

Glendale Area Schools Credit Union  
(Formerly Glendale Area Schools  
Federal Credit Union)

INDEPENDENT AUDITOR'S REPORT ON  
AUDITED FINANCIAL STATEMENTS

September 30, 2017 and 2016



Serving credit unions since 1967

**RICHARDS & ASSOCIATES**  
Certified Public Accountants

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GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

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**September 30, 2017 and 2016**

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Board of Directors and Supervisory Committee  
Glendale Area Schools Credit Union  
Glendale, California

## **INDEPENDENT AUDITOR'S REPORT**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Glendale Area Schools Credit Union (formerly Glendale Area Schools Federal Credit Union), which comprise the statements of financial condition as of September 30, 2017 and 2016, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

**INDEPENDENT AUDITOR'S REPORT - *continued***

**Auditor's Responsibility - *continued***

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Glendale Area Schools Credit Union as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RICHARDS & ASSOCIATES  
Certified Public Accountants



Michael E. Richards, CPA

Yorba Linda, California  
January 12, 2018

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**STATEMENTS OF FINANCIAL CONDITION**

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 59,637,457	\$ 131,983,620
Investments (Note 3)	215,812,291	117,732,039
Loans receivable, net of allowance for loan losses (Note 4)	65,922,106	84,128,917
Property & equipment (Note 5)	1,353,482	1,385,792
Accrued interest receivable	914,099	608,667
Share insurance deposit	3,805,530	4,009,725
Foreclosed and repossessed assets	-	7,597
Prepaid expenses and other assets	1,733,640	1,610,830
<b>TOTAL ASSETS</b>	<u><u>\$ 349,178,605</u></u>	<u><u>\$ 341,467,187</u></u>
 <b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Members' share and savings accounts (Note 6)	\$ 299,105,755	\$ 293,596,552
Accounts payable and other liabilities	1,048,101	1,444,931
<b>TOTAL LIABILITIES</b>	<u><u>300,153,856</u></u>	<u><u>295,041,483</u></u>
 Commitments and contingent liabilities (Note 8)	 -	 -
Members' equity:		
Members' equity, substantially restricted		
Appropriated (regular reserve)	3,092,376	2,763,168
Unappropriated (undivided earnings)	46,262,407	43,662,536
	<u>49,354,783</u>	<u>46,425,704</u>
Accumulated other comprehensive loss	(330,034)	-
<b>TOTAL MEMBERS' EQUITY</b>	<u><u>49,024,749</u></u>	<u><u>46,425,704</u></u>
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	 <u><u>\$ 349,178,605</u></u>	 <u><u>\$ 341,467,187</u></u>

*The accompanying notes are an integral part of these financial statements.*

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**STATEMENTS OF INCOME**

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>INTEREST INCOME</b>		
Loans	\$ 3,076,637	\$ 3,065,343
Investments	4,755,059	3,925,451
<b>TOTAL INTEREST INCOME</b>	<u>7,831,696</u>	<u>6,990,794</u>
<b>INTEREST EXPENSE</b>		
Members' share and savings accounts	1,579,541	1,679,635
Borrowed funds	550,182	-
<b>TOTAL INTEREST EXPENSE</b>	<u>2,129,723</u>	<u>1,679,635</u>
<b>NET INTEREST INCOME</b>	5,701,973	5,311,159
<b>PROVISION FOR LOAN LOSSES</b>	<u>192,000</u>	<u>280,836</u>
<b>NET INTEREST INCOME AFTER     PROVISION FOR LOAN LOSSES</b>	<u>5,509,973</u>	<u>5,030,323</u>
<b>NON-INTEREST INCOME</b>		
Service charges and other income	851,857	854,611
Rental income	69,622	63,683
<b>TOTAL NON-INTEREST INCOME</b>	<u>921,479</u>	<u>918,294</u>
<b>NON-INTEREST EXPENSE</b>		
General and administrative expenses		
Compensation and benefits	1,850,753	1,869,124
Office operations	571,475	533,586
Other expenses	1,058,270	1,032,729
Loss on non-operating activities	21,875	23,665
<b>TOTAL NON-INTEREST EXPENSES</b>	<u>3,502,373</u>	<u>3,459,104</u>
<b>NET INCOME</b>	<u>\$ 2,929,079</u>	<u>\$ 2,489,513</u>

*The accompanying notes are an integral part of these financial statements.*

GLENDALE AREA SCHOOLS CREDIT UNION  
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**STATEMENTS OF MEMBERS' EQUITY**

Years ended September 30, 2017 and 2016

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
Balances, September 30, 2015	\$ 2,763,168	\$ 41,173,023	\$ -	\$ 43,936,191
Other comprehensive income:				
Net income		2,489,513		2,489,513
Other comprehensive income			-	-
Total comprehensive income	-	2,489,513	-	2,489,513
Balances, September 30, 2016	2,763,168	43,662,536	-	46,425,704
Other comprehensive income:				
Net income		2,929,079		2,929,079
Other comprehensive loss			(330,034)	(330,034)
Total comprehensive income (loss)	-	2,929,079	(330,034)	2,599,045
Transfers, net	329,208	(329,208)		-
Balances, September 30, 2017	<u>\$ 3,092,376</u>	<u>\$ 46,262,407</u>	<u>\$ (330,034)</u>	<u>\$ 49,024,749</u>

*The accompanying notes are an integral part of these financial statements.*

GLENDALE AREA SCHOOLS CREDIT UNION  
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**STATEMENTS OF CASH FLOWS**  
Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,929,079	\$ 2,489,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	192,000	280,836
Depreciation and amortization	154,796	103,803
Premium amortization net of discount accretion	1,490,815	535,812
Stock dividends added to investments	(505)	(5,645)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(305,432)	606,200
Increase in prepaid expenses and other assets	(122,810)	(391,185)
Decrease (increase) in share insurance deposit	204,195	(1,227,567)
Decrease in accounts payable and other liabilities	(396,830)	(296,840)
Total adjustments	<u>1,216,229</u>	<u>(394,586)</u>
Net cash provided by operating activities	<u>4,145,308</u>	<u>2,094,927</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Principal collection, net of loans granted	18,014,811	(36,323,432)
Net decrease (increase) in foreclosed and repossessed assets	7,597	(128)
Purchase of common stock at Federal Home Loan Bank	(3,267,000)	-
Sale or maturing of securities	32,157,705	169,423,332
Acquisition of securities	(128,791,301)	(93,916,610)
Purchase of property and equipment, net of disposals	<u>(122,486)</u>	<u>(278,087)</u>
Net cash (used in) provided by investing activities	<u>(82,000,674)</u>	<u>38,905,075</u>

*The accompanying notes are an integral part of these financial statements.*



GLENDALE AREA SCHOOLS CREDIT UNION  
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**STATEMENTS OF CASH FLOWS** - *continued*

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in members' share and savings accounts	\$ 5,509,203	\$ (6,289,795)
	<u>5,509,203</u>	<u>(6,289,795)</u>
Net cash provided by financing activities		
	<u>5,509,203</u>	<u>(6,289,795)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(72,346,163)	34,710,207
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>131,983,620</u>	<u>97,273,413</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 59,637,457</u>	<u>\$ 131,983,620</u>
 <b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash received during the year from interest on loans and investments	<u>\$ 9,016,574</u>	<u>\$ 8,127,161</u>
Cash paid during the year for dividends	<u>\$ 1,579,541</u>	<u>\$ 1,679,635</u>
Net change in unrealized loss on available-for-sale securities	<u>\$ (330,034)</u>	<u>\$ -</u>

*The accompanying notes are an integral part of these financial statements.*

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

*Organization:* Glendale Area Schools Credit Union (Credit Union) is organized under the California state credit union laws. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws.

*Nature of business:* The Credit Union provides a variety of financial services to its members, most of whom are employees or former employees, students or former students and their parents, and Parent Teacher Associations (PTA) and its officers in public, private, and parochial schools within the greater Glendale Unified School District and the greater La Canada Unified School District, employees or former employees, students or former students of Glendale Community College and Occidental College, members of Verdugo Woodlands PTA in Glendale, California, employees or former employees of Verdugo Hills Hospital, Montrose business employees, members or former members of Crescenta Valley Chamber of Commerce, employees or former employees of Glendale Postal, and their qualifying family members. The Credit Union's primary source of revenue is interest from loans and investments.

*Use of estimates:* The preparation of financial statements, in conformity with generally accepted accounting principles in the United States of America (GAAP), 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and fair value of financial instruments.

*Subsequent events:* The Credit Union has evaluated subsequent events through January 12, 2018, which is the date the financial statements were available to be issued.

*Cash and cash equivalents:* For the purpose of the statements of financial condition and the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and investments with original maturity of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

*Investments:* Negotiable securities are classified in accordance with the Credit Union's asset/liability management and investment policies. The following is a description of the classification and accounting procedures used for investments:

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*Investments – continued:*

Available-for sale: Investments that are not purchased principally to be sold in the near term nor with the positive intent and ability to hold until maturity as well as those without a defined maturity and could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors are classified as available-for-sale. These securities are marked to market, with unrealized gains or losses not affecting earnings but shown as a separate component of the equity portion of the balance sheet. Unrealized gains and losses on available-for-sale securities are recognized as direct increases or decreases in other comprehensive income.

Held-to-maturity: Investments that are purchased with the positive intent and ability to hold until maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

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

The Credit Union does not maintain a trading portfolio. Other investments are classified separately, stated at cost and subject to OTTI evaluation.

*Loans to members:* The Credit Union originates mortgage loans for its own portfolio. The Credit Union originated approximately \$2,460,000 and \$2,550,000 of first mortgage loans for its members in the years ended September 30, 2017 and 2016, respectively.

*Loans receivable:* Loans receivable are stated at unpaid principal balance, net of any unearned income, such as deferred fees or costs, and unamortized premiums or discounts less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method for consumer loans and home equity loans and the day count convention method for first mortgage real estate loans on principal amounts outstanding. When principal or interest is delinquent for ninety days or more, the Credit Union evaluates the loan for nonaccrual status.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*Loans receivable – continued:* 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 reflects Management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Credit Union uses a disciplined process and methodology to establish the allowance for loan losses each month. To determine the total allowance for loan losses, Management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the auto secured portfolio; (ii) the real estate portfolio; and (iii) the consumer secured and unsecured portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of Management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing Management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*Allowance for loan losses – continued:* Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by Senior Management of the loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

*Loan charge-offs:* For consumer loans, the Credit Union generally fully or partially charges down to the fair value of collateral securing the asset when:

- Management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Credit Union’s internal loan review process or external examiners;
- the member has filed bankruptcy and the loss becomes evident owing to a lack of assets;  
or
- the loan is one hundred eighty days past due unless both well secured and in the process of collection.

The Credit Union’s charge-off policies by segment of the loan portfolio are as follows:

- *Real Estate Loans* – The Credit Union generally writes down to the net realizable value when the loan is one hundred eighty days past due.
- *Auto Loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.
- *Unsecured Loans* – The Credit Union generally charges off when the loan is one hundred eighty days past due.
- *Credit Cards Loans* – The Credit Union generally fully charges off when the loan is one hundred eighty days past due.
- *Other Secured Loans* – The Credit Union generally fully or partially charges down to the net realizable value when the loan is one hundred eighty days past due.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*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, if applicable, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These 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 any impairment on the restructuring as previously noted for impaired loans.

In addition to the allowance for the pooled portfolios, the Credit Union develops a separate allowance for loans that are identified as impaired through a TDR. As soon as the Credit Union determines that a loan under TDR is current and performing under the restructured payment, and after review, the Credit Union believes the status will continue, the loan is moved back into the respective segment or class and the allowance is calculated using the pooling method for the respective pool.

*Property and equipment:* Land is carried at cost. Other fixed assets are carried at cost, less accumulated depreciation and amortization. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

*Valuation of long-lived assets:* Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

*Share insurance deposit:* Each member's share and savings account is insured up to \$250,000 by a private insurance company, the American Share Insurance (ASI). There is no limitation to the number of accounts a member can have under ASI's coverage. ASI requires the maintenance of a deposit by each insured credit union in an amount equal to 1% to 1.3% of a credit union's total shares, depending upon the credit union's rating with state regulators.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*Other real estate owned:* Real estate 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 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. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by Management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

*Members' share 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 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 in the event of liquidation. Interest on share 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 share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

*Members' equity:* The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

*Income taxes:* The Credit Union is exempt, by statute, from federal and state income taxes under the provisions of the Internal Revenue Code. However, the Credit Union may be subject to unrelated business income tax as further discussed in Note 8.

*Off-balance-sheet credit related financial instruments:* In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

*Comprehensive income (loss):* Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) that includes unrealized gains and losses on securities available-for-sale.

*Retirement plan:* The Credit Union has a contributory 401(k) retirement plan for all employees who have met both tenure and minimum age requirements specified in the plan.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

*Presentation of comparative financial statements:* To more clearly illustrate the financial condition of the Credit Union and the results of its operations, the current year financial information is presented along with the previous year. Financial information presented for the previous year may be classified differently than originally disclosed. These reclassifications, which do not affect the auditor's report on those financial statements, were made for purposes of comparison.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents, including investments with original maturity of three months or less, are as follows:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 1,229,762	\$ 1,274,768
Cash on deposit	58,407,695	130,708,852
	<u>\$ 59,637,457</u>	<u>\$131,983,620</u>



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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 3: INVESTMENTS

The carrying and estimated fair values of investments are as follows:

NEGOTIABLE SECURITIES

	September 30, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>Available-for-sale:</i>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 59,301,407	\$ 1,656	\$ 331,690	\$ 58,971,373
Capital stock, Federal Home Loan Bank	3,267,000	-	-	3,267,000
Capital stock, credit union service organization	72,227	-	-	72,227
	<u>\$ 62,640,634</u>	<u>\$ 1,656</u>	<u>\$ 331,690</u>	<u>\$ 62,310,600</u>
<i>Held-to-maturity:</i>				
Securities guaranteed by U.S. government sponsored enterprises	\$ 18,996,516	\$ 332,819	\$ 69,497	\$ 19,259,838
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	134,505,175	725,478	1,235,702	133,994,951
	<u>\$153,501,691</u>	<u>\$1,058,297</u>	<u>\$ 1,305,199</u>	<u>\$ 153,254,789</u>

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Included with mortgage backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of \$89,683,307 and fair market value of \$88,626,948 as of September 30, 2017.

		September 30, 2016		
		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Amortized Cost</u>				
<i>Available-for-sale:</i>				
Capital stock, credit union				
service organization	\$ 71,722	-	-	\$ 71,722
	\$ 71,722	-	-	\$ 71,722
 <i>Held-to-maturity:</i>				
Securities guaranteed				
by U.S. government				
sponsored enterprises				
	\$ 19,990,174	\$ 467,770	\$ -	\$ 20,457,944
 Mortgage-backed				
securities guaranteed				
by U.S. government				
sponsored enterprises				
	97,670,143	1,204,704	159,302	98,715,545
	\$117,660,317	1,672,474	\$ 159,302	\$ 119,173,489

Included with mortgage backed securities guaranteed by U.S. Government sponsored enterprises above are collateralized mortgage obligations with amortized cost of \$68,633,125 and fair market value of \$68,758,013 as of September 30, 2016.

Investments in Credit Union Service Organizations are not publicly traded; therefore, it is not practical to determine its fair value. The amortized cost approximates the fair value.

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Information pertaining to securities with gross unrealized losses as of September 30, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	September 30, 2017			Total Unrealized Losses
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<i>Available-for-sale:</i>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 53,985,913	\$ 331,690	-	\$ 331,690
	\$ 53,985,913	\$ 331,690	-	\$ 331,690
<i>Held-to-maturity:</i>				
Securities guaranteed by U.S. government sponsored enterprises	\$ 16,928,144	\$ 69,497	-	\$ 69,497
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	92,629,055	1,235,702	-	1,235,702
	\$ 109,557,199	\$ 1,305,199	-	\$ 1,305,199

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

	September 30, 2016			Total Unrealized Losses
	Continuous Unrealized Losses Existing for			
	Fair Value	Less than 12 months	More than 12 months	
<u>Held-to-maturity:</u>				
Mortgage-backed securities guaranteed by U.S. government sponsored enterprises	\$ 57,486,344	\$ 159,302	-	\$ 159,302
	\$ 57,486,344	\$ 159,302	-	\$ 159,302

The accounting standards provide a framework for measuring fair value and further defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Credit Union determines the fair values of its financial instruments based on the fair value hierarchy established in generally accepted accounting principles (GAAP), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

This framework describes three levels of inputs that may be used to measure fair value. Financial instruments are considered level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Financial instruments are considered level 2 when they are generally valued using quoted prices for similar assets. The fair value of available-for-sale and held-to-maturity securities is based on quoted market prices or market prices for similar assets. Financial instruments are considered level 3 when valuation is calculated by the use of pricing models and/or discounted cash flow methodologies or valuation requires significant management judgment or estimation. The Credit Union does not use level 3 pricing.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 3: INVESTMENTS – *continued*

NEGOTIABLE SECURITIES – *continued*

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given, among other things, to (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.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. The reason for the temporary loss is that market interest rates are higher than when these securities were originally purchased. The Credit Union reviews all of its securities for impairment periodically. The Credit Union has determined that there was no additional other-than-temporary impairment associated with these securities as of September 30, 2017.

A summary of investments by contractual maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Within one year	\$ 3,999,225	\$ -
One to five years	6,000,000	6,997,282
Over five years	8,997,291	12,992,892
Investments with principal repayments	<u>193,806,582</u>	<u>97,670,143</u>
Subtotal	212,803,098	117,660,317
Investments without a defined maturity	<u>3,339,227</u>	<u>71,722</u>
	<u>\$216,142,325</u>	<u>\$117,732,039</u>

Accrued interest receivable on investments amounted to \$738,016 and \$393,901 as of September 30, 2017 and 2016, respectively.

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE

The composition of loans receivable is as follows:

	September 30,	
	<u>2017</u>	<u>2016</u>
Automobile	\$ 35,830,444	\$ 51,608,471
Real estate	18,045,010	19,899,109
Credit cards	5,146,228	5,331,114
Consumer type	4,053,863	4,673,337
Home equity lines of credit	2,286,923	1,666,252
Student loans	14,498	17,401
	<u>65,376,966</u>	<u>83,195,684</u>
Premium on loans	901,388	1,391,903
Loan origination costs, net of fees	46,931	72,686
Allowance for loan losses	(403,179)	(531,356)
	<u>\$ 65,922,106</u>	<u>\$ 84,128,917</u>

Accrued interest receivable on loans amounted to \$176,083 and \$214,766 as of September 30, 2017 and 2016, respectively.

Participation loans purchased consist of automobile secured loans. The lead lender is responsible for the administration of these loans, including the collection of payments, record keeping, and collection procedures, if necessary. The Credit Union holds a fractional security interest in the underlying collateral. The automobile secured participation loan balance totaled to \$26,867,429 and \$41,619,174, respectively, as of September 30, 2017 and 2016.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Allowance for loan losses:* The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Credit Union's portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: auto, real estate, and consumer secured and unsecured portfolios. The Credit Union also sub-segments two of these segments into classes based on the associated risks within those segments. Auto loans are divided into the following two categories: (a) direct auto loans and (b) indirect auto loans. Consumer secured and unsecured loans are divided into the following two categories: (a) credit card and (b) other secured and unsecured loans. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristic of its portfolio segment. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions that the Credit Union uses to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following are the factors that the Credit Union uses to determine the balance of the allowance account for each segment or class of loans.

Auto loans: Auto loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other quantitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2017, the historical loss time frame used was for the past twelve months for both direct auto loans and indirect auto loans.

Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2017, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Allowance for loan losses - continued:*

Real estate loans: These loans are not assessed at an underlying class level. A historical loss percentage is applied to the segment. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2017, the historical loss time frame used was for the past twelve months.

The Credit Union estimates an additional component of the allowance for loan losses for the non-impaired real estate segment through the application of loss factors to loans grouped by their individual credit risk rating categories. These ratings reflect the estimated default probability and quality of underlying collateral. The loss factors used are statistically derived through the observation of losses incurred for loans within each internal credit risk rating over a specified period of time.

In addition, based on the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to the loan balances. For the year ending September 30, 2017, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.

Consumer unsecured and secured portfolio: Secured and unsecured consumer loans are pooled by portfolio class and a historical loss percentage is applied to each class. Historical loss percentage time frames may vary between classes. These time frames are based on historical loss experience modeling and other qualitative and mathematical migration techniques over the loss emergence period. The Credit Union calculates the loan loss ratio for the past twelve months, thirteen to twenty-four months, and twenty-five to thirty-six months and chooses the highest loan loss ratio. As of September 30, 2017, the historical loss time frame used was for the past twelve months for both classes.

Based on credit risk assessment and the Credit Union's analysis of leading predictors of losses, the Credit Union may apply additional loss multipliers to loan balances. For the year ending September 30, 2017, the Credit Union considered additional loss estimations based on the current unemployment rate for the state in which the borrower resides.



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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Allowance for loan losses - continued:*

The Credit Union's estimation process: The Credit Union estimates loan losses under multiple economic scenarios to establish a range of potential outcomes for each criterion the Credit Union applies to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

A significant portion of the Credit Union's consumer loans is secured by collateral. The Credit Union determines loss multipliers based on the loan-to-value (LTV) percentage. There is a direct relationship between the LTV percentage and the loss multiplier. The higher the LTV percentage, the higher the risk for the Credit Union not receiving all contractual amounts of the loan.

Reflected in the portions of the allowance previously described, is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of Management's judgment of risks inherent in the portfolio, economic uncertainties, historical loss experience, and other subjective factors, including industry trends, calculated to better reflect the Credit Union's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

Loans by Segment: The total allowance reflects Management's estimate of loan losses inherent in the loan portfolio as of September 30, 2017 and 2016. The Credit Union considers the allowance for loan losses of \$403,179 and \$531,356 adequate to cover loan losses inherent in the loan portfolio as of September 30, 2017 and 2016, respectively. The following tables present by portfolio segment, the changes in the allowance for loan losses and the loans receivable.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Allowance for loan losses - continued:*

Loans by Segment - continued:

Allowance for Loan Losses and Receivable in Loans For the Year Ended September 30, 2017				
	Real Estate	Consumer	Credit Cards	Total
<u>Allowance for Loan Losses:</u>				
Beginning balance	\$ -	\$ 476,024	\$ 55,332	\$ 531,356
Charge-offs	-	(290,690)	(124,096)	(414,786)
Recoveries	-	49,161	45,448	94,609
Provision for loan losses	-	52,215	139,785	192,000
Ending balance	\$ -	\$ 286,710	\$ 116,469	\$ 403,179
 Ending balance:				
• individually evaluated for impairment	-	98,530	6,679	105,209
• collectively evaluated for impairment	-	188,180	109,790	297,970
	\$ -	\$ 286,710	\$ 116,469	\$ 403,179
 <u>Loans Receivable:</u>				
Ending balance:				
• individually evaluated for impairment	-	221,831	26,718	248,549
• collectively evaluated for impairment	20,331,933	39,676,974	5,119,510	65,128,417
	\$ 20,331,933	\$ 39,898,805	\$ 5,146,228	\$ 65,376,966

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Allowance for loan losses - continued:*

Allowance for Loan Losses and Receivable in Loans				
For the Year Ended September 30, 2016				
	Real Estate	Consumer	Credit Cards	Total
<u>Allowance for Loan Losses:</u>				
Beginning balance	\$ -	\$ 191,414	\$ 116,346	\$ 307,760
Charge-offs	-	(98,197)	(56,357)	(154,554)
Recoveries	-	28,562	68,752	97,314
Provision for loan losses (credit)	-	354,245	(73,409)	280,836
Ending balance	\$ -	\$ 476,024	\$ 55,332	\$ 531,356
Ending balance:				
• individually evaluated for impairment	-	99,677	12,767	112,444
• collectively evaluated for impairment	-	376,347	42,565	418,912
	-	\$ 476,024	\$ 55,332	\$ 531,356
<u>Loans Receivable:</u>				
Ending balance:				
• individually evaluated for impairment	201,566	228,279	49,320	479,165
• collectively evaluated for impairment	21,363,795	56,070,930	5,281,794	82,716,519
	\$ 21,565,361	\$ 56,299,209	\$ 5,331,114	\$ 83,195,684

*Changes in accounting methodology:* For the year ended September 30, 2017, there were no significant changes in the accounting methodology for the allowance for loan losses.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Credit quality information:* The use of creditworthiness categories to grade loans permits Management's use of migration analysis to estimate a portion of credit risk. The Credit Union's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed periodically, at which time Management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan performance. Loans that trend upward toward higher levels generally have a lower risk factor associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to these related loan balances.

The Credit Union's internal risk ratings based on FICO scores are as follows:

720 and above – Member poses little to no additional risk.

676 to 719 – Member poses a nominal risk of loss.

637 to 675 – Composed of the Credit Union's average member profile. The additional risk-based migration analysis of this part of the portfolio is based on whether the migration of the portfolio is remaining constant or moving higher or lower.

608 to 636 – Members are experiencing some degree of stress. Additional risk factors are based on migration analysis of this portfolio.

563 to 607 – Members are showing above average risk. Additional risk factors are based on migration analysis of this portfolio.

562 and below – Members are consider as high risk. Additional risk factors are based on migration analysis of this portfolio.

Payment activity is reviewed by Management periodically to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than ninety days.

Nonperforming loans would also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs would be classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period. There were no non-performing real estate loans as of September 30, 2017.

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Age analysis of past due loans receivable by class:* Following are tables which include an aging analysis of past due loans receivable as of September 30, 2017 and 2016. Also included are loans that are ninety days or more past due as to interest and principal and still accruing, because they are (a) well-secured and in the process of collection or (b) real estate loans or (c) loans exempt under regulatory rules from being classified as nonaccrual.

Credit Quality Information					
Age Analysis of Past Due Loans Receivable by Class					
As of September 30, 2017					
	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	\$ -	\$ -	\$ -	\$ 20,331,933	\$ 20,331,933
Consumer	350,736	221,831	572,567	39,326,238	39,898,805
Credit cards	18,925	26,718	45,643	5,100,585	5,146,228
<b>Total</b>	<b>\$ 369,661</b>	<b>\$ 248,549</b>	<b>\$ 618,210</b>	<b>\$ 64,758,756</b>	<b>\$ 65,376,966</b>

Credit Quality Information					
Age Analysis of Past Due Loans Receivable by Class					
As of September 30, 2016					
	30-59 Days Past Due	60 Days Past Due or Greater	Total Past Due	Current	Total Loans Receivable
Real estate	\$ -	\$ 201,566	\$ 201,566	\$ 21,363,795	\$ 21,565,361
Consumer	319,404	110,575	429,979	55,869,230	56,299,209
Credit cards	25,073	49,321	74,394	5,256,720	5,331,114
<b>Total</b>	<b>\$ 344,477</b>	<b>\$ 361,462</b>	<b>\$ 705,939</b>	<b>\$ 82,489,745</b>	<b>\$ 83,195,684</b>

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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 4: LOANS RECEIVABLE - *continued*

*Impaired loans:* The Credit Union considers a loan to be impaired when, based on current information and events, the Credit Union determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Credit Union identifies a loan as impaired, the Credit Union measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Credit Union uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Credit Union determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Credit Union recognizes impairment through an allowance estimate or a charge-off to the allowance. The Credit Union determines impairment based on a ninety-day default period and all loans classified as TDRs.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

*Nonaccrual loans:* The Credit Union generally 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 ninety days past due.

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 (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

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. As of September 30, 2017, \$103,672 of loans were placed on nonaccrual status with approximately \$1,600 of accrued interest not recognized in the financial statements.

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 1,000,000	\$ 1,000,000
Building and improvements	1,037,162	1,017,610
Furniture, fixtures, and equipment	1,184,807	1,174,248
Subtotal	<u>3,221,969</u>	<u>3,191,858</u>
Accumulated depreciation and amortization	<u>(1,868,487)</u>	<u>(1,806,066)</u>
	<u>\$ 1,353,482</u>	<u>\$ 1,385,792</u>

Depreciation and amortization expense amounted to \$154,796 and \$103,803 for the years ended September 30, 2017 and 2016, respectively.

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Shares and savings accounts are summarized as follows:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
Share drafts	\$ 39,533,398	\$ 39,091,099
Share savings	92,547,879	88,882,657
Other deposits	167,024,478	165,622,796
	<u>\$299,105,755</u>	<u>\$293,596,552</u>

The aggregate amounts of uninsured members' share and savings accounts were approximately \$13,620,000 as of September 30, 2016. All members' share and savings accounts were insured as of September 30, 2017.

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 6: MEMBERS' SHARE AND SAVINGS ACCOUNTS - *continued*

A summary by maturity of members' share and savings accounts is as follows:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
No contractual maturity	\$174,164,380	\$171,262,625
Within one year	48,641,968	46,389,599
One to three years	38,404,416	42,263,911
Over three years	37,894,991	33,680,417
	<u>\$299,105,755</u>	<u>\$293,596,552</u>

Interest rates are ratified by the Board of Directors, based on an evaluation of current and future market conditions.

NOTE 7: BORROWED FUNDS

The Credit Union maintains a line of credit agreement with the Federal Reserve Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2017 and 2016, the Credit Union had no outstanding balance on the line of credit but could borrow up to \$2,000,000. The line of credit agreement is secured with the investment portfolio held at Federal Reserve Bank of San Francisco for safekeeping.

The Credit Union maintains a line of credit agreement with the Federal Home Loan Bank of San Francisco at a rate to be determined by the lender when funds are borrowed. As of September 30, 2017, the Credit Union had no outstanding balance on the line of credit but could borrow up to \$124,000,000. The line of credit agreement is secured with the investment portfolio held at Federal Reserve Bank of San Francisco for safekeeping.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

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



GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

The principal commitments of the Credit Union are as follows:

*Financial instruments with off-balance sheet risk:* 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 financial statements.

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

These financial instruments include commitments for lines of credit, credit cards, and home equity lines of credit. The contract amounts represent credit risk totaling approximately \$18,260,000 and \$13,620,000 as of September 30, 2017 and 2016, respectively.

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.

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

*Financial instruments with concentration of credit risk:* The Credit Union's lending activity is with its members as previously described in Note 1. The Credit Union's policy is to obtain collateral whenever necessary.

A substantial portion of the cash equivalents portfolio is comprised of deposits in Federal Reserve Bank of San Francisco.

GLENDALE AREA SCHOOLS CREDIT UNION  
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**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES - *continued*

*Income taxes:* The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions, except for certain income producing activities of exempt organizations that are not subject to unrelated business income tax as specified in the memo released by the IRS in May 2015. Many states have similar laws. In the opinion of Management, any liability arising from federal or state taxation of activities deemed to be unrelated to its exempt purposes is not expected to have a material effect on the Credit Union's financial position or results of operation.

NOTE 9: RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans as of September 30, 2017 and 2016 amounted to approximately \$200,000 and \$390,000, respectively. The aggregate amounts of these loans were not significant to the financial statements. Deposits from those related parties as of September 30, 2017 and 2016 amounted to approximately \$2,090,000 and \$2,930,000, respectively.

NOTE 10: RETIREMENT PLAN

*401(k) Retirement plan:* The Credit Union has a 401(k) retirement plan for all employees who have met both the tenure and minimum age requirements specified in the plan. The Credit Union contributions are based on a percentage of employee compensation and totaled \$133,358 and \$115,566 for the years ended September 30, 2017 and 2016. The plan's net assets available for benefits amounted to \$2,081,934 and \$3,308,824 as of September 30, 2017 and 2016, respectively.

NOTE 11: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the California Department of Business Oversight. Failure to meet minimum net worth 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, 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.

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 11: REGULATORY CAPITAL – *continued*

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amount and ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined). Credit Unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR), which establishes whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNWR ratio as calculated by the California DBO as of September 30, 2017 is 8.0%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that as of September 30, 2017, the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2017, the most recent call reporting period, California DBO 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% of assets and meet any applicable RBNWR. There are no conditions or events since that notification that Management believes have changed the Credit Union’s category.

The Credit Union’s actual capital amounts and ratios as of September 30, 2017 are also presented in the table, as follows:

Actual		For Capital Adequacy Purposes		To be Well-Capitalized per Prompt Corrective Action Provisions	
<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
\$ 49,354,783	14.1%	\$ 20,950,716	6.0%	\$ 24,442,502	7.0%

The calculations above are made without including other comprehensive income.

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

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017 and 2016

NOTE 12: CHANGE OF CHARTER

In December 2015, the Credit Union held a successful vote to change the charter from a Federal Charter with NCUA Insurance to a State-Chartered with American Share Insurance (ASI). On January 28, 2016, the Credit Union received a release letter from NCUA allowing the Credit Union to convert and become a State-Chartered Credit Union with ASI private insurance. On June 1, 2016, the Credit Union changed its charter and became a State-Chartered Credit Union and changed its name from Glendale Area Schools Federal Credit Union to Glendale Area Schools Credit Union.

Board of Directors and Supervisory Committee  
Glendale Area Schools Credit Union  
Glendale, California

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

We have audited the financial statements of Glendale Area Schools Credit Union (formerly Glendale Area Schools Federal Credit Union) as of and for the year ended September 30, 2017, and our report thereon dated January 12, 2018, which expressed an unmodified opinion on those financial statements, appears on page AFS-1 and page AFS-2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed below is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information presented herein is fairly stated in all material respects in relation to the financial statements taken as a whole.

Schedule of Other General and Administrative Expenses

Summary of Reclassifying and Adjusting Entries

RICHARDS & ASSOCIATES  
Certified Public Accountants



Michael E. Richards, CPA

Yorba Linda, California  
January 12, 2018

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Loan servicing	\$ 541,548	\$ 520,290
Outsourced services	170,018	137,917
Operational write-off	95,344	117,638
Office occupancy	92,584	93,292
Regulatory supervision	38,228	87,924
Education and promotion	25,304	16,495
Annual meeting	7,154	8,469
Travel and conference	5,933	4,447
Miscellaneous expenses	<u>82,157</u>	<u>46,257</u>
	<u>\$ 1,058,270</u>	<u>\$ 1,032,729</u>

*This schedule is supplemental information only.*

GLENDALE AREA SCHOOLS CREDIT UNION  
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**SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES**

Year ended September 30, 2017

	<u>DEBIT</u>	<u>CREDIT</u>
<b><i>RECLASSIFYING ENTRY 1</i></b>		
Other miscellaneous expense	\$ 3,885	
Income from investments		\$ 3,885

*To reclassify common stock dividend payment.*

***RECLASSIFYING ENTRY 2***

Other assets	\$ 42,524	
Other liabilities		\$ 42,524

*To reclassify other liabilities accounts with debit balance as of September 30, 2017.*

***RECLASSIFYING ENTRY 3***

Share insurance deposit	\$ 3,805,530	
Investments		\$ 3,805,530

*To reclassify share insurance deposit balance as of September 30, 2017 at American Share Insurance.*

***RECLASSIFYING ENTRY 4***

Non-operating expense	\$ 21,875	
Other miscellaneous expense		\$ 21,875

*To reclassify non-operating building utilities and maintenance expenses.*

*This schedule is supplemental information only.*

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Richards & Associates, CPAs

GLENDALE AREA SCHOOLS CREDIT UNION  
(FORMERLY GLENDALE AREA SCHOOLS FEDERAL CREDIT UNION)

**SUMMARY OF RECLASSIFYING AND ADJUSTING ENTRIES - *continued***

Year ended September 30, 2017

	<u>DEBIT</u>	<u>CREDIT</u>
<b><i>ADJUSTING ENTRY 1</i></b>		
Income from investments	\$ 5,645	
Undivided earnings		\$ 5,645

*To reverse the adjustment to investment credit union service organization balance as of September 30, 2016.*

***ADJUSTING ENTRY 2***

Income from investments	\$ 102,802	
Accrued interest on investments		\$ 102,802

*To correct the accrued interest on FHLB stock as of September 30, 2017.*

***ADJUSTING ENTRY 3***

Accrued interest on investments	\$ 9,362	
Income from investments		\$ 9,362

*To correct the accrued interest for CUSIP 31347ALG7 purchased in September 2017.*

***ADJUSTING ENTRY 4***

Accrued expenses	\$ 55,200	
Compensation and benefits		\$ 55,200

*To reverse accrued compensation expense in August.2017.*

*This schedule is supplemental information only.*