

Understanding Financial Statements

**Presented by
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First Carolina Corporate Credit Union**

Introduction

- * David Brehmer
 - * First Carolina Corporate Credit Union
President/CEO – 19 years
 - * San Diego Postal Credit Union
*President/CEO
 - * San Diego County Credit Union
VP, Operations & Sales Management
 - * Torrey Pines Federal Credit Union
 - * North Island Federal Credit Union

Agenda

- * Balance Sheet
- * Income Statement
- * Key Operating Ratios

Personal Balance Sheet

* Write down your personal assets -- items you own:

* Home value	\$400,000
* Total value of vehicles	32,000
* Retirement funds	300,000
* Savings	168,000
* Checking	<u>100,000</u>
	\$1,000,000

Personal Balance Sheet

- * Write down your liabilities and their approximate dollar values:

* Home mortgage balance	\$300,000
* Loans on vehicles	40,000
* Credit card debt	10,000
* Student loan debt	<u>50,000</u>
	\$400,000

Personal Balance Sheet

- * Subtract total liabilities from total assets
- * The result is your **net worth**

Assets = \$1,000,000
 Liabilities = \$400,000
 Net Worth = \$600,000

Personal Balance Sheet					
	31 Aug 09	31 Aug 08	Annual % Increase	Current Total	YTD % Increase
ASSETS					
Retirement Accounts					
Equity Investments					
Business Private					
Business Public					
Stocks					
Bonds					
Total Equity Investments					
Cash/Savings					
Insurance					
Collections					
Personal Property					
Real Estate Personal					
Real Estate Investments					
Home Residuals					
Other Assets					
TOTAL ASSETS					
LIABILITIES					
Car Loans					
Credit Card Debt					
Mortgage Debt					
School Loans					
Other Debt					
TOTAL LIABILITIES					
NET WORTH					
ANNUAL CASH FLOW EARNED					
ANNUAL CASH FLOW BENEARED					



First Carolina
 CORPORATE CREDIT UNION
 Experience. Stability. Vision.

Credit Union Balance Sheet

Assets

Liabilities &
Member
Shares

Net Worth

Balance Sheet

ASSETS

EARNING ASSETS

Loans

What You Have

Investments

NON-EARNING ASSETS

Building, Equipment, etc.
NCUSIF Deposit

Other Assets

LIABILITIES & CAPITAL

MISCELLANEOUS LIABILITIES

What You Owe

SHARES

What Your Members Own

CAPITAL
Regular Reserves
Undivided Earnings

Income Statement

REVENUE

Loan Interest Income

What Comes In

Investment Interest Income

Fees

EXPENSES

Occupancy
Personnel
Provision for Loan Loss

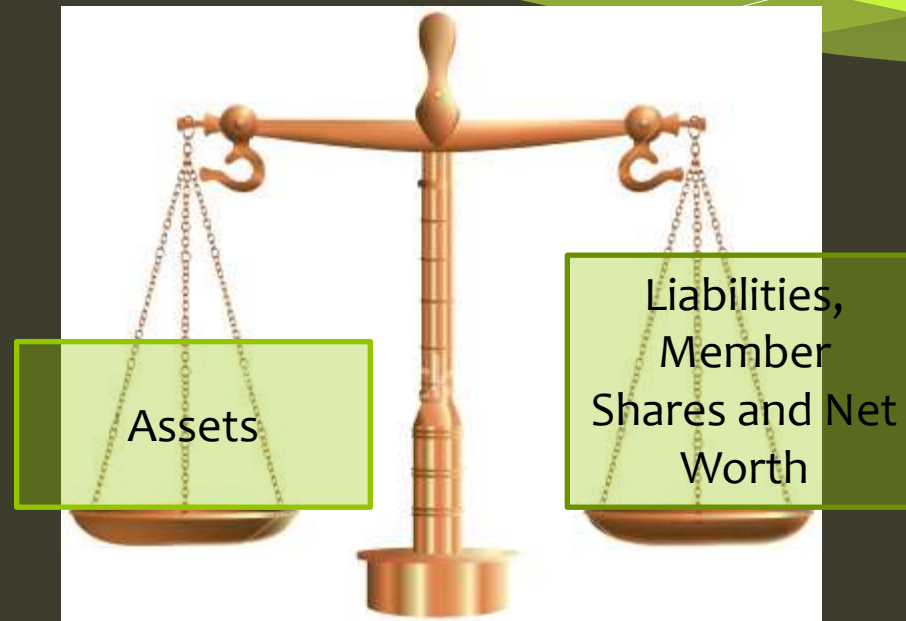
What Goes Out

COST OF FUND

Dividends Paid

NET INCOME or LOSS

Credit Union Balance Sheet



What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * Investments
 - * Loans
 - * (Allowance for Loan Loss)
 - * Fixed Assets
 - * Other Assets



What Makes Up The Credit Union's Assets

- * Assets

- * **Cash**

- * Investments

- * Loan

- * (Allowance for Loan Loss)

- * Fixed Assets

- * Other Assets

Cash is an asset that usually earns no income. The amount of cash on hand should be kept as low as possible, yet still sufficient to meet the demand for loans, withdrawals, and operational expenses.

What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * **Investments**
 - * Loan
 - * (Allowance for Loan Loss)
 - * Fixed Assets
 - * Other Assets

Investments are income-earning assets and include funds invested in the corporate credit union system or other financial institutions or instruments in order to earn interest.


What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * Investments
 - * **Loans**
 - * (Allowance for Loan Loss)
 - * Fixed Assets
 - * Other Assets

Loans to members are usually the largest asset and the major income earner for credit unions. Because of this loan delinquency can pose a grave threat to a credit union's financial stability.

What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * Investments
 - * Loan
 - * **(Allowance for Loan Loss)**
 - * Fixed Assets
 - * Other Assets



This is an amount that is set aside to absorb losses on loans that are not repaid. The allowance for loan losses is subtracted from loans outstanding; the net amount that results represents the estimated recoverable value of the loan portfolio.

What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * Investments
 - * Loan
 - * (Allowance for Loan Loss)
 - * **Fixed Assets**
 - * Other Assets

These are tangible assets of a credit union, such as land, buildings, furniture, and equipment. Fixed assets typically produce no income for a credit union. Credit unions are limited to the amount of fixed assets they may have without a waiver.

What Makes Up The Credit Union's Assets

- * Assets
 - * Cash
 - * Investments
 - * Loan
 - * (Allowance for Loan Loss)
 - * Fixed Assets
- * **Other Assets**

These are assets that don't fit into the other asset categories. Examples are: accrued income and prepaid expenses.

What Makes Up The Credit Union's Liabilities

- * Liabilities
 - * Accounts Payable
 - * Notes Payable
 - * Other Liabilities



What Makes Up The Credit Union's Liabilities

- * Liabilities
 - * **Accounts Payable**
 - * Notes Payable
 - * Other Liabilities

Are amounts owed by a credit union for goods and services it has already received.

What Makes Up The Credit Union's Liabilities

- * Liabilities
 - * Accounts Payable
 - * **Notes Payable**
 - * Other Liabilities

Represents money that has been borrowed by a credit union.

What Makes Up The Credit Union's Liabilities

- * Liabilities
 - * Accounts Payable
 - * Notes Payable
 - * Other Liabilities

Include remaining liabilities, such as unearned income. Unearned income is income that a credit union has received before it is earned.

What Makes Up The Credit Union's Capital Accounts

- * **Capital** (Capital and Equity are Interchangeable)
 - * Member Shares and Savings
 - * Statutory Reserves
 - * Special Reserves
 - * Undivided Earnings

What Makes Up The Credit Union's Capital Accounts

- * **Capital** (Capital and Equity are Interchangeable)

- * **Member Shares and Savings**

- * Statutory Reserves

- * Special Reserves

- * Undivided Earnings



Represent the total amount saved by members. NCUA considers these funds to be equity because of the cooperative structure of credit unions, where savers are owners. The AICPA, however, says the funds are liabilities.

What Makes Up The Credit Union's Capital Accounts

- * **Capital** (Capital and Equity are Interchangeable)

- * Member Shares and Savings

- * **Statutory Reserves**

- * Special Reserves


- * Undivided Earnings

Are reserves that a credit union is required by law or regulation to maintain.

What Makes Up The Credit Union's Capital Accounts

- * **Capital** (Capital and Equity are Interchangeable)

- * Member Shares and Savings
- * Statutory Reserves
- * **Special Reserves**
- * Undivided Earnings




Are voluntary reserves set up by a credit union for specific purposes, such as potential losses or building acquisitions.

What Makes Up The Credit Union's Capital Accounts

- * **Capital** (Capital and Equity are Interchangeable)

- * Member Shares and Savings
- * Statutory Reserves
- * Special Reserves
- * **Undivided Earnings**



Are accumulated earnings of a credit union after all expenses and reserve provisions are deducted. The amount represents the total net income earned during the credit union's history, less amounts set aside for special purposes (such as statutory reserves required by law)

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Non-interest Income
- * Expense
 - * Dividend and Interest Expense
 - * Operating Expense
 - * Depreciation
 - * Provision for Loan Losses
- * Net Income

	This Year		Prior Year	
	Month	Year-to-Date	Month	Year-to-Date
INCOME				
Interest Income	73,905.86	1,181,872.54	147,004.70	1,027,164.80
Non-Interest Income	1,481.72	1,984.20	78.00	1,000.00
TOTAL INCOME	75,387.58	1,183,856.74	147,082.70	1,028,164.80
EXPENSE				
Dividend and Interest Expense	11,027.40	117,863.86	40.87	207,164.80
Operating Expense	4,622.00	194,724.22	148,000.40	280,777.47
Depreciation	4,571.20	20,287.70	4,234.45	16,000.00
Provision for Loan Losses	1,707.77	24,245.17	1,782.26	16,000.00
TOTAL EXPENSE	22,128.37	256,920.95	194,068.08	409,946.27
Net Income	53,259.21	926,935.79	53,014.62	618,218.53

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Income earned on investments and on loans are the first accounts on the income statement.

What Makes Up The Credit Union's Income Statement

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Includes fees charged for specific services or membership. Examples: fees for insufficient funds on checks, annual fees for credit cards, and late fees on delinquent loan payments.

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Noninterest Income
- * Expense
 - * **Dividend and Interest Expense**
 - * Operating Expense
 - * Depreciation
 - * Provision for Loan Losses
- * Net Income

Includes amounts the credit union paid on savings accounts, note payables and other sources of funds with an interest cost.

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Noninterest Income
- * Expense
 - * Dividend and Interest Expense
 - * **Operating Expense**
 - * Depreciation
 - * Provision for Loan Losses
- * Net Income

Includes expenses for employee salaries and benefits, travel, office operations, education, insurance premiums, operating fees and miscellaneous

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Noninterest Income
- * Expense
 - * Dividend and Interest Expense
 - * Operating Expense
 - * **Depreciation**
 - * Provision for Loan Losses
- * Net Income

Is the decrease in the value of a fixed asset, such as credit union processing equipment, over a period of time. While some fixed assets (such as buildings) actually increase in value, the value reported on the the balance sheet is still reduced each year, as a way to allocate the cost of purchasing the building to the years in which the building is used.

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Noninterest Income
- * Expense
 - * Dividend and Interest Expense
 - * Operating Expense
 - * Depreciation
 - * **Provision for Loan Losses**
- * Net Income

The amount set aside during the year to absorb losses on loans that will not be repaid. The amount set aside is an estimate based on past experience and current conditions.

What Makes Up The Credit Union's Income Statement

- * Income
 - * Interest Earned
 - * Noninterest Income
- * Expense
 - * Dividend and Interest Expense
 - * Operating Expense
 - * Depreciation
 - * Provision for Loan Losses
- * **Net Income**

Is calculated by subtracting total expenses from total income.

Key Operating Ratios

- * Capital Adequacy
 - * Capital Ratio
- * Asset Quality
 - * Delinquency Ratio
 - * Net Charge-Off Ratio
- * Earnings
 - * Return on Average Assets (ROA)
 - * Operating Expense Ratio
- * Liquidity Ratio
 - * Loan to Share Ratio

$$\frac{(X+Y)/A}{B} = C$$

Key Operating Ratios

- * Capital Adequacy
 - * **Capital Ratio**
- * Asset Quality
 - * Delinquency Ratio
 - * Net Charge-Off Ratio
- * Earnings
 - * Return on Average Assets (ROA)
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- * Liquidity Ratio
 - * Loan to Share Ratio

The capital ratio indicates how much capital is available to cover claims on assets in the event of both expected and unexpected losses. For purposes of examining the “safety net” member shares and savings are not included.

Capital Ratio

Statutory Reserves + Other Capital
Reserves + Undivided Earnings

Total Assets

\$124,081,384

\$1,280,162,349

= 9.69%

Prompt Corrective Action

- * 7% or > Well Capitalized
- * 6% or > Adequately Capitalized
- * <6% Undercapitalized
- * <5% Significantly Undercapitalized
- * <3% Critically Undercapitalized

Key Operating Ratios

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 - * Capital Ratio
- * Asset Quality
 - * **Delinquency Ratio**
 - * Net Charge-Off Ratio
- * Earnings
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 - * Operating Expense Ratio
- * Liquidity Ratio
 - * Loan to Share Ratio

Shows the proportion of total loans outstanding that are behind their repayment schedules and may become losses in the near future. Most regulators focus on loans delinquent two months or more.

Delinquency Ratio

Total Delinquent Loans

Total Loans Outstanding

$$\frac{\$12,534,040}{\$878,802,064} = 1.43\%$$

Key Operating Ratios

- * Capital Adequacy
 - * Capital Ratio
- * Asset Quality
 - * Delinquency Ratio
 - * **Net Charge-Off Ratio**
- * Earnings
 - * Return on Average Assets (ROA)
 - * Operating Expense Ratio
- * Liquidity Ratio
 - * Loan to Share Ratio

May be calculated for any time period, including the entire history of the credit union. Most credit unions are interested in loans charged off during that year.

Net Charge-Off Ratio

Loan Charge-Offs During Year, Net of Recoveries

Average Loans Outstanding

$$\frac{\$478,522}{\$84,599,026} = 0.57\%$$

Key Operating Ratios

- * Capital Adequacy
 - * Capital Ratio
- * Asset Quality
 - * Delinquency Ratio
 - * Net Charge-Off Ratio
- * Earnings
 - * **Return on Average Assets (ROA)**
 - * Operating Expense Ratio
- * Liquidity Ratio
 - * Loan to Share Ratio

Measures a credit union's current ability to earn an acceptable rate or return. Net income is a measure of profitability.

Return on Average Assets

Net Income

Average Total Assets

\$1,764,089 (annualized)

\$1,276,805,889 (average)

= 0.14%

Key Operating Ratios

- * Capital Adequacy
 - * Capital Ratio
- * Asset Quality
 - * Delinquency Ratio
 - * Net Charge-Off Ratio
- * Earnings
 - * Return on Average Assets (ROA)
 - * **Operating Expense Ratio**
- * Liquidity Ratio
 - * Loan Ratios

Is computed relative to the credit union's average total assets. It gives some indication of the organization's efficiency.

Operating Expense Ratio

Operating Expenses

Average Total Assets

\$61,925,086 (annualized)

\$1,276,805,889 (average)

=4.85%

Key Operating Ratios

- * Capital Adequacy
 - * Capital Ratio
- * Asset Quality
 - * Delinquency Ratio
 - * Net Charge-Off Ratio
- * Earnings
 - * Return on Average Assets (ROAA)
 - * Operating Expense Ratio
- * Liquidity Ratio
 - * **Loan to Share Ratio**

Measures the degree to which members' savings are funding loans. A high ratio can signal possible liquidity problems if the credit union faces heavy savings withdrawals or high loan demand. A low ratio might result from high loan interest rates, low loan demand, or restrictive lending policies.

Resources

- * CUNA Board Financial Literacy Certificate Kit
 - * http://www.cuna.org/training-education/self_study/course_description.php?id=29776K
- * CU Analyzer
 - * <http://cualyzer.com>
- * NCUA
 - * <http://www.ncua.gov>