

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

(With Independent Auditor's Report Thereon)

SEASONS FEDERAL CREDIT UNION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Condition	3
Consolidated Statements of Operations.....	4
Consolidated Statements of Comprehensive Operations	5
Consolidated Statements of Members' Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	9

Independent Auditor's Report

June 22, 2020

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Seasons Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of September 30, 2019 and 2018, and the related consolidated statements of operations, comprehensive operations, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seasons Federal Credit Union and its subsidiary, as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Doeren Mayhew

Doeren Mayhew
Miami, FL

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AS OF SEPTEMBER 30, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$15,488,271	\$3,879,794
Interest bearing deposits	988,000	249,000
Investment securities:		
Available-for-sale	5,150,639	5,448,904
Held-to-maturity	1,240	1,799
Loans held for sale	773,490	—
Loans to members, net of allowance for loan losses	113,840,191	130,795,796
Accrued interest receivable	326,858	430,514
Property and equipment	3,912,438	4,239,756
Prepaid and other assets	8,557,690	9,737,413
National Credit Union Share Insurance Fund (NCUSIF) deposit	1,387,904	1,401,064
	<u>\$150,426,721</u>	<u>\$156,184,040</u>
Total assets		
	<u>\$150,426,721</u>	<u>\$156,184,040</u>
 <u>Liabilities and Members' Equity</u> 		
Liabilities:		
Members' shares and savings accounts	\$140,493,688	\$136,001,081
Borrowed funds	—	8,953,221
Accrued expenses and other liabilities	1,341,992	1,161,209
	<u>141,835,680</u>	<u>146,115,511</u>
Total liabilities		
	<u>141,835,680</u>	<u>146,115,511</u>
 Commitments and contingent liabilities 		
Members' equity:		
Regular reserve	2,241,414	2,241,414
Undivided earnings	8,699,747	8,779,715
Equity acquired from business combination	1,033,234	1,033,234
Accumulated other comprehensive loss	(3,383,354)	(1,985,834)
	<u>8,591,041</u>	<u>10,068,529</u>
Total members' equity		
	<u>8,591,041</u>	<u>10,068,529</u>
Total liabilities and members' equity		
	<u>\$150,426,721</u>	<u>\$156,184,040</u>

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Interest income:		
Loans to members	\$6,273,804	\$6,333,732
Investments	308,756	313,539
Total interest income	6,582,560	6,647,271
Interest expense:		
Members' shares and savings accounts	824,771	634,146
Borrowed funds	260,713	106,061
Total interest expense	1,085,484	740,207
Net interest income	5,497,076	5,907,064
Provision for loan losses	167,071	863,947
Net interest income after provision for loan losses	5,330,005	5,043,117
Non-interest income:		
Fees and charges	1,893,924	2,019,482
Interchange income	754,080	744,331
Other operating income	326,792	324,578
Gain on sale of loans	161,587	169,504
Total non-interest income	3,136,383	3,257,895
Non-interest expenses:		
Compensation and benefits	3,408,268	3,389,007
Office operations	3,265,895	2,810,628
Office occupancy	836,293	827,999
Loan servicing	388,109	550,439
Other	301,627	302,964
Outside services	346,164	245,951
Total non-interest expenses	8,546,356	8,126,988
Net (loss)/income	(\$79,968)	\$174,024

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Net (loss)/income	(\$79,968)	\$174,024
Other comprehensive (loss)/income:		
Available-for-sale investments:		
Net unrealized holding gains/(losses) on available-for-sale investments	141,036	(170,867)
Net change in available-for-sale investments	141,036	(170,867)
Defined benefit pension plan:		
Net unrealized losses on defined benefit pension plan	(1,620,089)	(76,072)
Amortization of unrecognized net losses from changes in actuarial assumptions	81,533	86,795
Net change in defined benefit pension plan	(1,538,556)	10,723
Other comprehensive loss	(1,397,520)	(160,144)
Comprehensive (loss)/income	<u>(\$1,477,488)</u>	<u>\$13,880</u>

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	Regular Reserve	Undivided Earnings	Equity Acquired from Business Combination	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2017	\$2,241,414	\$8,605,691	\$1,033,234	(\$1,825,690)	\$10,054,649
Net income	—	174,024	—	—	174,024
Other comprehensive loss	—	—	—	(160,144)	(160,144)
<hr/>					
Balance, September 30, 2018	2,241,414	8,779,715	1,033,234	(1,985,834)	10,068,529
Net loss	—	(79,968)	—	—	(79,968)
Other comprehensive loss	—	—	—	(1,397,520)	(1,397,520)
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Balance, September 30, 2019	\$2,241,414	\$8,699,747	\$1,033,234	(\$3,383,354)	\$8,591,041

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net (loss)/income	(\$79,968)	\$174,024
Adjustments to net cash provided from operating activities:		
Provision for loan losses	167,071	863,947
Depreciation and amortization	451,269	457,906
Net amortization and accretion on investments	50,799	71,734
Gain on sale of loans	(51,615)	(10,081)
Capitalization of mortgage servicing rights	(109,972)	(159,423)
Changes in assets and liabilities:		
Prepaid and other assets	(248,861)	(75,297)
Accrued interest receivable	103,656	(21,756)
Loans held for sale	(721,875)	1,363,861
Accrued expenses and other liabilities	180,783	197,812
Total adjustments	<u>(178,745)</u>	<u>2,688,703</u>
Net cash (used in)/provided from operating activities	<u>(258,713)</u>	<u>2,862,727</u>

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

Cash Flows (Continued)

	2019	2018
Cash flows from investing activities:		
Net change in loans to members	16,788,534	(804,157)
Purchase of interest bearing deposits	(988,000)	—
Proceeds from repayment of interest bearing deposits	249,000	646,000
Proceeds from repayment or maturity of available-for-sale investments	388,502	443,577
Proceeds from repayment of held-to-maturity investments	559	669
Decrease in NCUSIF deposit	13,160	14,957
Purchase of property and equipment	(123,951)	(61,822)
Net cash provided from investing activities	16,327,804	239,224
Cash flows from financing activities:		
Net change in members' shares and savings accounts	4,492,607	(6,856,661)
Proceeds from borrowed funds	—	8,953,221
Repayment of borrowed funds	(8,953,221)	(6,000,000)
Net cash used in financing activities	(4,460,614)	(3,903,440)
Net change in cash and cash equivalents	11,608,477	(801,489)
Cash and cash equivalents - beginning	3,879,794	4,681,283
Cash and cash equivalents - ending	\$15,488,271	\$3,879,794
<u>Supplemental Information</u>		
Interest paid	\$1,089,128	\$739,743

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 1 - Nature of Business and Significant Accounting Policies

Organization

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

Principles of Consolidation

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

Use of Estimates

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

Concentrations of Credit Risk

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Comprehensive Income

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

Cash and Cash Equivalents

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

Interest Bearing Deposits

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

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Alloya Corporate Federal Credit Union (Alloya) of approximately \$418,000 as of September 30, 2019 and \$167,000 as of September 30, 2018. The PCC is not subject to share insurance coverage and is not releasable due solely to a merger, charter conversion or liquidation and is callable at the option of Alloya. The PCC has a perpetual maturity and a noncumulative dividend. Perpetual contributed capital is included in prepaid and other assets in the consolidated statements of financial condition.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Investments

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

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

Federal Home Loan Bank (FHLB) Stock

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

Loans Held for Sale

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

Loans to Members

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

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Loans to Members (Continued)

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

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

Allowance for Loan Losses

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

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

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Allowance for Loan Losses (Continued)

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

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2019 and 2018, the historical loss time frame for each class was 12 months.

Impaired Loans

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Allowance for Loan Losses (Continued)

Troubled Debt Restructurings

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

Consumer and Real Estate Credit Quality Indicators

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

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

Loan Charge-off Policies

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Allowance for Loan Losses (Continued)

Loan Charge-off Policies (Continued)

Consumer:

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

Real Estate:

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

Property and Equipment

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

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the 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. The NCUSIF deposit is required to be periodically reviewed for impairment.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

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

Income Taxes

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale debt securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on October 1, 2023. Early application is permitted for annual periods beginning January 1, 2019.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective for the Credit Union on October 1, 2022 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

Subsequent Events

Management has evaluated subsequent events through June 22, 2020, the date the consolidated financial statements were available to be issued.

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses and the economy. While the situation is evolving rapidly, and the full impact is not yet known, the disruption caused by the Coronavirus is affecting business and consumer activities worldwide—including disruption to major financial markets, supply chains, interruption of production, limited personnel, facility and store closures, and decreased demand from both business customers and consumers.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

Subsequent Events (Continued)

On April 7, 2020, the federal and state financial institution regulators (collectively the Agencies) issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (the Statement). The Statement includes guidance on TDRs, accounting for loan modifications, past due reporting, non-accrual loans and charge-offs among other items. A significant aspect of this Statement is the concept that the Agencies will not automatically categorize all COVID-19 related loan modifications as TDRs. The Agencies have confirmed with staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on December 31, 2019. The Agencies' examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs.

With regard to the loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. If a financial institution agrees to a payment deferral, this may result in no contractual payments being past due, and these loans are not considered past due during the period of the deferral.

The Credit Union will determine if loans to stressed borrowers should be reported as nonaccrual assets in regulatory reports. However, during the short-term arrangements discussed in this statement, these loans generally may not be reported as nonaccrual.

As of June 22, 2020, the Credit Union is assessing the impact on its operations, but currently the ultimate effects of COVID-19 are unknown.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 2 - Investments

The following tables present the amortized cost and estimated fair value of investments as of September 30, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	\$4,118,115	\$11,981	(\$18,725)	\$4,111,371
Asset-backed securities	416,775	7,859	—	424,634
Federal agency collateralized mortgage obligations	415,180	—	(11,491)	403,689
Private issue collateralized mortgage obligations	245,192	—	(34,247)	210,945
Total	\$5,195,262	\$19,840	(\$64,463)	\$5,150,639

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Mortgage-backed securities	\$1,240	\$9	\$—	\$1,249

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 2 - Investments (Continued)

The following tables present the amortized cost and estimated fair value of investments as of September 30, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	\$4,356,831	\$48,670	(\$121,611)	\$4,283,890
Asset-backed securities	502,078	—	(35,335)	466,743
Federal agency collateralized mortgage obligations	494,919	—	(35,365)	459,554
Private issue collateralized mortgage obligations	280,735	—	(42,018)	238,717
Total	\$5,634,563	\$48,670	(\$234,329)	\$5,448,904
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Mortgage-backed securities	\$1,799	\$20	\$—	\$1,819

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of September 30, 2019, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities, federal agency and private issue collateralized mortgage obligations, and asset-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<i>Available-for-sale</i>		<i>Held-to-maturity</i>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities	\$4,118,115	\$4,111,371	\$1,240	\$1,249
Asset-backed securities	416,775	424,634	—	—
Federal agency collateralized mortgage obligations	415,180	403,689	—	—
Private issue collateralized mortgage obligations	245,192	210,945	—	—
Total	\$5,195,262	\$5,150,639	\$1,240	\$1,249

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2019, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
Available-for-sale:						
Mortgage-backed securities	\$—	\$—	\$1,738,478	(\$18,725)	\$1,738,478	(\$18,725)
Federal agency collateralized mortgage obligations	—	—	403,689	(11,491)	403,689	(11,491)
Private issue collateralized mortgage obligations	—	—	210,945	(34,247)	210,945	(34,247)
Total	\$—	\$—	\$2,353,112	(\$64,463)	\$2,353,112	(\$64,463)

Information pertaining to investments with gross unrealized losses as of September 30, 2018, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
Available-for-sale:						
Mortgage-backed securities	\$881,527	(\$25,287)	\$2,482,474	(\$96,324)	\$3,364,001	(\$121,611)
Asset-backed securities	—	—	466,743	(35,335)	466,743	(35,335)
Federal agency collateralized mortgage obligations	—	—	459,554	(35,365)	459,554	(35,365)
Private issue collateralized mortgage obligations	—	—	238,717	(42,018)	238,717	(42,018)
Total	\$881,527	(\$25,287)	\$3,647,488	(\$209,042)	\$4,529,015	(\$234,329)

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 2 - Investments (Continued)

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. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

The principal balances of private issue collateralized mortgage obligations are not guaranteed. Unrealized losses on these securities are periodically evaluated for OTTI.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members

The composition of loans to members as of September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Consumer:		
Used auto	\$47,144,679	\$55,808,244
Unsecured	11,031,146	11,546,975
New auto	22,580,876	26,116,470
Other secured	308,829	252,536
	<u>81,065,530</u>	<u>93,724,225</u>
Real Estate:		
HELOC	16,563,026	19,467,922
Second mortgage	11,829,584	12,835,924
First mortgage	3,281,920	3,527,141
	<u>31,674,530</u>	<u>35,830,987</u>
	112,740,060	129,555,212
Net deferred fees and costs	1,626,664	2,174,720
	<u>114,366,724</u>	<u>131,729,932</u>
Less: Allowance for loan losses	(526,533)	(934,136)
	<u>\$113,840,191</u>	<u>\$130,795,796</u>

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2019:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	\$742,662	\$191,474	\$934,136
Charge-offs	(685,843)	(58,390)	(744,233)
Recoveries	156,351	13,208	169,559
Provision for loan losses	209,712	(42,641)	167,071
Ending allowance	<u>\$422,882</u>	<u>\$103,651</u>	<u>\$526,533</u>
Ending balance individually evaluated for impairment	\$153	\$60,680	\$60,833
Ending balance collectively evaluated for impairment	<u>422,729</u>	<u>42,971</u>	<u>465,700</u>
Ending allowance	<u>\$422,882</u>	<u>\$103,651</u>	<u>\$526,533</u>

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2019:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	\$46,845	\$531,141	\$577,986
Ending balance collectively evaluated for impairment	<u>82,471,482</u>	<u>31,317,256</u>	<u>113,788,738</u>
Total loans	<u>\$82,518,327</u>	<u>\$31,848,397</u>	<u>\$114,366,724</u>

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2018:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	\$818,961	\$114,037	\$932,998
Charge-offs	(873,462)	(143,369)	(1,016,831)
Recoveries	141,223	12,799	154,022
Provision for loan losses	655,940	208,007	863,947
Ending allowance	\$742,662	\$191,474	\$934,136
Ending balance individually evaluated for impairment	\$5,157	\$66,261	\$71,418
Ending balance collectively evaluated for impairment	737,505	125,213	862,718
Ending allowance	\$742,662	\$191,474	\$934,136

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2018:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	\$175,474	\$559,610	\$73,504
Ending balance collectively evaluated for impairment	95,532,850	35,461,998	130,994,848
Total loans	\$95,708,324	\$36,021,608	\$131,729,932

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>With no allowance recorded:</u>					
Consumer:					
Used auto	\$41,203	\$41,203	\$—	\$57,578	\$6,719
Unsecured	\$2,971	\$2,971	\$—	\$15,379	\$1,930
Real Estate:					
Second mortgage	\$39,620	\$39,620	\$—	\$42,242	\$3,696
<u>With an allowance recorded:</u>					
Consumer:					
Used auto	\$2,671	\$2,671	\$153	\$22,088	\$1,635
Real Estate:					
Second mortgage	\$491,521	\$491,521	\$60,680	\$503,134	\$20,125
Totals:					
Consumer	\$46,845	\$46,845	\$153	\$95,045	\$10,284
Real Estate	531,141	531,141	60,680	545,376	23,821
Total	<u>\$577,986</u>	<u>\$577,986</u>	<u>\$60,833</u>	<u>\$640,421</u>	<u>\$34,105</u>

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>With no allowance recorded:</u>					
Consumer:					
Used auto	\$73,952	\$73,952	\$—	\$111,347	\$12,994
Unsecured	\$27,786	\$27,786	\$—	\$62,192	\$7,805
New auto	\$3,564	\$3,564	\$—	\$5,606	\$331
Real Estate:					
Second mortgage	\$44,863	\$44,863	\$—	\$47,485	\$4,155
<u>With an allowance recorded:</u>					
Consumer:					
Used auto	\$41,504	\$41,504	\$4,657	\$48,449	\$3,585
Unsecured	\$28,668	\$28,668	\$500	\$38,045	\$3,591
Real Estate:					
Second mortgage	\$514,747	\$514,747	\$66,261	\$525,165	\$21,007
Totals:					
Consumer	\$175,474	\$175,474	\$5,157	\$265,639	\$28,306
Real Estate	559,610	559,610	66,261	572,650	25,162
	<u>\$735,084</u>	<u>\$735,084</u>	<u>\$71,418</u>	<u>\$838,289</u>	<u>\$53,468</u>

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	\$756,821	\$80,127	\$372,599	\$1,209,547	\$46,661,531	\$47,871,078
Unsecured	122,918	27,818	278,091	428,827	10,602,319	11,031,146
New auto	263,046	36,688	76,966	376,700	22,930,574	23,307,274
Other secured	—	—	—	—	308,829	308,829
	1,142,785	144,633	727,656	2,015,074	80,503,253	82,518,327
Real Estate:						
HELOC	675,503	—	71,117	746,620	15,953,471	16,700,091
Second mortgage	61,401	40,847	50,734	152,982	11,731,104	11,884,086
First mortgage	—	—	23,569	23,569	3,240,651	3,264,220
	736,904	40,847	145,420	923,171	30,925,226	31,848,397
Total	\$1,879,689	\$185,480	\$873,076	\$2,938,245	\$111,428,479	\$114,366,724

Loans on which the accrual of interest has been discontinued or reduced approximated \$873,000 as of September 30, 2019. There were no loans 90 days or more past due and still accruing interest as of September 30, 2019.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	\$344,801	\$135,700	\$270,708	\$751,209	\$56,049,873	\$56,801,082
Unsecured	179,445	37,494	299,245	516,184	11,030,791	11,546,975
New auto	248,097	—	15,740	263,837	26,843,894	27,107,731
Other secured	—	—	—	—	252,536	252,536
	<u>772,343</u>	<u>173,194</u>	<u>585,693</u>	<u>1,531,230</u>	<u>94,177,094</u>	<u>95,708,324</u>
Real Estate:						
HELOC	403,266	149,471	72,491	625,228	18,991,480	19,616,708
Second mortgage	26,777	—	37,778	64,555	12,825,147	12,889,702
First mortgage	91,229	—	—	91,229	3,423,969	3,515,198
	<u>521,272</u>	<u>149,471</u>	<u>110,269</u>	<u>781,012</u>	<u>35,240,596</u>	<u>36,021,608</u>
Total	<u>\$1,293,615</u>	<u>\$322,665</u>	<u>\$695,962</u>	<u>\$2,312,242</u>	<u>\$129,417,690</u>	<u>\$131,729,932</u>

Loans on which the accrual of interest has been discontinued or reduced approximated \$696,000 as of September 30, 2018. There were no loans 90 days or more past due and still accruing interest as of September 30, 2018.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for consolidated financial statement disclosure for the years ended September 30, 2019 and 2018. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval.

The following table presents TDR activity by class of loans as of September 30, 2019:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Used auto	2	\$89,615	\$—

The following table presents TDR activity by class of loans as of September 30, 2018:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Unsecured	1	\$2,486	\$—

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

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

The following tables present the loan balance based on performance indication as of September 30, 2019 and 2018:

	As of September 30, 2019		As of September 30, 2018	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Consumer:				
Used auto	\$47,498,479	\$372,599	\$56,530,374	\$270,708
Unsecured	10,753,055	278,091	11,247,730	299,245
New auto	23,230,308	76,966	27,091,991	15,740
Other secured	308,829	—	252,536	—
	81,790,671	727,656	95,122,631	585,693
Real Estate:				
HELOC	16,628,974	71,117	19,544,217	72,491
Second mortgage	11,833,352	50,734	12,851,924	37,778
First mortgage	3,240,651	23,569	3,515,198	—
	31,702,977	145,420	35,911,339	110,269
Total	\$113,493,648	\$873,076	\$131,033,970	\$695,962

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of September 30, 2019 and 2018 by major classification as follows:

	2019	2018
Land and improvements	\$127,391	\$127,391
Building and improvements	3,880,084	3,844,966
Furniture and equipment	3,240,308	3,207,548
Leasehold improvements	1,747,601	1,817,500
	8,995,384	8,997,405
Less accumulated depreciation and amortization	(5,082,946)	(4,757,649)
	\$3,912,438	\$4,239,756

Depreciation and amortization charged to operations was approximately \$451,000 and \$458,000 for the years ended September 30, 2019 and 2018, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of September 30, 2019 and 2018:

	2019	2018
Share accounts	\$53,870,496	\$57,243,296
Share draft accounts	29,711,603	29,583,808
Money market accounts	12,500,088	12,797,579
Individual retirement accounts	1,656,726	1,720,351
Share and IRA certificates	37,283,775	34,656,047
Non-member certificates	5,471,000	—
	\$140,493,688	\$136,001,081

As of September 30, 2019, scheduled maturities of share and IRA certificates are as follows:

	2019
Within one year	\$28,716,104
1 to 2 years	10,058,407
2 to 3 years	3,607,966
3 to 4 years	87,825
4 to 5 years	258,552
over 5 years	25,921
	\$42,754,775

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

The aggregate amount of members' time deposit accounts in denominations of \$250,000 or more was approximately \$2,907,000 as of September 30, 2019.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

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

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for a senior executive. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities in the Credit Union's consolidated statements of condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation under this plan is classified as prepaid and other assets and was approximately \$77,000 and \$69,000 as of September 30, 2019 and 2018, respectively.

The Credit Union has entered into split dollar insurance agreements which are both collateral endorsement arrangements and collateral assignment arrangements between the Credit Union and a senior executive. The agreements involve a method of paying for insurance coverage for the executive by splitting the elements of the life insurance policies. Under these agreements, both the Credit Union and the executive are the owners of the policies. Under the collateral endorsement arrangement, the Credit Union is the owner of the policy, which is paid for by borrowing against the value of the policy for the premium amounts plus interest on the loan. The recorded values (net of the loan) were approximately \$899,000 and \$829,000 as of September 30, 2019 and 2018, respectively.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 6 - Employee Benefits (Continued)

Under the collateral assignment arrangements, the executive is the owner of the policies and makes collateral assignments to the Credit Union in return for loans equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The loan balances under this agreement are classified as other assets and were approximately \$2,752,000 and \$2,717,000 as of September 30, 2019 and 2018, respectively. Under the terms of the arrangements, the executive is responsible for any difference between the loan amounts and the cash surrender values.

Note 7 - Borrowed Funds

Alloya Federal Credit Union (Alloya)

The Credit Union has a line of credit with Alloya. The terms of the agreement require the pledging of all presently owned and later acquired unencumbered assets as security for obligations under this line-of-credit agreement. The agreement provides for a credit limit of \$20,900,000 with interest charged at a rate determined by the lender on a periodic basis. As of September 30, 2019, the Credit Union had no outstanding borrowings under this agreement.

Federal Reserve Bank (FRB) of Boston's Discount Window

The Credit Union established a credit availability agreement with the FRB of Boston. The terms of the agreement call for pledging of investments held in safekeeping by the Federal Reserve Bank. As of September 30, 2019, there were no borrowings under this agreement. The carrying value of securities pledged as of September 30, 2019 was approximately \$855,000.

Federal Home Loan Bank of Boston (FHLB)

The Credit Union is a member of the FHLB and it has an open-end loan agreement with FHLB which the Credit Union may borrow funds. Borrowings require a security interest in certain mortgage collateral and securities held in safekeeping at the FHLB. The collateral value of mortgages and securities pledged as of September 30, 2019 and 2018, was approximately \$5,793,000 and \$9,565,000, respectively. The available borrowing capacity as of September 30, 2019 and 2018, was approximately \$3,793,000 and \$1,558,000, respectively.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 7 - Borrowed Funds (Continued)

The following advances were outstanding under line-of-credit agreements:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Type	2019	2018
FHLB	Fixed	2.05%	Jan. 11, 2019	Balloon	\$—	\$4,000,000
FHLB	Variable	0.68%	Oct. 01, 2018	Balloon	—	1,953,221
Alloya	Variable	2.56%	Oct. 01, 2018	Balloon	—	3,000,000
					<u>\$—</u>	<u>\$8,953,221</u>

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of September 30, 2019:

<u>Year ending September 30,</u>	<u>Amount</u>
2020	\$113,000
2021	56,000
2022	56,000
2023	59,000
2024	63,000
Thereafter	<u>188,000</u>
	<u>\$535,000</u>

Net rent expense under operating leases, included in expenses, was approximately \$207,000 and \$225,000 for the years ended September 30, 2019 and 2018, respectively.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 8 - Commitments and Contingent Liabilities (Continued)

Off Balance-Sheet Risk

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

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2019, the total unfunded commitments under such lines of credit was approximately \$23,938,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of September 30, 2019 and 2018 was 5.28% and 5.38%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of September 30, 2019 and 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 9 - Regulatory Capital (Continued)

As of September 30, 2019, 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 and required net worth amounts and ratios are as follows:

	<u>As of September 30, 2019</u>		<u>As of September 30, 2018</u>	
	<u>Amount</u>	<u>Ratio/ Requirement</u>	<u>Amount</u>	<u>Ratio/ Requirement</u>
Actual net worth	\$11,974,395	7.96%	\$12,054,363	7.72%
Amount needed to be classified as “adequately capitalized”	\$9,025,603	6.00%	\$9,371,042	6.00%
Amount needed to be classified as “well capitalized”	\$10,529,870	7.00%	\$10,932,883	7.00%

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 10 - Fair Values Measurements

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

Basis of Fair Value Measurements

- Level 1** - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3** - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

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

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Mortgage-backed securities	\$—	\$4,111,371	\$—	\$4,111,371
Asset-backed securities	—	424,634	—	424,634
Federal agency collateralized mortgage obligations	—	403,689	—	403,689
Private issue collateralized mortgage obligations	—	210,945	—	210,945
Mortgage servicing rights	—	—	710,977	710,977
	\$—	\$5,150,639	\$710,977	\$5,861,616
	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Mortgage-backed securities	\$—	\$4,283,890	\$—	\$4,283,890
Asset-backed securities	—	466,743	—	466,743
Federal agency collateralized mortgage obligations	—	459,554	—	459,554
Private issue collateralized mortgage obligations	—	238,717	—	238,717
Mortgage servicing rights	—	—	826,873	826,873
	\$—	\$5,448,904	\$826,873	\$6,275,777

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

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

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

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$—	\$—	\$433,359	\$433,359

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$—	\$—	\$513,501	\$513,501

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 11 - Changes in Accumulated Other Comprehensive Loss

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

	For the years ended September 30, 2019 and 2018		
	Unrealized (Losses) Available-for- Sale Securities	Defined Benefit Pension Plan Items	Total
Balance,			
September 30, 2017	(\$14,792)	(\$1,810,898)	(\$1,825,690)
Other comprehensive (loss) before reclassifications	(170,867)	(76,072)	(246,939)
Amounts reclassified from other comprehensive loss	—	86,795	86,795
Net other comprehensive (loss)/income	(170,867)	10,723	(160,144)
Balance,			
September 30, 2018	(185,659)	(1,800,175)	(1,985,834)
Other comprehensive income/(loss) before reclassifications	141,036	(1,620,089)	(1,479,053)
Amounts reclassified from other comprehensive loss	—	81,533	81,533
Net other comprehensive income/(loss)	141,036	(1,538,556)	(1,397,520)
Balance,			
September 30, 2019	(\$44,623)	(\$3,338,731)	(\$3,383,354)

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

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

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

For the year ended September 30, 2019

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	<u>\$81,533</u>	Compensation and employee benefits expense

For the year ended September 30, 2018

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	<u>\$86,795</u>	Compensation and employee benefits expense

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 12 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans and the related custodial escrow balances approximate the following as of September 30, 2019 and 2018:

	2019	2018
Mortgage loan portfolio serviced for:		
Federal Home Loan Mortgage Corporation (FHLMC)	\$90,759,000	\$93,345,000
Federal Home Loan Bank (FHLB)	2,010,000	2,420,000
	\$92,769,000	\$95,765,000
 Custodial escrow balances:		
FHLMC	\$1,188,000	\$1,174,000
FHLB	31,000	35,000
	\$1,219,000	\$1,209,000

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2019 and 2018:

	2019	2018
Mortgage servicing rights, at fair value:		
Balance, beginning of year	\$826,873	\$846,283
Capitalization	109,972	159,423
Fair value adjustments	(225,868)	(178,833)
Balance, end of year	\$710,977	\$826,873

As of September 30, 2019 and 2018, the fair value of mortgage servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The fair value of servicing rights was determined using average discount rates ranging from 11.00% to 15.50% and prepayment speeds ranging from 9.06% to 32.34%, as of September 30, 2019 and 2018, respectively. Servicing income on mortgage loans sold and serviced approximated \$235,000 and \$246,000 for the years ended September 30, 2019 and 2018, respectively. Mortgage servicing rights are carried at fair value and reported as a component of prepaid and other assets in the consolidated statements of financial condition.

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 13 - Defined Benefit Pension Plan

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

The following sets forth the funded status of the plan included in the accompanying consolidated statements of financial condition as of September 30, 2019 and 2018 and other key information for the plan as of and for the years ended September 30, 2019 and 2018:

	2019	2018
Net pension assets:		
Market value of assets	\$9,381,846	\$9,096,036
Projected benefit obligations (PBO)	(7,039,264)	(5,270,130)
Funded status	\$2,342,582	\$3,825,906

	2019	2018
Accumulated benefit obligation (ABO)	(\$6,399,426)	(\$4,692,249)

Amounts recognized in the consolidated statements of financial condition consist of:

	2019	2018
Assets	\$2,342,582	\$3,825,906
Liabilities	—	—
	\$2,342,582	\$3,825,906

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 statements of income. The following tables set forth the components of net periodic benefit cost and amounts recognized in other comprehensive income:

	2019	2018
Components of net periodic pension cost:		
Service cost	\$316,784	\$343,368
Interest cost	217,869	191,525
Expected return on plan assets	(671,418)	(643,604)
Amortization of transition obligation	711	711
Amortization of unrecognized net loss	80,822	86,084
Net periodic pension cost	(\$55,232)	(\$21,916)

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 13 - Defined Benefit Pension Plan (Continued)

	2019	2018
Recognized in accumulated other comprehensive loss:		
Unrecognized net loss	(\$3,337,912)	(\$1,798,645)
Unrecognized transition obligation	(819)	(1,530)
	(\$3,338,731)	(\$1,800,175)

The total amount recognized in other comprehensive loss approximated \$1,539,000 for the year ended September 30, 2019. The total amount recognized in other comprehensive income approximated \$11,000 for the year ended September 30, 2018.

The total amount recognized in net periodic pension cost and other comprehensive loss approximated \$1,483,000 for the year ended September 30, 2019. The total amount recognized in net periodic pension cost and other comprehensive income approximated \$33,000 for the year ended September 30, 2018.

The assumptions used to develop the net period pension cost for the years ended September 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	3.25%	4.25%
Expected long-term rate of return on plan assets	7.00%	7.50%
Weighted-average rate of compensation increases	2.50%	3.00%
Amortization method	Straight-Line	Straight-Line

The assumptions used to develop the periodic benefit obligation as of September 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	3.25%	4.25%
Weighted-average rate of compensation increases	2.50%	3.00%

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

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

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 13 - Defined Benefit Pension Plan (Continued)

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, 2019 and 2018 approximated \$32,000 and \$97,000, respectively. The following table sets forth the expected benefit payments as of September 30, 2019:

Year ending September 30,	Amount
2020	\$414,117
2021	45,042
2022	144,049
2023	142,997
2024	424,413
Thereafter	<u>3,256,357</u>
Total	<u>\$4,426,975</u>

The Credit Union did not contribute to the plan during the year ended September 30, 2019, and the Credit Union does not expect to contribute to the plan for the year beginning October 1, 2019.

The Credit Union's weighted-average asset allocations as of September 30, 2019 and 2018 by asset category are as follows:

	2019	2018
Asset category:		
Equity securities	53.1%	64.5%
Fixed income	31.0%	34.9%
Cash and money market	15.9%	0.6%
	<u>100.0%</u>	<u>100.0%</u>

SEASONS FEDERAL CREDIT UNION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2019 AND 2018

Note 13 - Defined Benefit Pension Plan (Continued)

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

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Equity securities	\$4,977,315	\$—	\$—	\$4,977,315
Fixed income	2,913,288	—	—	2,913,288
Cash and money market	1,491,243	—	—	1,491,243
	<u>\$9,381,846</u>	<u>\$—</u>	<u>\$—</u>	<u>\$9,381,846</u>

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Equity securities	\$5,870,636	\$—	\$—	\$5,870,636
Fixed income	3,178,624	—	—	3,178,624
Cash and money market	46,776	—	—	46,776
	<u>\$9,096,036</u>	<u>\$—</u>	<u>\$—</u>	<u>\$9,096,036</u>

Note 14 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately \$346,000 and \$318,000 as of September 30, 2019 and 2018, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately \$591,000 and \$799,000 as of September 30, 2019 and 2018, respectively.

* * * End of Notes * * *