</u>	<u>\$ 96,375</u>

Impaired Loans – An impaired loan generally is one for which it is probable, based on current information, that the Credit Union will not collect all the amounts due under the contractual terms of the loan and such loans are individually evaluated for impairment. When the Credit Union classifies a problem asset as impaired, it provides a specific reserve for that portion of the asset that is deemed uncollectible.

The following summarizes impaired loans by portfolio segment as of and for the years ended September 30:

	2022			
	Carrying amount of impaired loans			Associated
	Without an Allowance	With an Allowance	Total	Allowance
Residential real estate	\$ 57,956	\$ 353,559	\$ 411,515	\$ 73,136
Consumer	176,255	-	176,255	-
Total	<u>\$ 234,211</u>	<u>\$ 353,559</u>	<u>\$ 587,770</u>	<u>\$ 73,136</u>

	2021			
	Carrying amount of impaired loans			Associated
	Without an Allowance	With an Allowance	Total	Allowance
Residential real estate	\$ 24,911	\$ 324,104	\$ 349,015	\$ 32,754
Consumer	16,429	-	16,429	-
Total	<u>\$ 41,340</u>	<u>\$ 324,104</u>	<u>\$ 365,444</u>	<u>\$ 32,754</u>

The following is a summary of troubled debt restructurings as of September 30:

	2022		2021	
	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance
Residential real estate	5	\$ 329,630	6	\$ 354,992
Consumer	1	10,127	3	16,429
	<u>6</u>	<u>\$ 339,757</u>	<u>9</u>	<u>\$ 371,421</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Building	\$ 4,100,800	\$ 3,953,264
Leasehold improvements	1,749,126	1,749,126
Furniture and equipment	3,419,082	3,480,643
Construction in process	39,052	-
	<u>9,308,060</u>	<u>9,183,033</u>
Less: accumulated depreciation	(5,926,024)	(5,698,214)
	<u><u>\$ 3,382,036</u></u>	<u><u>\$ 3,484,819</u></u>

NOTE 7 – MEMBERS' SHARES AND SAVINGS ACCOUNTS

A summary of member shares and savings accounts is as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Shares	\$ 60,255,629	\$ 56,486,323
Club and other savings	16,139,718	16,331,244
Money markets	16,672,629	17,738,130
Demand deposits	43,637,398	44,238,255
Certificates of deposit	20,307,160	17,729,516
Individual retirement accounts	2,351,123	2,281,618
Non-member certificates	1,947,000	-
	<u><u>\$161,310,657</u></u>	<u><u>\$154,805,086</u></u>

A summary of certificate accounts by maturity is as follows as of September 30, 2022:

Within one year	\$ 11,080,239
One to three years	7,889,733
More than three years	1,337,188
	<u><u>\$ 20,307,160</u></u>

The aggregate amount of time deposits which exceed \$250,000 as of September 30, 2022 and 2021 is \$2,557,000 and \$567,000, respectively.

Certain officers and directors of the Credit Union have deposits with the Credit Union. Deposits held by officers and directors totaled \$158,616 and \$199,319 at September 30, 2022 and 2021, respectively.

NOTE 8 – FAIR VALUE MEASUREMENTS

The following table details the financial instruments carried at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Credit Union to determine the fair value at September 30:

	2022			
	Fair Value	Level 1	Level 2	Level 3
Available for sale:				
Mortgage backed securities	\$ 4,356,235	\$ -	\$ 4,356,235	\$ -
Federal agency collateralized mortgage obligations	2,407,208	-	2,407,208	-
U.S. agency securities	4,196,200	-	4,196,200	-
Asset-backed securities	185,583	-	185,583	-
Private issue collateralized mortgage obligations	109,822	-	109,822	-
Mortgage servicing rights	576,843	-	-	576,843
	<u>\$ 11,831,891</u>	<u>\$ -</u>	<u>\$ 11,255,048</u>	<u>\$ 576,843</u>
	2021			
	Fair Value	Level 1	Level 2	Level 3
Available for sale:				
Mortgage backed securities	\$ 7,040,058	\$ -	\$ 7,040,058	\$ -
Federal agency collateralized mortgage obligations	3,537,544	-	3,537,544	-
U.S. agency securities	3,238,958	-	3,238,958	-
Asset-backed securities	269,692	-	269,692	-
Private issue collateralized mortgage obligations	153,505	-	153,505	-
Mortgage servicing rights	472,131	-	-	472,131
	<u>\$ 14,711,888</u>	<u>\$ -</u>	<u>\$ 14,239,757</u>	<u>\$ 472,131</u>

A summary of the changes in mortgage servicing rights are as follows for the years ended September 30:

	2022	2021
Balance, beginning of year, net	\$ 472,131	\$ 420,924
Servicing assets recognized	154,544	222,737
Amortization of servicing assets	(49,832)	(171,530)
Balance, end of year	<u>\$ 576,843</u>	<u>\$ 472,131</u>

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table details the financial instruments carried at fair value on a nonrecurring basis and indicates the fair value hierarchy at September 30:

	2022			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans	<u>\$ 614,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 614,295</u>
	2021			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans	<u>\$ 365,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,444</u>

NOTE 9 – EMPLOYEE BENEFITS

Defined Contribution 401(k) Plan – The Credit Union has a defined contribution 401(k) plan (the “Plan”). All full-time employees of the Credit Union are eligible to participate upon attaining 21 years of age. All part-time employees of the Credit Union are eligible to participate upon completing one year of service and 21 years of age. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in all their voluntary contributions. The Credit Union may make a discretionary matching contribution each year at the discretion of the Board of Directors. If approved by the Board of Directors, the Credit Union’s discretionary matching contributions vest in equal percentages (20% per year) beginning with the completion of two years of service and become fully vested at the completion of six years of service. There were no contributions to the plan during the years ended September 30, 2022 and 2021

Deferred Compensation Plan – The Credit Union maintains a nonqualified deferred compensation plan established under Section 457(b) of the Internal Revenue Code for a senior executive of the Credit Union. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities in the Credit Union’s consolidated statements of financial condition and are available to creditors in the event of the Credit Union’s liquidation. The balance of the deferred compensation assets under this plan is classified as prepaid and other assets and was approximately \$107,000 and \$118,000 as of September 30, 2022 and 2021, respectively.

The Credit Union has entered into split dollar insurance agreements with a senior executive. One agreement is a collateral endorsement arrangement and the other is a collateral assignment arrangement. The agreements involve a method of paying for insurance coverage for the executive by splitting the elements of the life insurance policy. Under the collateral endorsement arrangement, the Credit Union is the owner of the policy, which is used to fund premiums for a collateral assignment arrangement split dollar policy by borrowing against the value of the Credit Union owned policy. The recorded value (net of the loan) was approximately \$590,000 and \$562,000 as of September 30, 2022 and 2021 respectively.

Under the collateral assignment arrangement, the executive is the owner of the policy and makes a collateral assignment to the Credit Union in return for a loan equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be repaid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive’s designated beneficiary. The total loan balance under this agreement is classified as prepaid and other assets and was approximately \$3,270,000 and \$3,231,000 as of September 30, 2022 and 2021, respectively. Under the terms of the arrangement, the executive is responsible for any difference between the loan amounts and the cash surrender values.

NOTE 10 – DEFINED BENEFIT PENSION PLAN

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

The following sets forth the funded status of the plan included in the accompanying consolidated statements of financial condition as of September 30, 2022 and 2021 and other key information for the plan as of and for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net pension assets:		
Fair value of plan assets	\$ 11,613,539	\$ 13,241,962
Projected benefit obligation (PBO)	<u>(6,105,863)</u>	<u>(8,727,794)</u>
Funded status	<u>\$ 5,507,676</u>	<u>\$ 4,514,168</u>
	<u>2022</u>	<u>2021</u>
Accumulated benefit obligation (ABO)	<u>\$ (5,780,584)</u>	<u>\$ (8,150,825)</u>

Service costs are included in compensation and benefit expense, while other components of net periodic pension cost are included in the other expenses line item in the Credit Union's consolidated statements of operations. The following tables set forth the components of net periodic benefit cost and amounts recognized in other comprehensive income/(loss):

	<u>2022</u>	<u>2021</u>
Components of net periodic pension (benefit)/cost:		
Service cost	\$ 317,193	\$ 371,190
Interest cost	252,012	245,215
Expected return on plan assets	(825,987)	(691,860)
Amortization of unrecognized loss	141,384	247,558
Net periodic pension (benefit)/cost	<u>\$ (115,398)</u>	<u>\$ 172,103</u>
	<u>2022</u>	<u>2021</u>
Recognized in accumulated other comprehensive loss:		
Unrecognized net loss	<u>\$ (3,419,310)</u>	<u>\$ (2,797,420)</u>

The total (income)/loss recognized in other comprehensive loss approximated \$622,000 and (\$1,695,000) for the years ended September 30, 2022 and 2021, respectively. The total (income)/loss recognized in net periodic pension cost and other comprehensive loss approximated \$(507,000) and (\$1,522,000) for the years ended September 30, 2022 and 2021, respectively.

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The assumptions used to develop the net period pension cost for the years ended September 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	2.95%	3.00%
Expected long-term rate of return on plan assets	7.00%	7.50%
Weighted-average rate of compensation increases	2.00%	2.00%
Amortization method	Straight-Line	Straight-Line

The assumptions used to develop the periodic benefit obligation as of September 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	5.40%	2.95%
Weighted-average rate of compensation increases	2.00%	2.00%

The discount rate is determined annually by Credit Union management based on historical data provided by its actuary. The long-term rate of return on assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

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

Benefit payments made during the years ended September 30, 2022 and 2021 approximated \$302,000 and \$42,000, respectively. The following table sets forth the expected benefit payments as of September 30, 2022:

<u>Year ending September 30,</u>	<u>Amount</u>
2023	\$ 210,000
2024	320,000
2025	700,000
2026	370,000
2027	320,000
2028-2032	2,120,000
Total	<u><u>\$ 4,040,000</u></u>

The Credit Union contributed \$1,500,000 and \$2,000,000 to the plan during the years ended September 30, 2022 and 2021, respectively. The Credit Union does not expect to contribute to the plan during the year ended September 30, 2023.

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Credit Union’s weighted-average asset allocations as of September 30, 2022 and 2021 by asset category are as follows:

	2022	2021
Asset category:		
Equity securities	64.7%	29.7%
Fixed income	35.3%	70.3%
	100.0%	100.0%

The fair value of the Credit Union’s pension plan assets by asset class are as follows: (the three levels of input used to measure fair value are more fully described in Note 1):

	2022			
	Fair Value	Level 1	Level 2	Level 3
Equity securities	\$ 7,511,434	\$ 7,511,434	\$ -	\$ -
Fixed income	4,102,105	4,102,105	-	-
	\$ 11,613,539	\$ 11,613,539	\$ -	\$ -

	2021			
	Fair Value	Level 1	Level 2	Level 3
Equity securities	\$ 3,926,251	\$ 3,926,251	\$ -	\$ -
Fixed income	9,315,711	9,315,711	-	-
	\$ 13,241,962	\$ 13,241,962	\$ -	\$ -

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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 which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

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

The following is a summary of financial instruments whose contract terms represent credit risk as of September 30:

	2022	2021
Home equity lines of credit	\$ 10,098,740	\$ 11,644,959
Credit cards	14,034,017	11,227,603
Unsecured sharedraft lines of credit	1,175,119	1,354,270
	\$ 25,307,876	\$ 24,226,832

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. Since 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 generally consists of certificates of deposit, share accounts, automobiles, and real estate.

Lines of Credit – The Credit Union had available a \$20,900,000 line of credit with Alloya Federal Credit Union at September 30, 2022. Any borrowings under these lines of credit would be fully secured by the assets of the Credit Union. At September 30, 2022 and 2021, the Credit Union had no borrowings outstanding against the lines of credit.

The Credit Union is approved for access to the Federal Reserve Bank (FRB) discount window. Under the terms of this agreement, the Credit Union is able to borrow on pledged collateral according to the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. The value of pledged investment securities as of September 30, 2022 and 2021, was approximately \$744,000 and \$793,000, respectively. As September 30, 2022 and 2021, the Credit Union had no outstanding borrowings with the FRB.

The Credit Union has a credit facility available from the Federal Home Loan Bank of Boston ("FHLB"). Advances taken under the terms of this credit facility are secured by the Credit Union's pledged owner-occupied mortgage loan portfolio, the FHLB stock certificates and any funds on deposit with the FHLB. Under the terms of the FHLB credit facility, at September 30, 2022, the Credit Union had the ability, upon purchasing additional FHLB stock to borrow funds of approximately \$1,823,528. At September 30, 2022 and 2021, the Credit Union had \$1,500,000 and \$-0- in borrowings outstanding against the lines of credit, respectively.

Legal – The Credit Union is a party to various 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.

Leases – The Credit Union has entered into various leasing agreements with different terms and payments through 2028. The minimum remaining non-cancelable lease obligations are as follows for the years ending September 30:

2023	\$	131,904
2024		136,927
2025		136,927
2026		120,927
2027		88,927
Thereafter		41,453
Total	\$	<u>657,065</u>

NOTE 12 – REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets (as defined).

As of September 30, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union’s category. For regulatory purposes, the Credit Union is required to add the retained earnings of Middlesex Healthcare Federal Credit Union (MHFCU) at the time of merger to its retained earnings to calculate the regulatory net worth ratio. MHFCU’s retained earnings at the time of merger was \$1,033,234.

The Credit Union's actual regulatory amounts and ratios are as follows as:

Net Worth	September 30, 2022					
	Actual		To be adequately capitalized under the Prompt Corrective Action Provisions		To be well capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2022	\$ 12,010,925	7.03%	\$ 10,304,655	>= 6.00%	\$ 12,022,098	>= 7.00%
At September 30, 2021	\$ 10,971,854	6.67%	\$ 9,871,704	>= 6.00%	\$ 11,516,988	>= 7.00%

For regulatory purposes, the Credit Union is using the average of the current and three preceding quarter end balances for total assets to calculate their net worth ratio.

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