

# Reading and Understanding Your Credit Union Financial Statements

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## 701.4(b) Duties of Federal Credit Union Directors

- Revised December 2010
- 701(b)(3)

“ Directors have a duty . . . At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Federal credit union’s balance sheet and to ask, as appropriate, substantive questions of management and the internal and external auditors”

## NCUA Letter to Credit Unions 11-FCU-02

- Basic Financial Skills
  - Level of financial skill must be consistent with size and complexity of the credit union
- What a Director Should Know
  - Specific activities in which the CU engages
  - What are the risks associated with these activities
- Should be able to answer the following:
  - What does this line item mean?
  - Why is it important to the Credit Union?
  - Is the value changing over time?
  - Is the change important to the Credit Union?

## Today's Objectives

- Basics of Credit Union Financial Statements
- Analysis of Financial Statements
  - What do the numbers mean?
- Business Risks Facing All Credit Unions
  - How to control, monitor and mitigate

## **Credit Union Financial Statements – Five Components**

1. Statement of Financial Condition
2. Statement of Income
3. Statement of Changes in Members' Equity
4. Statement of Cash Flows
5. Footnotes

## **Statement of Financial Condition**

- A.K.A. – Balance Sheet
- Point-in-Time – Snap Shot
- $\text{Assets} = \text{Liabilities} + \text{Members' Equity}$ 
  - $\text{Debits} = \text{Credits}$
- Assets Typically Have Debit Balance
- Liabilities and Equity Typically Have Credit Balance

## Statement of Financial Condition

- Assets - Probable future economic benefits obtained by the Credit Union as a result of past transactions
- Liabilities – Probable future sacrifices of economic benefits arising from present obligations to transfer assets or provide services
- Members' Equity – The residual interest in the assets of an entity that remains after deducting its liabilities

## Common Account Titles

### Statement of Financial Condition – Assets

- Cash and Equivalents
  - Consists of cash on hand, in banks, on deposit with Corporate Credit Unions, investments with three months or less to maturity at the time of purchase
  - At cost, face value
- Certificates of Deposit
  - Deposits with banks, savings and loans and credit unions, funds invested for a period of time, specific maturity date
  - Typically carried at cost

## Account Titles – Investments

- Trading
  - Carried at fair value; gains/losses run through income statement
- Available-for-Sale (A.F.S.)
  - Credit Union may consider future sale prior to maturity to meet liquidity needs or respond to changes in market conditions or credit worthiness of issuer
  - Accounted for/reported at fair value
  - Unrealized gain or loss accounted for as part of equity
    - Other Accumulated Comprehensive Income or Loss
- Held-to-Maturity (H.T.M.)
  - Credit Union has a positive intent and ability to hold from date of purchase to maturity
  - Accounted for/reported at amortized cost
    - Purchase price +/- premium and discounts

## Loans Receivable

- In-house – self-originated loans
  - Carried at cost
    - Cost includes direct expenses for underwriting loans, less any fees
      - Mortgage points, dealer fees
- Purchased loans
  - Participations, single loan or pools of loans
  - Carried at cost, +/- premiums and discounts
- Loans Held-For-Sale
  - Carried at the lower of cost or market

## The Allowance for Loan Losses

- |  |                                       |
|--|---------------------------------------|
| • An estimate of probable losses in the loan portfolio               | ALLL – Beginning of period            |
| • Based upon historic loss experience and analysis of specific loans | Less: (Loans Charged-Off)             |
| • Contra asset   | Plus: Recoveries of loans charged-off |
|  | Plus: Provision for loan losses       |
|  | <hr/>                                 |
|  | <u>Equals = ALLL – End of period</u>  |

## More Assets

- Accrued Income
  - Income earned not yet received
    - Loans – Go on nonaccrual status when 90 days delinquent
    - Investments – Depends on the interest payment date of investment
      - Monthly, semi-annually, at maturity
- Foreclosed and Repossessed Assets
  - Assets received in settlement of loans
  - Other Real Estate Owned (OREO)
  - Carried at lower of cost or fair value

## Other Assets

- Property and Equipment
  - Amounts spent for tangible assets whose economic life is greater than one year
  - Depreciation – Allocation of the cost of the asset to the activities of the Credit Union over the years of usage
- Prepays and Other Assets
  - Expenditures for services that the Credit Union will receive future benefit
    - Insurance, service contracts, etc.
  - Receivables – Amounts owed to Credit Union for various items or services
- NCUSIF Deposit
  - National Credit Union Share Insurance Fund
  - Credit Union is required to keep 1% of insured shares on deposit

## Common Account Titles Statement of Financial Condition – Liabilities

- Members' Deposits – Shown as a liability, not equity; includes all shares, certificates, time deposits, and retirement accounts
- Notes Payable or Borrowed Funds – Draws on line-of-credit
- Accrued Dividends – Dividends declared, not paid
- Other Liabilities
  - Includes accounts payable, accrued expenses (expense has been incurred but not yet paid for)
  - Undistributed payrolls, data processing suspense items

## **Common Account Titles Statement of Financial Condition**

- **Members' Equity:**
  - Regular Reserves – Statutory reserve balance
    - Prompt and Corrective Action – 7% net worth
  - Special/Other Reserves – Required by regulation, special agreement, or other authority
  - Undivided Earnings – Reported post-closing; total amount of accumulated income or surplus
  - Accumulated Other Comprehensive
    - Net unrealized gains and losses on investments available-for-sale
    - Unrealized gains and losses – Defined Benefit Pension Plans

## **Statement of Income**

**Reflects the results of activities (operations) for the period for which it is prepared**

- **Revenues** – Expenses + Gains – Losses = Net Income
- **Revenues** – Inflows or enhancements of assets of the Credit Union during a period, based upon the services provided and other major activities
- **Expenses** – Outflows or use of assets or incurrence of liabilities as a result of delivering services
- **Gains/Losses** – Increases (decreases) in equity from peripheral or incidental transactions
- **Cost** – Sacrifice incurred to acquire resources

## **Common Account Titles Statement of Income**

- **Interest Income on Loans** – Reported net of any refunded interest and amortization of net fees
- **Interest Income on Investments** – Reported net of any amortized premiums/discounts
- **Interest Expense**
  - Actual or estimated amount of dividends for the reporting period
  - Interest on borrowed funds shown as a separate line item
- **Net Interest Income** (Interest Income Less Interest Expense)
  - Net Interest Margin

## **Common Account Titles Statement of Income**

- **Provision for Loan Loss** – Current period provision for probable losses and related costs on loans and other loan receivables
- **Net Interest Income After the Provision for Loan Losses**
- **Non-Interest Income** – Arises from specific transactions
  - Fees – Overdrafts, ATMs, interchange income, mortgage servicing
  - Product sales – Insurance, extended warranties, etc.
  - Gains on sales/calls of investments
  - Gains on sales of other assets

## **Income Statement**

- Non-Interest Expense – (Operating Expenses, Overhead) Generally, separately lists large expense items, including:
  - Compensation and employee benefits
  - Travel and conference
  - Occupancy – Rent, utilities, depreciation of buildings and/or improvements, real estate
  - Office operations – Stationary, postage, maintenance, communications, depreciation of equipment, insurance
  - Loan servicing – Credit reports, collection expenses
  - Professional and outside – Legal, accounting, data processing costs
  - Education and promotional – Advertising, etc.
  - Operating fees – NCUA supervision
  - Losses on sales of investments or other assets

## **Net Income and Comprehensive Income**

- Comprehensive Income
  - The change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources
    - Unrealized gain and losses on AFS investments
    - Impact of certain transactions of defined benefit plans
    - Foreign currency translations
- Comprehensive Income – Includes net income
  - Provides information regarding overall performance

## Statement of Changes in Members' Equity

Relates the Income Statement to the Balance Sheet for a Period of Time

Equity – Beginning of Period

Shows Activity in Undivided Earnings, Reserves, and Accumulated Comprehensive Income

+ Net Income (Loss)

+/- Changes in O.C.I.

=

Total Equity = Regular Reserves + Other Reserves, + Undivided Earnings +/- OCI

Equity – End of Period

## Statement of Cash Flows

- Summarizes the Credit Union's sources and uses of cash for a period of time
- Assesses:
  - Credit Union's ability to generate positive future cash flows
  - Credit Union's ability to meet its obligations, pay dividends, and determine its need for external financing
  - Reasons for differences between net income and associated cash receipts and cash payments
  - Effects on the Credit Union's position of both its cash and non-cash investing and financing transactions during the reporting period

## **Notes to Financial Statements**

- Used to report information that does not fit in the body of the financial statements
- Provides information that cannot be sufficiently described within the body of the financial statements without detracting from the clarity of the statements
- Information commonly disclosed:
  - Accounting policies
  - Contingencies
  - Contracts, commitments
  - Subsequent events
  - Amplification of data

## **Analysis of Credit Union Financial Statements**

- Designed to focus on and clarify relationships among financial information and to facilitate the understanding of the significance of various factors
- Analysis includes the following:
  - Comparison of financial information with comparable periods
  - Comparison of financial information with information from industry (peer group comparison)
  - Comparison of financial information with anticipated results (budget )
  - Study of the relationship of the elements of financial information that are expected to conform to a predictable pattern
  - Study of the relationships of financial information with relevant non-financial information

## Financial Statement Analysis

- **Flux**
  - Comparison of an account balance to same balance for previous period(s)
- **Ratio Analysis**
  - Expression of changes in accounts and account relationships in terms of a %
- **Trends** – Change in ratios, relationships over time
- **Benchmarking** – Comparison to industry ratios, peer groups, etc.

## Financial Statement Analysis – Ratios

- Asset Quality
  - Earnings
- Capital Adequacy
- Asset Liability Management
  - Productivity Ratios

## Asset Quality

- **Delinquency Ratio**
  - Ratio = All loans over two months delinquent/Total Loans
  - An indicator of delinquency control and potential loan losses
  - Indicator of loan quality and effectiveness of collection efforts
- **Net Charge-Off Ratio** = Net Charge-Offs/Average Loans
  - Ratio that measures net charge-offs in relation to average loans
  - Charge-offs are an important indicator of the effectiveness of lending and collection practices
  - A high ratio value in relation to the peer group average indicates that large loan losses have been realized

## Asset Quality

- Fair market value of investments/book value of HTM investments
- Unrealized gain or loss of AFS/cost of AFS investments
  - Provide information regarding market performance of investments

## Asset Quality Ratios

### Assumptions:

- Delinquency
  - Assume Loans  $\geq$  60 days =
    - \$116,000 at 12/31/2010
    - \$90,000 at 12/31/2009
- Charge-offs
  - Net Charge-offs for 12/31/2010 = \$100,000

### Ratios:

- Delinquency
  - Delinquent Loans/Total Loans
- 12/31/2010  
 $\$116,000/14,500,000 = 0.80\%$
- 12/31/2009  
 $\$90,000/15,000,000 = 0.60\%$
- Charge-off Ratio
  - Net Charge-offs/Avg. Loans  
 $100,000/((14,500,000 + 15,000,000)/2) = 0.68\%$

## Operating Ratios

- Return on Average Assets = Net Income/Average Assets
  - Measures net income in relation to average assets
  - Ratio represents the bottom line
  - A positive ratio shows that earnings were sufficient to cover the Credit Union's operating expenses and cost of funds
- Yield on Assets = Total Interest Income/Average Assets
  - Yield on average loans
  - Yield on average investments
- Gross Income/Average Assets (Total Revenue/Average Assets)
- Cost of Funds = (Dividends + Interest Paid)/Average Assets
  - Indicates the cost of deposits, borrowings and capital
- Net Margin = Interest Income Less Cost of Funds/Average Assets
  - Indicative of the difference between cost of funds and earnings on those funds

## Operating Ratios

- **Operating Expenses/Average Assets**
  - Efficiency of use of funds to provide services to members
    - How well are expenses controlled?
  - Operating expenses less fee income/average assets
    - Indicates to what extent Credit Union relies on fees to meet the costs of providing services
- **Operating Expenses/Gross Income**
  - How well is the Credit Union controlling expenses in light of overall revenue?
- **Efficiency Ratio = Net Interest Expense/(Net Interest Income + Non-Interest Income)**
  - Measure of the cost to generate each \$ of revenue
  - Typically not applied to Credit Unions, but very useful

**WE CAN EXPRESS THE ENTIRE  
INCOME STATEMENT IN THE FORM  
OF RATIOS**

## Let's Compute

Ratio	Formula	Computation/Ratio
Yield on Assets	Total Int. Inc. /Avg. Assets	\$1,260,000/\$26,100,000 = 4.83%
Cost of Funds	Int. Expense/Avg. Assets	\$ 575,000/\$26,100,000 = <u>2.20%</u>
Net Interest Income	Yield on Assets – Cost of Funds	= 2.63%
Prov. For Loan Losses	Provision to Avg. Assets	\$ 150,000/\$26,100,000 = <u>0.57%</u>
Net Int. Income after Provision	Net Interest Income – P.L.L.	= 2.06%
Non-Int. Income	Non-Int. Inc./Avg. Assets	\$ 210,750/\$26,100,000 = 0.81%
Non-Int. Expense	Non-Int. Exp./Avg. Assets	\$ 625,750/\$26,100,000 = <u>2.40%</u>
Return on Assets	Net Income/Avg. Assets	\$ 120,000/\$26,100,000 = <b>0.47%</b>

## Capital Adequacy

- Net Worth Ratio = Members' Equity/Total Assets
  - This ratio measures net worth in relation to total assets
  - Net worth cushions fluctuations in earnings, supports growth, and provides protection against insolvency
  - The rate of growth should be commensurate with the levels of risk and asset growth
- PCA - Prompt Corrective Action
  - 7%+ = Well Capitalized
  - 6% - 7% = Adequately Capitalized (Transfers to Regular Reserves are required, until reach 7%)
  - <6% = Undercapitalized

## Net Worth

	2010	2009
Regular Reserves	\$ 625,000	\$ 625,000
Undivided Earnings	<u>1,960,000</u>	<u>1,840,000</u>
Total Net Worth	2,585,000	2,465,000
Total Assets	26,700,000	25,500,000
Net Worth Ratio	9.68%	9.67%

P.C.A. Category = "Well Capitalized"

## ALM Ratios

- Net Long-Term Assets/Total Assets
  - Measures Credit Union's ability to react to changing interest rates and its exposure to increasing interest rates
  - What are long-term assets?
    - + Real estate loans repricing > 5 years
    - + Member business loans
    - + Investments > 3 years to maturity
    - + NCUSIF deposit
    - + Property and Equipment
    - = **Total Long-Term Assets**
  - How much is too much?

## ALM

- Total Loans to Total Shares/Total Loans to Total Assets
  - Indicator of liquidity
    - High ratio may indicate stress on liquidity

		<u>2010</u>
Loans Net of ALL/Total Shares	\$13,750,000/\$24,150,000	56.94%
Loans Net of ALL/Total Assets	\$13,750,000/\$26,700,000	51.50%

- Cash and Short-term Investments/Assets
  - + cash on hand and on deposit
  - + cash equivalents
  - + investments < 1 year to maturity
  - = Short-term assetsBetter measure of liquidity

## Productivity Ratios

- Borrowers/Members
- Average Share Balance
- Average Loan Balance
- Members/Full-Time Employees

## Other Important Ratios

- Growth =

$$\frac{\text{Current Period Balance} - \text{Prior Period Balance}}{\text{Prior Period Balance}}$$

Asset Growth	$(26,700 - 25,500)/25,500 =$	4.71%
Loan Growth	$(13,750 - 14,300)/14,300 =$	- 3.85%
Share Growth	$(24,150 - 23,000)/23,000 =$	5.00%
Net Worth Growth	$(2,585 - 2,465)/2,465 =$	4.86%

Don't forget **Membership Growth!!!!**

## “So, How do I Know if the Ratio is Good or Not?”

- Trends
  - Are the ratios improving?
  - Are the ratios what we expect?
  - Changes in ratios may tell us there are problems before they are obvious
- Peer Groups
  - [NCUA.gov](http://NCUA.gov), click on Credit Union Data/Find a Credit Union, enter credit union name (Financial Performance Reports)
  - Customizing your own peer group
    - [NCUA.gov](http://NCUA.gov), click on Credit Union Data/Custom Reports, create downloads of information on a variety of credit unions.

## Trend Analysis

<b>Growth</b>	<b>Peer</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Asset Growth	3.54	8.01	8.81	-0.56	0.93
Loan Growth	-0.36	0.90	9.09	0.18	-3.92
Share Growth	5.03	9.04	10.91	-1.53	-0.27
Membership Growth	0.54	1.37	10.92	0.27	0.64
<b>Asset Quality</b>					
Delinquency	1.55	3.58	2.42	2.06	2.72
Net Change Ratio	0.83	1.15	1.28	1.01	0.92
<b>Capital Adequacy</b>					
Net Worth	11.03	14.85	15.70	17.21	16.61
<b>Asset Liability Management</b>					
Long-Term Assets/Total Assets	26.12	13.77	10.06	16.84	12.81
Total Loans/Total Shares	64.68	56.42	60.97	61.99	60.93
Cash Shrt.-Term Inv./Total Assets	21.45	26.25	22.10	20.01	16.34

## Trend Analysis

	<b>Peer</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Yield on Loans	6.57	7.93	7.56	7.37	7.09
Yield on Investments	1.85	2.38	3.02	3.54	4.10
Yield on Assets	4.55	4.98	5.17	5.30	5.50
Cost of Funds	1.00	0.81	1.29	1.71	2.17
Net Interest Margin	3.55	4.17	3.88	3.59	3.33
Prov. Loan Loss	0.55	0.73	0.71	0.50	0.61
Non-Int. Inc.	1.28	0.84	0.89	0.83	0.70
Non-Int. Exp.	4.11	3.96	4.18	3.41	3.08
Net Inc./ROA	0.17	0.32	-0.12	0.51	0.34

# **Credit Unions**

## **Managing Risk**



### **Common Risks Every Credit Union Faces**

- Credit Risk
- Interest Rate Risk
- Transaction Risk
- Compliance Risk
- Strategic Risk
- Reputation Risk

## Credit Risk

- **What is it?**
  - The risk that a borrower will be unable to pay their loan
  - The issuer of an investment will be unable to pay the obligation at maturity
- **How do we control credit risk?**
  - Loan policies set standards for our lending practices
  - Investment policies set standards for acceptable investment products
    - Safety and soundness of issuer
  - Concentration and industry risks
    - Setting limits on types, credit quality, geographic areas, loans to certain industries, etc.
  - Collection policies and procedures

## Credit Risk

- **Monitoring**
  - Loan portfolio loan by type and credit grade
  - Delinquent loan reports
  - Charge-off loan reports
    - By type
    - By loan officer
  - Investment portfolio mix
- **Tracking changes in key ratios**
  - Overall delinquency/delinquency by type
  - Charge-off rates
  - Recovery rates

## Interest Rate Risk

- **What is it?**
  - The risk that the Credit Union will be adversely affected by changes in interest rates
- **Why does it occur?**
  - Maturities of Credit Union assets and interest-bearing liabilities are not matched
  - Reinvestment Risk – Loans and investments coming due are invested at lower rates
  - Market Risk – Value of loans and investments move inversely to interest rate
  - Controls and Risk Mitigation
    - Asset Liability Management Policy
      - Setting limits for the exposure to asset liability maturity gap
      - Setting limits on asset mix
      - Setting limits for duration (average life of a stream of cash flows)
      - Projection of cash flows and market values based upon anticipated changes in interest rates

## Liquidity Risk

- **What is it?**
  - Risk associated with the demand for funds exceeding the supply of funds
- **Why does it occur?**
  - Fund longer term assets through short-term deposits
    - Loans and investments vs. shares
- **Controls and Mitigation**
  - Liquidity Policy – Setting acceptable range for amount of cash balances and short-term investments
  - Asset Liability Management
    - Analysis of future cash flows

## **Asset Liability Management (ALM)**

- Process of actively managing all assets and liabilities to obtain a mix of risk and return to maintain the financial integrity of the Credit Union
- Objectives
  - Sustain earnings
  - Support safety and growth with capital
  - Supply adequate liquidity
  - Supervise interest rate risk
- Income Accumulation = Capital = Sustained Member Services

## **ALM Modeling**

- GAP Analysis
  - Forecasting based upon the maturity of assets and liabilities over a period of time
  - Positive Gap (assets mature or reprice faster than liabilities)
  - Negative Gap (liabilities maturing or repricing faster than assets)

## **ALM Modeling – Income Simulation**

- Income Simulation
  - Income is projected using a variety of environments and conditions:
    - Interest Rates
      - Current Rates
      - Projected – Shocked vs. Ramped
    - Balance Sheet
      - Current
      - Growth vs. Shrinkage

## **ALM Modeling NEV**

- Net Economic Value (NEV)
- Difference in net present value of future cash flows for all assets and net present cash flows of liabilities
- Measures the \$ impact on equity of changes in interest rates

## NCUA Risk Measurement Table

<b>CUMULATIVE GAP</b>	<b>Low</b>	<b>Moderate</b>	<b>High</b>
1 Year	< +/-10%	+/-10% to +/-20%	> +/-20%
<b>EARNINGS AT RISK</b>			
Change in NII (Shock Up 300 bp)	> -20%	-20% to -30%	< -30%
Change in NI (Shock up 300 bp)	> -40%	-40% to -75%	< -75%
<b>NET ECONOMIC VALUE</b>			
Change in NEV (Shock up 300 bp)	> -25%	-25% to -50%	< -50%
NEV Ratio (Shock up 300 bp)	> 6%	4% to 6%	< 4%

## Transaction Risk

- **What is it?**
  - The risk that errors or fraud will occur in processing transactions
- **Why does it occur?**
  - Credit Unions process large volumes of transactions, many electronic
- **Controls and Mitigation**
  - Information Technology
  - Accounting Controls
  - Operating Processes
  - Employee Integrity

## Strategic Risk

- **What is it?**
  - The risk that you will be unable to carry out your strategic objectives or you will make the wrong business decision
- **Why does it occur?**
  - Adequacy of personnel
  - Changes in technology and system compatibility
  - Competitors
  - Change in regulations
  - Industry developments
- **Controls and Mitigation**
  - Effective Board oversight
  - Updating plans, specific goals, understanding obstacles
  - Measuring and monitoring milestones

## Compliance Risk

- **What is it?**
  - Risk that failure to comply with laws and regulations will harm the Credit Union by exposing it to penalties, additional costs and damaged reputation
- **Controls and Mitigation**
  - Employee training
  - Board and volunteer training
  - Tone at the top places emphasis on following the rules
  - Written policies and procedures
  - Internal audits
  - Responding to examiner and auditor findings

## **Reputation Risk**

- **What is it?**
  - Risk of damage to your Credit Union's public image
- **Why does it occur?**
  - Improper actions on part of officials and employees
- **Controls and Mitigation**
  - Sound governance practices
  - Ethics and fraud policies
  - Emphasis on appropriate behavior
  - Responding quickly and fairly to issues as they arise
  - Being active in the community or populations you serve

## **Questions and Answers**

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**EVERYONES FAVORITE CREDIT UNION  
STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31,**

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
Cash and equivalents	\$ 1,510,000	\$ 1,200,000
Time deposits/certificates of deposit	3,700,000	3,000,000
Securities available-for-sale	2,225,000	3,550,000
Securities held-to-maturity	5,000,000	2,900,000
Loans to members, net of estimated Allowance for loan losses of \$750,000 -2009; \$700,000 -2008	13,750,000	14,300,000
Accrued interest receivable	110,000	125,000
Furniture and equipment, net	40,000	45,000
National Credit Union Share Insurance Fund deposit	240,000	230,000
Net change in unrealized loss on	<u>125,000</u>	<u>150,000</u>
 Total Assets	 <u>\$26,700,000</u>	 <u>\$25,500,000</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Members' share and savings accounts	\$24,150,000	\$23,000,000
Dividends payable	8,000	10,000
Accounts payable and accrued expenses	<u>32,000</u>	<u>75,000</u>
 Total Liabilities	 <u>24,190,000</u>	 <u>23,085,000</u>
 <b>MEMBERS' EQUITY:</b>		
Regular Reserves	625,000	625,000
Undivided earnings	1,960,000	1,840,000
Accumulated other comprehensive income	<u>(75,000)</u>	<u>(50,000)</u>
 Total Equity	 <u>2,510,000</u>	 <u>2,415,000</u>
 Total Liabilities and Equity	 <u>\$26,700,000</u>	 <u>\$25,500,000</u>

**EVERYONES FAVORITE CREDIT UNION  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31,**

	<u>2010</u>	<u>2090</u>
<b>INTEREST INCOME:</b>		
Interest on loans	\$ 1,030,000	\$ 1,080,000
Interest on investments and interest bearing deposits	<u>230,000</u>	<u>265,000</u>
	1,260,000	1,345,000
<b>INTEREST EXPENSE -</b>		
Dividends on members' share and savings accounts	<u>575,000</u>	<u>645,000</u>
<b>NET INTEREST INCOME</b>	685,000	700,000
<b>PROVISION FOR LOAN LOSSES</b>	<u>150,000</u>	<u>120,000</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>535,000</u>	<u>580,000</u>
<b>NON-INTEREST INCOME:</b>		
Fee income	195,750	190,000
Other income	<u>15,000</u>	<u>14,000</u>
	<u>210,750</u>	<u>204,000</u>
<b>NON-INTEREST EXPENSES:</b>		
Salaries, wages and benefits	250,000	240,000
Travel and conferences	15,000	25,000
Office occupancy	60,000	65,000
Office operations	100,000	115,000
NCUSIF insurance premium	60,000	35,000
Loan servicing	30,000	20,000
Regular Reserves	75,000	85,000
Eduction and promotion	10,000	20,000
Operating Fees	10,000	9,000
Miscellaneous	<u>15,750</u>	<u>15,000</u>
	<u>625,750</u>	<u>629,000</u>
<b>NET INCOME</b>	<u><b>\$ 120,000</b></u>	<u><b>\$ 155,000</b></u>

**EVERYONES FAVORITE CREDIT UNION**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	Statutory Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2008	\$ 625,000	\$ 1,685,000	\$ (100,000)	\$ 2,210,000
COMPREHENSIVE INCOME:				
Net income	-	155,000	-	\$ 155,000
Other comprehensive income:				
Net change in unrealized loss on securities available-for-sale	-	-	50,000	<u>\$ 50,000</u>
TOTAL COMPREHENSIVE INCOME				<u>205,000</u>
BALANCE, DECEMBER 31, 2008, as restated	625,000	1,840,000	(50,000)	2,415,000
YEAR ENDED JANUARY 0, 1900				
COMPREHENSIVE INCOME:				
Net loss	-	120,000	-	\$ 120,000
Other comprehensive income:				
Net change in unrealized loss on securities available-for-sale	-	-	(25,000)	<u>(25,000)</u>
TOTAL COMPREHENSIVE LOSS				<u>95,000</u>
BALANCE, JANUARY 0, 1900	<u>\$ 625,000</u>	<u>\$ 1,960,000</u>	<u>\$ (75,000)</u>	<u>\$ 2,510,000</u>

**EVERYONES FAVORITE CREDIT UNION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31,**

	2010	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 120,000	\$ 155,000
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Provision for loan losses	150,000	120,000
Depreciation	7,500	8,500
Changes in operating assets and liabilities:		
Accrued interest receivable	15,000	(8,500)
Other assets	25,000	(10,000)
Accounts payable and accrued expenses	(45,000)	10,000
Net cash flows from operating activities	272,500	275,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Time deposits	(700,000)	(200,000)
Maturities of investments available-for-sale	2,000,000	500,000
Purchase of securities available-for-sale	(700,000)	(2,500,000)
Maturity and calls of securities held-to-maturity	1,000,000	800,000
Purchases of securities held-to-maturity	(3,100,000)	(600,000)
Loans to members	400,000	(550,000)
Share Insurance Fund deposit	(10,000)	(20,000)
Purchases of equipment	(2,500)	(5,000)
Net cash flows from investing activities	(1,112,500)	(2,575,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES -</b>		
Members' share and savings accounts	1,150,000	960,000
regular reserves		
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	310,000	(1,340,000)
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	1,200,000	2,540,000
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	\$ 1,510,000	\$ 1,200,000
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Dividends paid on members' deposits	\$ 577,000	\$ 774,534
<b>NON-CASH INVESTING ACTIVITY:</b>		
Net change in unrealized gain on investments available-for-sale	\$ 25,000	\$ (50,000)
Disposal of fully depreciated furniture and equipment	\$ -	\$ 2,560