

GREATER WATERTOWN FEDERAL CREDIT UNION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

GREATER WATERTOWN FEDERAL CREDIT UNION

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-2
Exhibit A Statements of Financial Condition	3
Exhibit B Statements of Income	4
Exhibit C Statements of Changes in Members' Equity	5
Exhibit D Statements of Cash Flows	6
Notes to the Financial Statements	7 - 23

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee of
Greater Watertown Federal Credit Union
Watertown, Connecticut

We have audited the accompanying financial statements of Greater Watertown Federal Credit Union which comprise the statements of financial condition as of December 31, 2019 and 2018, and the related statements of income, changes in 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

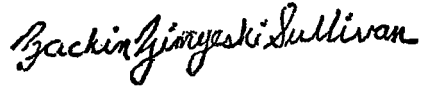
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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 of
Greater Watertown Federal Credit Union

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Watertown Federal Credit Union as of December 31, 2019 and 2018, 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.



ZACKIN ZIMYESKI SULLIVAN
Certified Public Accountants, LLC
Waterbury, Connecticut

May 12, 2020

GREATER WATERTOWN FEDERAL CREDIT UNION
 STATEMENTS OF FINANCIAL CONDITION
 DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 2,862,445	\$ 2,191,625
Investments Held-to-Maturity	7,958,095	7,224,436
Loans Receivable, Net	6,706,088	8,097,824
Accrued Interest Receivable	51,742	55,469
Property and Equipment, Net	280,393	299,690
NCUSIF Deposit	168,381	164,641
Corporate Credit Union Capital Deposit	66,000	66,000
Other Assets	107,394	110,536
	<u>18,200,538</u>	<u>18,210,221</u>
TOTAL ASSETS	\$ 18,200,538	\$ 18,210,221
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accrued Expenses and Other Liabilities	\$ 19,598	\$ 21,392
Members' Share Accounts	16,792,233	16,838,079
Accrued Interest Payable	121	267
	<u>16,811,952</u>	<u>16,859,738</u>
TOTAL LIABILITIES	16,811,952	16,859,738
MEMBERS' EQUITY		
Regular Reserve	175,292	175,292
Unappropriated Earnings	1,213,294	1,175,191
	<u>1,388,586</u>	<u>1,350,483</u>
TOTAL MEMBERS' EQUITY	1,388,586	1,350,483
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 18,200,538	\$ 18,210,221

See accompanying notes to the financial statements

GREATER WATERTOWN FEDERAL CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
INTEREST INCOME		
Loans Receivable	\$ 452,410	\$ 496,351
Investment Securities	<u>204,376</u>	<u>156,677</u>
Total Interest Income	656,786	653,028
INTEREST EXPENSE		
Members' Share and Savings Accounts	<u>10,449</u>	<u>10,280</u>
NET INTEREST INCOME	646,337	642,748
PROVISION FOR LOAN LOSSES	<u>29,437</u>	<u>60,459</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	616,900	582,289
NON-INTEREST INCOME		
Loan and Servicing Fees	115,624	118,693
Miscellaneous Income	<u>13,456</u>	<u>26,807</u>
Total Non-Interest Income	129,080	145,500
NON-INTEREST EXPENSE		
Compensation and Benefits	404,578	389,007
Occupancy	56,628	52,560
Operations Expense	184,720	191,602
Loan Servicing and Processing Expense	34,415	31,974
Professional and Outside Services	13,663	14,314
Loss on Sale of Repossessed Property	8,134	12,868
Miscellaneous	<u>5,739</u>	<u>6,035</u>
Total Non-Interest Expense	<u>707,877</u>	<u>698,360</u>
NET INCOME	<u>\$ 38,103</u>	<u>\$ 29,429</u>

See accompanying notes to the financial statements

GREATER WATERTOWN FEDERAL CREDIT UNION
 STATEMENTS OF CHANGES IN MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>Regular Reserves</u>	<u>Unappropriated Earnings</u>	<u>Total</u>
Balances at December 31, 2017	\$ 175,292	\$ 1,145,762	\$ 1,321,054
Net Income	<u>-</u>	<u>29,429</u>	<u>29,429</u>
Balances at December 31, 2018	175,292	1,175,191	1,350,483
Net Income	<u>-</u>	<u>38,103</u>	<u>38,103</u>
Balances at December 31, 2019	<u>\$ 175,292</u>	<u>\$ 1,213,294</u>	<u>\$ 1,388,586</u>

See accompanying notes to the financial statements

GREATER WATERTOWN FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 38,103	\$ 29,429
Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents		
Provided by Operating Activities:		
Provision for Loan Losses	29,437	60,459
Depreciation	22,718	28,943
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	3,727	(8,916)
(Increase) in NCUSIF Deposit	(3,740)	(4,372)
(Increase) Decrease in Other Assets	3,142	(23,851)
(Decrease) in Accrued Interest Payable	(146)	(32)
Increase (Decrease) in Accrued Expenses and Other Liabilities	(1,794)	2,225
Net Cash and Cash Equivalents Provided by Operating Activities	<u>91,447</u>	<u>83,885</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investment Securities	5,117,049	5,267,449
Purchases of Investment Securities	(6,235,000)	(5,745,000)
Net Decrease in Loans Receivable	1,362,299	419,581
Purchase of Property and Equipment	(3,421)	(6,168)
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	<u>240,927</u>	<u>(64,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase (Decrease) in Members' Share Accounts	<u>(45,846)</u>	<u>374,011</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	286,528	393,758
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,526,023</u>	<u>1,132,265</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,812,551</u>	<u>\$ 1,526,023</u>

See accompanying notes to the financial statements

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Greater Watertown Federal Credit Union (the Credit Union) provides a variety of financial services to its members and their families in the Western Connecticut region and surrounding area. The Credit Union has one branch located in Watertown, Connecticut. The Credit Union's primary source of revenue is from providing loans to its members. Membership is limited to qualified individuals.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Greater Watertown Federal Credit Union is presented to assist in understanding the Credit Union's financial statements. The financial statements and notes are representations of the Credit Union's management, who is responsible for their integrity and objectivity. These accounting policies are in accordance with accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

a. Accounting Method

The accrual method of accounting is used, whereby income is recognized when it becomes available and measurable, and expenses are recognized when the liability is incurred, if measurable.

b. Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less. Amounts deposited at other financial institutions may, at times, exceed federally insured limits.

c. Loans Receivable and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balances, 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 based upon the principal amount outstanding, except for those loans that are considered impaired.

Loans are considered delinquent when determined uncollectible by management in accordance with the provisions of the Credit Union's policy. The loan is placed on non-accrual status of that time.

Management segregates the loan portfolio into segments which is defined as the level at which the Credit Union develops and documents a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such factors are periodically reviewed by management and revised as deemed appropriate.

The Credit Union's loan portfolio is segregated in the following segments:

- Residential Real Estate: This portfolio segment consists of the origination of home equity lines of credit and first mortgage loans secured by owner occupied one to four family residential properties. Home equity lines of credit are written at a variable interest rate and shorter term than mortgage loans. These loans can be affected by economic conditions and the value of the underlying properties.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Loans Receivable and Allowance for Loan Losses (continued)

- Consumer Loans: This portfolio segment includes loans secured by automobiles, as well as unsecured personal and credit card loans. This type of loan may entail greater risk than do residential real estate, since these loans are unsecured or secured by assets that depreciate rapidly.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). A specific allowance for loan losses is established for large impaired loans on an individual basis. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment and the estimated value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge off experience and expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, and losses incurred from recent events. This analysis is performed on a monthly basis and approved by the Board of Directors.

d. Investments

All of the Credit Union's investments are classified as held-to-maturity. The Credit Union has the intent and ability to hold these investments to maturity, and as such, they are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the simple interest method over the period to maturity. Estimated fair value is based on quoted market prices.

e. Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

f. Property and Equipment

Land is carried at cost. Property and equipment are stated at cost less accumulated depreciation. Additional, renewals and betterments that significantly extend the life of an asset are capitalized. Minor replacements, maintenance and repairs are charged to expense as incurred. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Members' Share Accounts

Members' shares accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share 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.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2019 and 2018 were \$2,698 and \$1,006, respectively.

j. 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.

k. Income Taxes

The Credit Union is exempt from federal and state income taxes in accordance with Section 501(c) of the Internal Revenue Code and Section 122 of the Federal Credit Union Act. Accordingly, no income tax expense was paid during or recorded in the financial statements for the years ended December 31, 2019 and 2018.

l. Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2014-09, "Revenue from Contracts with Customers (topic 606)." The ASU establishes a Single Comprehensive model for an entity to recognize revenue when it transfers goods or services to customers. The update requires more comprehensive disclosures relating to the nature amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Credit Union adopted the new standard effective January 1, 2019. The application of this guidance did not have a material impact on the Credit Unions financial statements. The adoption resulted in no change to beginning members equity as of January 1, 2019.

m. Reclassifications

Certain 2018 financial statements amounts have been reclassified to conform to the 2019 financial statement presentation with no effect on net income or total assets.

GREATER WATERTOWN FEDERAL CREDIT UNION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

2. DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through May 12, 2020, the date upon which the financial statements were available to be issued.

3. INVESTMENTS

The carrying value, which approximates cost, and estimated fair value of investments at December 31 are as follows:

	2019			
	<i>Carrying Value</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Certificates of Deposit	\$ 7,958,095	\$ 39,081	\$ (4,575)	\$ 7,992,601
	2018			
	<i>Carrying Value</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Certificates of Deposit	\$ 7,890,038	\$ 600	\$ (82,685)	\$ 7,807,953

The carrying value and estimated fair value of investment securities, at December 31, by contractual maturity, are shown below. Expected maturities could differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<i>Carrying Value</i>	<i>Fair Value</i>
<u>December 31, 2019</u>		
Due in One Year or Less	\$ 4,770,989	\$ 4,783,131
Due After One Year through Five Years	4,237,000	4,259,364
	\$ 9,007,989	\$ 9,042,495
 <u>December 31, 2018</u>		
Due in One Year or Less	\$ 3,216,038	\$ 3,205,791
Due After One Year through Five Years	4,674,000	4,602,162
	\$ 7,890,038	\$ 7,807,953

Market changes in interest rates and credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. Any of the gross unrealized losses presented above have been deemed temporary. The Credit Union reviews all of its securities for impairment at least quarterly.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

4. LOANS RECEIVABLE

Loans to members at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Home Equity Lines of Credit	\$ 3,022,438	\$ 3,877,006
First Mortgages	1,907	8,156
Auto Loans	2,689,575	3,089,248
Visa Credit Card Loans	587,376	658,051
Line of Credit - Other	102,969	114,875
Unsecured Loans	<u>368,655</u>	<u>428,017</u>
Total Loans Receivable	6,772,920	8,175,353
Less: Allowance for Loan Losses	<u>(66,832)</u>	<u>(77,529)</u>
Net Loans Receivable	<u>\$ 6,706,088</u>	<u>\$ 8,097,824</u>

The Credit Union has no commitments to loan additional funds to borrowers whose loans are not performing. Negative shares in the amount of \$3,007 and \$7,705 have been included in loan balances as of December 31, 2019 and 2018, respectively.

The following summary of consumer credit exposures as of December 31:

Credit Risk Profile by Internally Assigned Grade

	<u>Home Equity Lines of Credit</u>		<u>First Mortgages</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Grade:				
Pass	\$ 2,962,358	\$ 3,816,926	\$ 1,907	\$ 8,156
Substandard	<u>60,080</u>	<u>60,080</u>	-	-
Total	<u>\$ 3,022,438</u>	<u>\$ 3,877,006</u>	<u>\$ 1,907</u>	<u>\$ 8,156</u>

Credit Risk Profile Based on Payment Activity

	<u>Consumer - Visa</u>		<u>Consumer - Auto</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Performing	\$ 577,825	\$ 629,486	\$ 2,668,795	\$ 3,041,504
Nonperforming	<u>9,551</u>	<u>28,565</u>	<u>20,780</u>	<u>47,744</u>
Total	<u>\$ 587,376</u>	<u>\$ 658,051</u>	<u>\$ 2,689,575</u>	<u>\$ 3,089,248</u>

	<u>Consumer - Unsecured</u>		<u>Consumer - Line of Credit</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Performing	\$ 366,193	\$ 420,996	\$ 102,969	\$ 114,875
Nonperforming	<u>2,462</u>	<u>7,021</u>	-	-
Total	<u>\$ 368,655</u>	<u>\$ 428,017</u>	<u>\$ 102,969</u>	<u>\$ 114,875</u>

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

4. LOANS RECEIVABLE (continued)

The following is a summary age analysis of past due financing receivables as of December 31:

		2019					
		30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivable
Consumer:							
Consumer-Unsecured	\$	-	\$ 995	\$ 1,467	\$ 2,462	\$ 366,193	\$ 368,655
Consumer-Line of Credit		-	-	-	-	102,969	102,969
Consumer-Auto		44,121	13,660	7,120	64,901	2,624,674	2,689,575
Consumer-Visa		-	1,696	7,855	9,551	577,825	587,376
Residential:							
Residential		73,387	-	60,080	133,467	2,890,878	3,024,345
	\$	<u>117,508</u>	<u>\$ 16,351</u>	<u>\$ 76,522</u>	<u>\$ 210,381</u>	<u>\$ 6,562,539</u>	<u>\$ 6,772,920</u>

		2018					
		30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivable
Consumer:							
Consumer-Unsecured	\$	7,479	\$ -	\$ 7,021	\$ 14,500	\$ 413,517	\$ 428,017
Consumer-Line of Credit		-	-	-	-	114,875	114,875
Consumer-Auto		109,408	8,244	39,449	157,101	2,932,147	3,089,248
Consumer-Visa		8,711	1,592	26,973	37,276	620,775	658,051
Residential:							
Residential		33,876	-	60,080	93,956	3,791,206	3,885,162
	\$	<u>159,474</u>	<u>\$ 9,836</u>	<u>\$ 133,523</u>	<u>\$ 302,833</u>	<u>\$ 7,872,520</u>	<u>\$ 8,175,353</u>

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

4. LOANS RECEIVABLE (continued)

A summary of the changes in the allowance for loan losses for the years ended December 31 is as follows:

	2019					
	Unsecured	Automobile	Real Estate	VISA	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance	\$ 9,263	\$ 27,255	\$ 9,563	\$ 31,448	\$ -	\$ 77,529
Charge offs	(8,540)	(3,949)	-	(30,691)	-	(43,180)
Recoveries	609	1,276	-	1,337	-	3,222
Provision	7,917	(1,818)	(252)	19,004	4,410	29,261
Ending Balance	<u>\$ 9,249</u>	<u>\$ 22,764</u>	<u>\$ 9,311</u>	<u>\$ 21,098</u>	<u>\$ 4,410</u>	<u>\$ 66,832</u>
Ending Balance: Individually Evaluated for Impairment	<u>\$ 833</u>	<u>\$ 2,078</u>	<u>\$ -</u>	<u>\$ 4,688</u>	<u>\$ -</u>	<u>\$ 7,599</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 8,416</u>	<u>\$ 20,686</u>	<u>\$ 9,311</u>	<u>\$ 16,410</u>	<u>\$ 4,410</u>	<u>\$ 59,233</u>
Financing Receivables:						
Ending Balance: Individually Evaluated for Impairment	<u>\$ 2,462</u>	<u>\$ 20,780</u>	<u>\$ 60,080</u>	<u>\$ 9,551</u>	<u>\$ -</u>	<u>\$ 92,873</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 469,162</u>	<u>\$ 2,668,795</u>	<u>\$ 2,964,265</u>	<u>\$ 577,825</u>	<u>\$ -</u>	<u>\$ 6,680,047</u>
	2018					
	Unsecured	Automobile	Real Estate	VISA	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance	\$ 13,026	\$ 27,304	\$ 10,426	\$ 19,705	\$ -	\$ 70,461
Charge offs	(10,961)	(26,188)	-	(19,859)	-	(57,008)
Recoveries	2,423	1,194	-	-	-	3,617
Provision	4,775	24,945	(863)	31,602	-	60,459
Ending Balance	<u>\$ 9,263</u>	<u>\$ 27,255</u>	<u>\$ 9,563</u>	<u>\$ 31,448</u>	<u>\$ -</u>	<u>\$ 77,529</u>
Ending Balance: Individually Evaluated for Impairment	<u>\$ 702</u>	<u>\$ 3,895</u>	<u>\$ -</u>	<u>\$ 17,281</u>	<u>\$ -</u>	<u>\$ 21,878</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 8,561</u>	<u>\$ 23,360</u>	<u>\$ 9,563</u>	<u>\$ 14,167</u>	<u>\$ -</u>	<u>\$ 55,651</u>
Financing Receivables:						
Ending Balance: Individually Evaluated for Impairment	<u>\$ 7,021</u>	<u>\$ 47,744</u>	<u>\$ 60,080</u>	<u>\$ 28,565</u>	<u>\$ -</u>	<u>\$ 143,410</u>
Ending Balance: Collectively Evaluated for Impairment	<u>\$ 535,871</u>	<u>\$ 3,041,504</u>	<u>\$ 3,825,082</u>	<u>\$ 629,486</u>	<u>\$ -</u>	<u>\$ 8,031,943</u>

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

4. LOANS RECEIVABLE (continued)

The following table is a summary of impaired loans as of and for the year ended December 31, 2019 and 2018:

	2019				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
Impaired with no specific allowance recorded:					
Consumer:					
Consumer-VISA	\$ -	\$ -	\$ -	\$ 832	\$ -
Consumer-Other	-	-	-	-	-
Consumer-Auto	-	-	-	5,545	-
Residential:					
Residential	60,080	58,273	-	60,080	1,807
Total impaired with no specific allowance recorded:	<u>\$ 60,080</u>	<u>\$ 58,273</u>	<u>\$ -</u>	<u>\$ 66,457</u>	<u>\$ 1,807</u>
Impaired with a specific allowance recorded:					
Consumer:					
Consumer-VISA	\$ 9,551	\$ 9,551	\$ 4,688	\$ 19,058	\$ -
Consumer-Other	2,462	2,405	833	4,742	57
Consumer-Auto	20,780	20,402	2,078	27,833	378
Residential:					
Residential	-	-	-	-	-
Total impaired with a specific allowance recorded:	<u>\$ 32,793</u>	<u>\$ 32,358</u>	<u>\$ 7,599</u>	<u>\$ 51,632</u>	<u>\$ 435</u>
Total impaired loans:	<u>\$ 92,873</u>	<u>\$ 90,631</u>	<u>\$ 7,599</u>	<u>\$ 118,089</u>	<u>\$ 2,242</u>

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

4. LOANS RECEIVABLE (continued)

	2018				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
Impaired with no specific allowance recorded:					
Consumer:					
Consumer-VISA	\$ 1,664	\$ 1,664	\$ -	\$ 1,664	\$ -
Consumer-Other	-	-	-	-	-
Consumer-Auto	11,090	10,826	-	11,090	264
Residential:					
Residential	60,080	58,591	-	60,080	1,489
Total impaired with no specific allowance recorded:	<u>\$ 72,834</u>	<u>\$ 71,081</u>	<u>\$ -</u>	<u>\$ 72,834</u>	<u>\$ 1,753</u>
Impaired with a specific allowance recorded:					
Consumer:					
Consumer-VISA	\$ 28,565	\$ 28,565	\$ 17,281	\$ 28,565	\$ -
Consumer-Other	7,021	6,916	702	7,126	105
Consumer-Auto	34,885	34,159	3,895	37,380	726
Residential:					
Residential	-	-	-	-	-
Total impaired with a specific allowance recorded:	<u>\$ 70,471</u>	<u>\$ 69,640</u>	<u>\$ 21,878</u>	<u>\$ 73,071</u>	<u>\$ 831</u>
Total impaired loans:	<u>\$ 143,305</u>	<u>\$ 140,721</u>	<u>\$ 21,878</u>	<u>\$ 145,905</u>	<u>\$ 2,584</u>

5. RETIREMENT PLAN

The Credit Union has a 401(k) retirement plan covering employees over the age of twenty-one with a minimum of one year of service. The employer contributions include a matching contribution based on employee contributions up to a specified level and a discretionary contribution, currently 5% of eligible compensation. The covered employees are able to contribute an amount equal to the maximum allowed by the Internal Revenue Service, for their benefit. These benefits are 100% vested with the participants at the time of the contribution. Employer contributions for the years ended December 31, 2019 and 2018 amounted to \$20,332 and \$18,597, respectively.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. NCUA ASSESSMENTS

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which requires the maintenance of a deposit by each federally-insured credit union in an amount equal to one percent of its insured members' shares. The deposit will be refunded to the credit union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the NCUSIF is transferred from the NCUA Board. The credit union is also required to pay an annual insurance premium equal to one-twelfth of one percent of total insured members' shares, unless premiums are waived or reduced by the NCUA Board.

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	2019	2018
Land and Building	\$ 829,492	\$ 828,930
Furniture and Fixtures	133,106	168,330
Total Property and Equipment	962,598	997,260
Less: Accumulated Depreciation	(682,205)	(697,570)
Net Property and Equipment	\$ 280,393	\$ 299,690

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$22,718 and \$28,943, respectively.

8. MEMBERS' SHARE ACCOUNTS

Members' share accounts consisted of the following at December 31:

	2019	2018
Regular Shares	\$ 12,490,960	\$ 12,185,281
Share Drafts	2,320,514	2,232,683
IRA Accounts	433,410	522,574
Money Market Accounts	946,959	1,144,503
Share Certificates	600,390	753,038
	\$ 16,792,233	\$ 16,838,079

The aggregate amount of members' share accounts in denominations of \$250,000 or more at December 31, 2019 and 2018 were \$263,160 and \$270,166, respectively.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

8. MEMBERS' SHARE ACCOUNTS (continued)

At December 31, 2019 scheduled maturities of share certificates are as follows:

2020		\$	280,316
2021			20,966
2022			112,919
2023			-
2024			<u>186,188</u>
Total		\$	<u><u>600,389</u></u>

9. LINE OF CREDIT

The Credit Union has available a \$660,000 line of credit with EasCorp with a variable rate of interest. There was no outstanding balance or funds advanced to the Credit Union at December 31, 2019 and 2018. No interest was paid regarding the line of credit for both years.

10. RELATED PARTY TRANSACTIONS

Certain officers, directors, and employees of the Credit Union, including their immediate families, were loan customers during the years ended December 31, 2019 and 2018. Such loans were in the normal course of business at normal credit union terms including interest rates and collateralization and do not represent more than a normal risk of collection.

A summary of the changes in related party loans for the years ended December 31 is as follows:

	<u>2019</u>		<u>2018</u>
Balance - January 1	\$ 123,573	\$	128,956
Add:			
Loans Granted	4,600		-
Less:			
Loans Repayments	(6,378)		(5,383)
Other Reductions	<u>(41,355)</u>		<u>-</u>
Balance - December 31	<u>\$ 80,440</u>	\$	<u>123,573</u>

At December 31, 2019 and 2018, no related party loans were delinquent. The Credit Union also has deposits from related parties in the aggregate amount of \$397,323 and \$460,094 at December 31, 2019 and 2018, respectively.

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

11. CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement which established whether or not the Credit Union will be considered “complex” under the regulatory framework. The Credit Union’s RBNW ratio as of December 31, 2019 and 2018 was 7.62% and 7.42%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2019 and 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent call reporting period, and December 31, 2018, 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% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category. The Credit Union’s actual capital amounts and ratios are also presented in the following table:

	<u>Actual</u>		<i>To be Adequately Capitalized Under Prompt Corrective Action</i>		<i>To be Well Capitalized Under Prompt Corrective Action</i>	
	<u>Amount</u>	<u>Ratio</u>	<u>Provisions</u>		<u>Provisions</u>	
			<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2019</u>						
Net Worth	\$1,388,586	7.63%	\$1,092,032	6.00%	\$1,274,038	7.00%
RBNW Requirement	\$ 984,649	5.41%	N/A	N/A	N/A	N/A
<u>2018</u>						
Net Worth	\$1,350,483	7.42%	\$1,092,613	6.00%	\$1,274,715	7.00%
RBNW Requirement	\$ 985,173	5.41%	N/A	N/A	N/A	N/A

GREATER WATERTOWN FEDERAL CREDIT UNION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

11. CAPITAL REQUIREMENTS (continued)

Because the RBNW Requirement 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 balance option, as permitted by regulation.

12. 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, 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.

At December 31, those financial instruments whose contract amounts represent credit risk are as follows:

	2019	2018
Commitments to Extend Credit:		
Home Equity Lines of Credit	\$ 2,454,678	\$ 2,643,650
Lines of Credit (Overdraft Protection)	208,241	213,256
Credit Card Arrangements	1,364,472	1,332,543
	\$ 4,027,391	\$ 4,189,449

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 are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each customer's credit worthiness on a case by case basis. The amount of collateral obtained, if it is deemed necessary by the Credit Union upon the extension of credit, is based on management's credit evaluation of the counter party. Collateral held generally consists of certificates of deposit, share accounts, automobiles and real estate.

GREATER WATERTOWN FEDERAL CREDIT UNION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

12. FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK (continued)

All of the Credit Union's loans and commitments have been granted to the customers in the Credit Union's geographical market area. These customers are the depositors and borrowers of the Credit Union. The concentration of credit by type of loan is set forth in Note 4 – Loans Receivable. The Credit Union's policy is to obtain collateral whenever possible. The Credit Union, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of NCUA regulations.

13. LEGAL CONTINGENCIES

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

14. OPERATING LEASES

The Credit Union leases a postage machine on a month to month basis with a monthly payment of \$40. Rental expense for the both years ended December 31, 2019 and 2018 was \$480.

15. STATEMENTS OF CASH FLOWS

Supplemental disclosures are required for cash disbursed for interest for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Interest and Dividend Expense	\$ <u>10,449</u>	\$ <u>10,280</u>

There were no noncash transactions during the years ended December 31, 2019 and 2018.

16. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides 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 are described as follows:

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

16. FAIR VALUE MEASUREMENTS (continued)

The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Credit Union has the ability to access.
- Level 2 Inputs to the valuation methodology include
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are delivered principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate their fair value.

Held-to-Maturity Securities

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

GREATER WATERTOWN FEDERAL CREDIT UNION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

16. FAIR VALUE MEASUREMENTS (continued)

Members' Shares Accounts

The fair values disclosed for share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on shares and certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Accrued Interest

Accrued interest receivable represents interest on investments and loans. The carrying amounts of accrued interest receivable approximates fair value.

Commitments to Extend Credit

The estimated fair value of the commitments to extend credit represents the Credit Union's potential unfunded commitments under such lines-of-credit.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Credit Union believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities measured at fair value on a recurring basis as of December 31:

	2019			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Investments Held-to-Maturity				
Certificates of Deposit	\$ 8,392,495	\$ -	\$ 650,000	\$ 9,042,495
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2018			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Investments Held-to-Maturity				
Certificates of Deposit	\$ 7,157,953	\$ -	\$ 650,000	\$ 7,807,953
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

GREATER WATERTOWN FEDERAL CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

16. FAIR VALUE MEASUREMENTS (continued)

The following table presents the change in level 3 assets that are measured at fair value on a recurring basis for the year ended December 31, 2019:

Balance as of January 1, 2019	\$ 650,000
Investments Matured	(2,600,000)
Investments Purchased	<u>2,600,000</u>
Balance as of December 31, 2019	<u>\$ 650,000</u>

The December 31 estimated fair values of the financial instruments of the Credit Union, none of which are held on an available for sale or trading purposes are as follows:

	2019		2018	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial Assets:				
Cash and Cash Equivalents	\$ 2,862,445	\$ 2,862,445	\$ 2,191,625	\$ 2,191,625
Investment Securities	7,958,095	7,992,601	7,224,436	7,807,953
Loans to Members, Net	6,706,088	6,772,920	8,097,824	8,175,353
Accrued Interest Receivable	51,742	51,742	55,469	55,469
Financial Liabilities:				
Members' Share Accounts	16,191,843	16,191,843	16,085,041	16,085,041
Certificates of Deposit	600,390	600,390	753,038	753,038
Unrecognized Financial Instruments:				
Commitments to Extend Credit	-	4,027,391	-	4,189,449

17. SUBSEQUENT EVENTS

The Credit Union evaluated its December 31, 2019 financial statements for subsequent events through the date the financial statements were issued. Based on world events it is reasonably possible that the Credit Unions financial position could be adversely affected, though such potential impact is unknown at this time. The Credit Union is offering a three-month forbearance on interest by request for existing Consumer loans, HELOCs and VISAs to assist with Customers cash flow needs. The Credit Union continues to monitor world events as related to its customers and services.