



UNDERSTANDING FINANCIAL REPORTS

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*"AN INVESTMENT IN
KNOWLEDGE PAYS THE
BEST INTEREST"*

- Benjamin Franklin

FINANCIAL REPORTS

- The Challenge
- Who Cares About Them?
- Why Do We Need Them?
- What Are They?
- What Do They Mean?



THE CHALLENGE

- Everyone has varying backgrounds
- Financial statements are reviewed infrequently
- Different formats/chart of accounts
- Growing complexity



WHO CARES?

- EVERYONE! (ok, maybe not everyone)
 - Members
 - Board of Directors
 - Staff
 - Regulators
 - Liquidity Providers
 - Insurers



WHY DO WE NEED THEM?

Accounting by federal credit unions serves many internal and external purposes. Comprehensive and accurate financial information is essential so that credit union management can make sound decisions concerning the operation of the credit union. Management must also account for its actions to members, creditors, the National Credit Union Administration in its supervisory capacity, and others having valid financial interests.

- NCUA ACCOUNTING MANUAL

WHAT ARE THEY?

Financial information provided to management is summarized in credit union financial statements which are intended to present fairly the financial position of the credit union at a given date, and the results of its operations for a given accounting period.

- NCUA ACCOUNTING MANUAL

WHAT ARE THEY?

- Balance Sheet (stock)
 - “Snapshot” of the credit union’s financial position at a point in time.
 - Signifies what is owned and what is owed.
 - Who you are.
- Income Statement (flows)
 - Summary of revenues and expenses over specified period of time.
 - What you are doing.

Figure 9-1: Statement of Financial Condition

STATEMENT OF FINANCIAL CONDITION AS OF December 31, 200X

Internal Use Only Report Type		70089 Charter # or Ins. Cert. #		OUR FEDERAL		CREDIT UNION	
ASSETS				LIABILITIES AND EQUITY			
LOANS, CASH and INVESTMENTS		Dollar Amount	Acct. Code	LIABILITIES		Dollar Amount	Acct. Code
1. Cash and cash equivalents		53,778		10. Borrowed Funds			
Cash and due from banks		53,778		Maturity ≤ 1 yr.			
Federal funds sold				Maturity > 1 yr.			
15. Reserves				Notes Payable			
Regulatory/Statutory Reserves				Reverse Repo			
Investment Valuation Reserve (SCU's Only)							
Special Reserves							
Other Reserves							
16. Uninsured Secondary Capital (CDCUs)							
17. Undivided Earnings (Post-Closing)				315,753			
18. OCI--Accumulated Unrealized G/L on AFS							
TOTAL MEMBER'S EQUITY							
Total Loan to Members [Sum i) through iv)]		854,361		Special Reserves			
All Other Loan Accounts (not included above)				Other Reserves			
(Less) Allowance for Loan Losses		1,636		16. Uninsured Secondary Capital (CDCUs)			
OTHER ASSETS				17. Undivided Earnings (Post-Closing)			315,753
6. NCUSIF Deposit		15,108		18. OCI--Accumulated Unrealized G/L on AFS			
7. Land and Buildings, Net				TOTAL MEMBER'S EQUITY			
8. Other Fixed Assets, Net		3,555		TOTAL LIABILITIES AND EQUITY			315,753
9. All Other Assets		2,248		Fair value of Held-to-Maturity Securities			
TOTAL ASSETS [Sum bolded items]		315,753		U.S. Government Obligations			
				Federal Agency Securities			
				Other HTM Securities			

Figure 9-2: Statement of Income

STATEMENT OF INCOME FOR THE PERIOD ENDED December 31, 200X

Internal Use Only Report Type	Acct. Code No. 100	70089 Charter # or Ins. Cert. #	OUR FEDERAL Refer to accompanying Statement of Undivided Earnings for change in Undivided Earnings			CREDIT UNION	
INTEREST INCOME			Month TD	Qtr-TD	YTD	CLASSIFICATION OF LOANS O/S	
19. Interest on Loans (Gross)			3,422	10,266	41,062	Degree of Delinquency	Dollars
20. Less: Interest Refunded						52. Current and < 2 mons.	Number
21. Income from Trading Securities						53. 2 to less than 6 mons.	
22. Income from Debt Securities			2,195	6,586	26,343	54. 6 to less than 12 mons.	
23. Other						55. 12 mons. and over	
NON-INTEREST EXPENSES							
40. Employee Compensation and Benefits					819	2,459	9,835
41. Travel & Conference							
42. Office Occupancy Expense					448	1,344	5,378
43. Office Operation Expenses					97	290	1,162
44. Educational and Promotional					32	97	388
45. Loan Servicing Expense							
46. Professional & Outside							
47. Member Insurance					265	796	3,183
48. Operating Fees (Exam)					78	233	934
49. Miscellaneous Operating					73	217	870
50. Total Operating Expense [Total Previous 10 Lines]					1,812	5,436	21,750
51. NET INCOME					1,252	15,632	26,893
41. Travel & Conference							
42. Office Occupancy Expense			448	1,344	5,378		
43. Office Operation Expenses			97	290	1,162		
44. Educational and Promotional			32	97	388		
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51. NET INCOME			1,252	15,632	26,893		

Certified Correct by: _____ Telephone No. _____
 Treasurer/Manager _____ Date _____
 President/Authorized Officer _____ Date _____

IDEAL FINANCIAL STATEMENTS

- There isn't a one size fit all approach.
- Varies from credit union to credit union.
- Do our financial statements reflect our goals?
- Do our reports relate to our goals?
- Can we measure and track our progress?

STRATEGIC PLANNING

- Establish goals
- Every 2-3 years
- How much risk are we willing to take?
- Do we need to build capital or share it?
 - Expansion?
 - Asset growth?
 - Major expenditures?



EXAMPLE – STRATEGIC PLANNING

- Credit Union ABC is planning to build a new office to support future growth.
 - Expenses increase
 - Non-earning assets increase
- Credit Union ABC should consider:
 - Current capital
 - Net Income
 - Total fixed assets

ANALYZING THE ENVIRONMENT

- Does the balance sheet make sense for your situation?
- Factors
 - Membership demographic
 - Economic environment (local and national)
 - Staff Expertise



RATIO ANALYSIS

- Helps measure financial performance
- Easier to compare to other credit unions
- Relates different parts of the financial statements to each other
- Assists in evaluating trends



KEY RATIOS

- Net Worth/Total Assets (Capital Ratio)
- Return on Assets (ROA)
- Total Loans/Total Shares
 - Loan Growth
 - Share Growth
- Net Interest Margin/Average Assets ($(\text{Interest Income} - \text{Interest Expense}) / \text{Average Assets}$)
- Efficiency Ratio ($\text{Operating Expenses} / (\text{Interest Income} - \text{Interest Expense} + \text{Non-Interest Income})$)

EXAMPLE – LOAN / SHARE

- Total Loans = 852,725
- Total Shares = 1,632,158
- Loans/Shares = $852,725 / 1,632,158 = 52.25\%$

3. Other Investments	\$1,051,598	\$1,051,598	14. Members' Shares and Savings Accounts [Sum a) through f)]	1,632,158
Shares, Deposits & CDs in Corporates		18,642	a) Share Certificates	
Shares, Deposits & CDs in CUs, Banks, and S&Ls		1,032,956	b) Share draft accounts	
Shares in Central Liquidity Facility			c) IRA/Keogh & Retirement Accounts	
Other			d) Other Member Savings	1,632,158
4. Loans Held-for-Sale			e) Member's deposits (SCU's only)	
5. Loans Receivable, Net		852,725	f) Non-member savings	
Commercial and Agricultural			EQUITY	
RE to Members (first lien), original maturity > 12 Years		127,013	15. Reserves	47,982
Fully Secured		92,630	Regulatory/Statutory Reserves	47,982
Other Loans to Members		634,718	Investment Valuation Reserve (SCU's Only)	
Total Loan to Members [Sum i) through iv)]		854,361	Special Reserves	
All Other Loan Accounts (not included above)			Other Reserves	
(Less) Allowance for Loan Losses		1,636	16. Uninsured Secondary Capital (CDCU's)	

EXAMPLE – GROWTH RATIOS

- Formula – $(\text{Most Recent} - \text{Past}) / (\text{Past})$
- Total Loans 06/30/2017 = 801,627
- Total Loans 12/31/2017 = 852,725
- Loan Growth = $(852,725 - 801,627) / (801,627) = 6.37\%$
- Annualized Rate – convert growth into an annual rate
- Formula – $(\text{Growth Rate}) * (12 / \text{Number of Months})$
- Annualized Growth Rate = $(6.37\%) * (12 / 6) = 12.74\%$

PEER ANALYSIS

- Identify weaknesses and opportunities
- Gain a better understanding of your market
- Choosing your peer group
 - Geographic
 - Size
 - Membership demographic



NCUA FPR REPORT

- NCUA Research a Credit Union Tool
 - <https://mapping.ncua.gov/ResearchCreditUnion.aspx>
- FPR User Guide
 - <https://www.ncua.gov/Legal/GuidesEtc/FPRGuides/UsersGuideFPR.pdf>

CONCLUSION

- Review financial statements
 - Do they represent your strategic goals?
 - Is the income being generated sufficient for the risk being taken?
- Review recent trends
- How do you compare to your peers?



QUESTIONS?