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PURPOSE

Financial reports disclose a summary of the credit union's financial condition and results of operations as of a specific date or time period to the members and other users. Display a copy of the reports so members may review the financial condition of their credit union, and potential members can make an informed decision on the likelihood of future dividends. Submit copies to the directors for considera-

tion at their regular meetings. Suggested statements include:

- Statement of Financial Condition,
- Statement of Income, and
- Statement of Changes in Members' Equity.

In addition, credit unions who obtain an independent accountant’s opinion on their financial statements must display annually the audited

Statement of Cash Flows and Statement of Comprehensive Income or alternative presentation of comprehensive income.

FREQUENCY OF REPORT DISTRIBUTION

<i>NAME OF REPORT</i>	<i>FREQUENCY</i>	<i>APPLICABLE TO</i>
Statement of Financial Condition	Monthly	All FCUs
Statement of Income	Monthly	All FCUs
Statement of Changes in Members’ Equity	Quarterly or at the end of the regular share account dividend period — if the dividend period is longer than quarterly	All FCUs
Statement of Cash Flows	At least annually	All FCUs who obtain an independent accountant’s opinion on their financial statements
Statement of Comprehensive Income (or alternative presentation)	At least annually	All FCUs who obtain an independent accountant’s opinion on their financial statements

REPORTS REQUIRED BY THE NCUA

Federal credit unions submit periodic Call Reports to the NCUA as and when the Administration may require. The NCUA Rules and Regulations specify when reports are required.

Federal Credit Unions also post financial statements at the credit union for members or may issue financial statements in its annual report. For credit unions under \$10 million in assets, these financial statements should follow the prescribed form herein, a similar format, or be prepared consistent with GAAP.

Individual federal credit unions are not required to file statements with the IRS or main-

tain an informational return. NCUA is no longer obligated to file a consolidated Form 990. The Federal Credit Union Act (FCUA) exempts federal credit unions from federal, state, and local income tax. The tax exemption falls under Section 501(c)(1) of the Internal Revenue Code. Organizations falling under the 501(c)(1) code exemption do not have to file an informational return or make such a return available for inspection.

FORMAT OF FINANCIAL REPORTS

NCUA does not provide financial statement forms but suggest these standard formats to ease submission of financial reports other than the Call Report. These formats include:

- Statement of Financial Condition,
- Statement of Income, and
- Statement of Changes in Members' Equity.

The Supporting Schedules for Financial Statements illustration enables credit unions to provide a further breakdown of line items on the Statement of Financial Condition and/or the Statement of Income.

For the Statement of Cash Flows and the Statement of Comprehensive Income, refer to the illustrative statements included at the end of this section. Management should work with your independent accountant to develop an appropriate format. Credit unions may adopt a report format designed to satisfy their particular needs provided it accomplishes full and fair disclosure.

DESCRIPTION OF FINANCIAL REPORTS

STATEMENT OF FINANCIAL CONDITION

The Statement of Financial Condition, shown in Fig. 9-1 reports the credit union's financial condition as of a given date (month end). It is organized into three sections: assets (property), liabilities (obligations), and shares and equity (ownership). Total assets must equal total liabilities and equity.

Statement preparers must follow basic accounting concepts and measurement principles and standards. Include notes (if necessary, on a separate attachment) to identify any material transactions of an irregular nature and/or any significant changes in accounting practices adopted since the previous

presentation. Notes should include descriptions of the transactions' effects on the financial condition. Also, the statement should identify by note or otherwise:

- All significant accounting principles;
- Restricted cash separately from unrestricted cash;
- Nature and extent assets are pledged as collateral on borrowed funds;
- Nature and extent specific liabilities have a preferred lien on assets;
- Contingent losses;
- Specific details relating to pension plans;
- The number and aggregate dollar amount of member business loans; and
- Other significant events or activities that will provide full and fair disclosure.

The amount entered for "Undivided Earnings" will be the account balance after the following entries are made:

- 1) Closing the income and expense accounts into the Net Income (Loss) account, and
- 2) Transferring the balance of the Net Income (Loss) account to Undivided Earnings.

At the close of an accounting period, prepare the Statement of Financial Condition from the post-closing trial balance since this trial balance reflects the closing entries made to the Undivided Earnings account.

If management elects not to close its accounting records at the close of a dividend period, prepare the reports with interim adjustments made on a work sheet basis. This is necessary to give effect to the entries 1) and 2) as

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.			
Short-term, interest-bearing funds in other financial institutions					Notes Payable			
					Reverse Repo			
					Other			
2. Securities			18,658		11. Accrued Dividends/Interest Payable			
Maturity 1 yr. or less		Maturity > 1 yr.			12. Other Accrued Expenses and Accounts Payable			1,777
Trading Accounts					TOTAL LIABILITIES			1,777
Available-for-Sale					13. All Other Liabilities and Contingencies			
Held-to-Maturity		18,658	18,658		14. Members' Shares and Savings Accounts [Sum a) through f)]			1,632,158
3. Other Investments			\$1,051,598		a) Share Certificates			
Shares, Deposits & CDs in Corporates			18,642		b) Share draft accounts			
Shares, Deposits & CDs in CUs, Banks, and S&Ls			1,032,956		c) IRA/Keogh & Retirement Accounts			
Shares in Central Liquidity Facility					d) Other Member Savings			1,632,158
Other					e) Member's deposits (SCU's only)			
4. Loans Held-for-Sale					f) Non-member savings			
5. Loans Receivable, Net			852,725		EQUITY			
Commercial and Agricultural					15. Reserves			47,982
RE to Members (first lien), original maturity > 12 Years			127,013		Regulatory/Statutory Reserves			47,982
Fully Secured			92,630		Investment Valuation Reserve (SCU's Only)			
Other Loans to Members			634,718		Special Reserves			
Total Loan to Members [Sum i) through iv)]			854,361		Other Reserves			
All Other Loan Accounts (not included above)					16. Uninsured Secondary Capital (CDCUs)			
(Less) Allowance for Loan Losses			1,636		17. Undivided Earnings (Post-Closing)			315,753
OTHER ASSETS					18. OCI--Accumulated Unrealized G/L on AFS			
6. NCUSIF Deposit			15,108		TOTAL MEMBER'S EQUITY			
7. Land and Buildings, Net					TOTAL LIABILITIES AND EQUITY			\$1,997,670
8. Other Fixed Assets, Net			3,555		Fair value of Held-to-Maturity Securities			
9. All Other Assets			2,248		U.S. Government Obligations			
TOTAL ASSETS [Sum bolded items]			\$1,997,670		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 CREDIT UNION Refer to accompanying Statement of Undivided Earnings for change in Undivided Earnings				
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	Number
20. Less: Interest Refunded					52. Current and < 2 mons.			
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			
24. Total Interest Income [Sum above lines]		5,617	16,852	67,405	56. Total Loans [Sum 51.-54.]			
INTEREST EXPENSE				MISCELLANEOUS INFORMATION				
25. Dividends		2,553	7,659	30,637	57. Number of members at end of month			597
26. Interest on Borrowed Money				57	58. Number of potential members			1,800
27. Total Interest Expense [Total Previous Two Lines]		2,553	7,659	30,637	OTHER LOAN INFORMATION			
28. Net Interest Expense [Total Interest Income less above line]		3,064	9,193	36,768	59. Loans sold and being serviced			
29. Less: Provision for Loan Losses					60. RE loans made during year			
30. Net Interest Income After PLL		3,064	9,193	36,768	61. Total loans made during year	302,369		79
OTHER NON-INTEREST INCOME								
31. Net gain (loss) on sale of available-for-sale securities					62. Loans since organization			
32. Net gain (loss) on trading securities					63. Total loans charged-off YTD			
33. Member service fees					64. Recovery of loans charged-off YTD			
34. Loan servicing fees					65. Net loans charged-off YTD			
35. Insurance commissions					We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.			
36. Net gains on sale of loans								
37. NCUSIF Refund								
38. Other Income			11,875	11,875				
39. Non-Interest Income (Total 30.-37.)			11,875	11,875				
NON-INTEREST EXPENSES								
40. Employee Compensation and Benefits		819	2,459	9,835	Certified Correct by:		Telephone No.	
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					Treasurer/Manager		Date	
46. Professional & Outside					_____		_____	
47. Member Insurance		265	796	3,183				
48. Operating Fees (Exam)		78	233	934				
49. Miscellaneous Operating		73	217	870	President/Authorized Officer		Date	
50. Total Operating Expense [Total Previous 10 Lines]		1,812	5,436	21,750				
51. NET INCOME		1,252	15,632	26,893				

described in the preceding paragraph. Then prepare the financial reports in the same manner as though the books were closed.

STATEMENT OF INCOME

The Statement of Income, shown in Fig. 9-2 reflects all income, expenses, gains, and losses. It segregates net interest income, other operating income and expense, and non-operating income and expense. The provision for loss expenses is applied to net interest income.

Three columns are provided on the form for recording income, expenses and gains or losses:

- 1) Current month,
- 2) Quarter-to-date, and
- 3) Year-to-date.

If the books are closed just once in a year, only the Year-to-Date column reports amounts of income, expenses, gains, and losses. If the books are closed quarterly or at the end of the regular share account dividend period, or if the dividend period is longer than quarterly, the Year-to-Date column reports the calendar year cumulative totals through the date the books were last closed plus the amounts of income, expenses, gains, and losses after the last closing date.

Report operating expenses in the Year-to-Date column based upon totals for each grouping of expense accounts. For example, the single reported amount for Office Occupancy Expenses includes the total of expense accounts such as rent, utilities, real estate taxes, building maintenance, etc.

Income and expenses in the current Month and Quarter-to-Date columns represent the net postings for the current month and the current quarter-to-date as shown in the income,

expenses, gains and losses accounts for the period identified in the column heading.

Classifying Outstanding Loans

Obtain this information from the Schedule of Delinquent Loans and the Statement of Financial Condition. This portion of the Statement of Income provides a breakdown of the number and amount of delinquent loans outstanding.

Other Loan Information

This portion of the Statement of Income discloses a breakdown of the number and amount of:

- Loans sold and serviced by the credit union;
- Real estate loans made in the current year;
- Total loans made in the current year; and
- Total loans made since the credit union's organization.

Also, it reports the total amount of charged-off loans, recoveries, and net charged off loans year-to-date.

Miscellaneous Information

This section reports the number of members of record and the number of potential members as of the month end.

SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS

Use this form, shown in Fig. 9-3 to provide additional information for any line item on either the Statement of Financial Condition or the Statement of Income. For example, Cash may consist of Cash-Checking Accounts, Petty Cash, and Cash Fund. If this

Figure 9-3: Supporting Schedules for Financial Statements

SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS						
<u>70089</u> Charter # or Ins. Cert. #		<u>OUR FEDERAL</u> CREDIT UNION			<u>December 31, 200X</u> Date	
Schedule	Ref. No.	Account Title	Acct. No.	Debit	<u>Balances</u>	
A	1.	Cash-Checking Accounts		49,028		
		Petty Cash		250		
		Cash Fund		4,500		
		Balance		<u>53,778</u>		
B	6.	Furniture and Equipment		5,750		
		Allowance for Furniture and Equip- ment				2,195
		Balance		<u>3,555</u>		
		Etc.				
K	33.	Rent		4,250		
		Utilities		1,000		
		Other Office Occupancy Expenses		128		
		Balance		<u>5,378</u>		

is the first supporting schedule, label it Schedule A on the Statement of Financial Condition and on the Supporting Schedules for Financial Statements. Refer to the Statement of Financial Condition. The account number is the general ledger account number. Use the remaining two columns for balances or appropriate dollar amounts.

STATEMENT OF CHANGES IN MEMBERS' EQUITY (EXCLUDING SHARES)

This statement is shown in Fig. 9-4. Prepare and display this statement with the regular financial reports at least quarterly or at the end of the regular share account dividend period, if the dividend period is longer than quarterly. Management may also incorporate this statement with other financial reports at any time.

The statement reports changes in members' equity (excluding shares) during the reporting period. It shows the total increases and total decreases in each equity (ownership) account. Base the report on an analysis of the debits and credits during the reporting period in certain "Equity" general ledger.

STATEMENT OF COMPREHENSIVE INCOME

As stated in Section 200 of this manual, federal credit unions with an annual opinion audit by an independent accountant must prepare the Statement of Comprehensive Income at least annually. Management may prepare it more frequently, but then an annual report should be prepared as of each year-end. Federal credit unions without an opinion audit may also prepare this statement.

Several formats are permitted for the presentation of this statement. For illustrative purposes, Fig. 9-4 includes the presentation of comprehensive income within the Statement of Member's Equity. Use this format or a permissible alternative format to report comprehensive income. Management may confer with an independent accountant concerning the best format for the credit union.

Comprehensive income is "the change in credit union's equity (net assets) during a period, from transactions and other events and circumstances from non-owner sources (excluding shares). It includes all changes in equity, except those resulting from investments by owners (excluding shares) and distributions to owners (excluding share dividends)." An example of a component of comprehensive income is the change in Accumulated Unrealized Gains or Losses on Available-for-Sale Securities.

To avoid double-counting items displayed as part of other comprehensive income in the period, or earlier periods, preparers must make various reclassification adjustments to comprehensive income. For example, the preparer must deduct gains on investment securities realized and included in net income of the current period through other comprehensive income of the period when they are included in net income — because they are also included in other comprehensive income as unrealized holding in the period the gains arose. This reclassification adjustment will avoid double-counting the gains in comprehensive income.

**Figure 9-4: Statement of Changes in Members' Equity (Excluding Shares)
(FCU 109D)**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY (Excluding Shares)
FOR THE PERIOD ENDED December 31, 200X**

<u>OUR FEDERAL</u>		<u>CREDIT UNION</u>		<u>70089</u> Charter # or Ins. Cert. #		
	TOTAL	TOTAL COMPREHENSIVE INCOME		APPROPRIATED EARNINGS		UNAPPROPRIATED EARNINGS
		COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	REGULAR RESERVES (ACCT. 931)	OTHER RESERVES	UNDIVIDED EARNINGS (ACCT. NO. 940)
64. Beginning balance	336,842		0	47,982	0	288,860
Comprehensive income:						
65. Net income	26,893	26,893				26,893
66. Other comprehensive income						
a) Unrealized gain or loss on AFS securities, net of reclassification adjustment (below) ¹	0	0				
b) Other comprehensive income		0	0			
67. Comprehensive income:		<u>26,893</u>				26,893
68. Transfers:						
a) Required Transfer to Regular Reserve	--			--		--
b) Provision for Loan Losses	--			--		--
c) Other Transfers	--			--		--
d) Net Transfers	0			0		0
69. Uninsured Secondary Capital (CDCUs)	--				--	
70. Ending Balance	363,735		0	47,982	0	315,753

FCU 109D

¹ **Disclosure of reclassified amount:**

Unrealized holding gains and losses during period	0
Less: reclassification adjustment for amounts included in net income	<u>0</u>
Net unrealized gains/losses on securities	<u>0</u>

Figure 3-4A better illustrates comprehensive income effect; This figure includes no comprehensive income adjustments.

Figure 9-4A: Statement of Changes in Members' Equity (Excluding Shares) (Illustrating Comprehensive Income)

**STATEMENT OF CHANGES IN MEMBERS' EQUITY (Excluding Shares)
FOR THE PERIOD ENDED December 31, 200X**

<u>OUR FEDERAL</u>		<u>CREDIT UNION</u>		<u>70089</u> Charter # or Ins. Cert. #		
	TOTAL	TOTAL COMPREHENSIVE INCOME		APPROPRIATED EARNINGS		UNAPPROPRIATED EARNINGS
		COMPREHENSIVE INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	REGULAR RESERVES (ACCT. 931)	OTHER RESERVES	UNDIVIDED EARNINGS (ACCT. NO. 940)
66. Beginning balance	336,842		0	47,982	0	288,860
Comprehensive income:						
67. Net income	26,893	26,893				26,893
68. Other comprehensive income						
a) Unrealized gain or loss on AFS securities, net of reclassification adjustment (below) ¹	(7,500)	(7,500)				
b) Other comprehensive income		0	0			
69. Comprehensive income:		<u>19,393</u>				19,393
70. Transfers:						
a) Required Transfer to Regular Reserve	--			--		--
b) Provision for Loan Losses	--			--		--
c) Other Transfers	--			--		--
d) Net Transfers	0			0		0
71. Uninsured Secondary Capital (CDCUs)	--				--	
72. Ending Balance	356,235		0	47,982	0	308,253

¹ **Disclosure of reclassified amount:**

Unrealized holding gains and losses during period	(7,500)
Less: reclassification adjustment for amounts included in net income	<u>0</u>
Net unrealized gains/losses on securities	<u>(7,500)</u>

INSTRUCTIONS FOR PREPARING THE STATEMENTS OF FINANCIAL CONDITION, STATEMENT OF INCOME, SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS, AND STATEMENT OF CHANGES IN MEMBERS' EQUITY.

Refer to Figures 9-1, 9-2, 9-3 and 9-4.

ASSETS

ITEM TITLE and DESCRIPTION

1- Cash and cash equivalents. Cash on hand, petty cash, checking accounts; federal funds sold; and short-term, interest-bearing funds in other financial institutions, etc.

2- Securities.

Trading Securities. The fair value of securities held principally for sale in the near term (within hours or days).

Available-for-Sale Securities. The fair value of securities not meeting the GAAP-criteria for held-to-maturity or trading (sale within months or years).

Held-to-Maturity Securities. The amortized cost of investments management has the positive intent and ability to hold to maturity. Exclude prepaid securities or securities otherwise settled in such a way management would not recover substantially all of its recorded investments.

3- Other Investments. Shares, Deposits & CDs in Corporates; CUs, Banks, and S&Ls; Shares in CLF; and Other Deposits not meeting the definition of a cash equivalent (maturity generally greater than 3 months.)

Shares, Deposits, and Certificates Invested in Corporate Central Credit Unions. The total amount of shares, deposits, and certificates invested in Corporate Central Credit Unions. Do not include special share accounts established in a corporate central credit union to fund the corporate central's Central Liquidity Facility stock subscription; report such accounts in item 4-d. Add the amounts reported in columns: "Maturity 1 Yr. Or Less" and "Maturity Greater Than 1 Yr." to equal the amount in "Dollar Amount".

Shares, Deposits, and Certificates in Other Credit Unions, Banks, S&Ls, and Mutual Savings Banks. The amount of outstanding shares, deposits, and certificates of other credit unions, banks, S&Ls and MSBs. Add the amounts reported in columns: "Maturity 1 Yr. Or Less" and "Maturity Greater Than 1 Yr." to equal the amount in "Dollar Amount".

Shares in Central Liquidity Facility. The total amount of shares invested directly or indirectly in the Central Liquidity Facility. Credit unions with access to the Central Liquidity Facility (CLF) through a CLF Agent should include the amount of their "CLF Stock Reimbursement" (a special share account in a corporate central to fund the corporate central's CLF stock subscription). A corporate central credit union that is a member of a CLF Agent Group should include the amount it invested in its Agent Group Representative (AGR) to reimburse the AGR for purchasing CLF stock on its behalf.

All Other Investments. All investments (not securities) not reported above. Include loans to other credit unions, investments and loans to CUSOs. Do not include CLF investments or NCUSIF deposit.

4. Loans Held for Sale. The value of loans either identified for sale at origination or subsequently, for which there has been a decision to sell.

5. Loans Receivable, Net. The value of portfolio loans outstanding less the Allowance for Loan Losses.

Commercial (Business Loans) and Agricultural. Report the total amount of loans over \$50,000 (aggregate to one borrower or associated member) for business, inventory, and commercial purposes; plus all loans for the purpose of farming, raising live-stock, or the purchase of farm equipment or loans secured by farmland, equipment or crops.

Real Estate Loans. Report the total amount of real estate loans to members outstanding as of the report date. Report only those loans with original maturities in excess of 12 years.

Share Secured Loan Balances (Fully Secured by Shares). Report the amount of loans to members outstanding as of the report date that are completely secured by pledged shares.

All Other Loans to Members. This amount should be the residual of loans to members after deducting commercial and agricultural loans, real estate loans, and share secured loan balances fully secured by shares have been deducted. Include loans classified as collateral in process of liquidation.

Total Loans to Members. All loans to members (including commercial loans, agricultural loans, real estate loans and share secured loans) outstanding as of the report date. Do not include loans to other credit unions. Report these in the investments section.

All Other Loan Accounts. All other loan accounts such as loans purchased, in whole or in part, from other credit unions, any note or contract receivable resulting from the sale of assets and similar accounts, if any. Include loans subject to repurchase agreements and nonmember loans. Do not include loans to other credit unions. Report these in the investment section.

(Less) Allowance for Loan Losses. This item, if applicable, represents the amount estimated by management for existing probable losses inherent in the loan portfolio.

6- NCUA Share Insurance Capitalization Deposit. The outstanding balance of the credit union's NCUA Share Insurance Deposit.

7- Land and Building (Net). The amount of land and building less depreciation on building, if any.

8- Other Fixed Assets, Net. All other fixed assets such as furniture and fixtures, leasehold improvements, less related depreciation items, if any

9- All Other Assets. All other assets of the credit union not included in the above items. Includes such items as prepaid expenses and insurance, accounts receivable, accrued income, etc.

Total Assets. Represents the sum of the amounts in items 1. through 9. bolded above.

LIABILITIES/SAVINGS EQUITY

10- Borrowed Funds.

Notes Payable. The amount of the credit union's liability for borrowed funds. Add the amounts reported in columns: "Maturity 1 Yr. Or Less" and "Maturity Greater Than 1 Yr." to equal the amount in "Dollar Amount".

Reverse Repurchase Transactions. The outstanding balance of funds borrowed from any source using securities as collateral. Add the amounts reported in columns: "Maturity 1 Yr. Or Less" and "Maturity Greater Than 1 Yr." to equal the amount in "Dollar Amount".

Other Borrowed Funds. All other borrowed funds outside the classifications above. Include "Accrued Interest Payable" because it represents the amount of interest accrued on all notes and borrowings

11- Accrued Dividends/Interest on Shares/Deposits Payable. The total amount of dividends/interest on shares/deposits payable declared, and not paid, for the last dividend period.

12- Other Accrued Expenses and Accounts Payable. All accounts payable such as undistributed payments, undistributed payroll deductions, etc.

Total Liabilities. Represents the sum of the amounts in items 10. through 12. bolded above.

13- All Other Liabilities and Contingencies. All liability accounts not shown separately above. Include such items as taxes payable, accrued expenses, deferred income, and Unapplied Data Processing Exceptions, etc.

- 14- Total Savings/Shares/Deposits.** The sum of amounts held in all savings/shares/deposits accounts of members and nonmembers. Includes share certificates, share draft accounts, public unit accounts, retirement plans, and special share accounts such as Christmas and vacation accounts, if any. The sum of a) through f) below.
- a. Share Certificates and Time Deposits.** The total amount of regular, money market, jumbo, and other share certificates and time deposits held by credit union members, if any. Add the amounts reported in columns: "Maturity \leq 1 Yr." and "Maturity $>$ 1 Yr." to equal the amount in "Dollar Amount".
 - b. Share Draft Accounts.** The total amount of share draft accounts held by credit union members.
 - c. IRA/Keogh and Retirement Accounts.** The amount of member funds deposited for retirement purposes under a trust or custodial agreement.
 - d. Other Member Savings.** Total member savings excluding share draft accounts, share certificates, member deposits, and IRA/Keogh and retirement accounts.
 - e. Member Deposits.** The amount of deposits (not shares) of members. For use by state-chartered credit unions only.
 - f. Nonmember Savings.** The total amount of nonmember deposits. Primarily applicable to Community Development Credit Unions.
- 15- Reserves.**
- Regular/Statutory Reserve.** The statutory (regular) reserve balance.
 - Investment Valuation Reserve (SCU's only).** Reserves to cover the excess of book value over market value for held-to-maturity securities and investments (not securities) other than those authorized for federal credit unions by Section 107 of the FCUA. For use by state-chartered credit unions only.
 - Special Reserves.** Any other reserves required by regulation, special agreement, or other of the credit union's supervisory authority.
 - Other Reserves.** The sum of other reserve accounts created by management such as reserve for contingencies, appropriated undivided earnings, etc.
- 16- Uninsured Secondary Capital.** For low-income (community development) designated credit unions only. The amount of secondary capital accounts accepted from organizational or institutional investors.
- 17- Undivided Earnings, Post-Closing.** The total amount of accumulated income or surplus. As a post-closing amount, it includes the net income (loss) from operations.

18- Accumulated Unrealized Gain/Losses on Available-for-Sale Securities. The accumulated unrealized and unrecognized gains and losses (net) on securities classified as available-for-sale.

Total Equity. Represents the sum of amounts in items 14 through 18.

Total Liabilities and Equity. Represents the sum of Total Liabilities and Total Equity plus item 13.

Fair Value Of Held-To-Maturity Securities.

U.S. Government Obligations. The fair value of U.S. Government Obligations management has the intent and ability to hold to maturity.

Federal Agency Securities. The fair value of Federal Agency Securities management has the intent and ability to hold to maturity.

All Other Investments. Identify all other securities in HTM with fair values less than the booked amounts and report the fair value for the investment's management has the intent and ability to hold to maturity.

OPERATING INCOME

19- Interest on Loans (Gross). The total amount of income from interest on loans.

20- (Less) Interest Refunded. The total amount of interest refunded.

21- Income From Trading Securities. The total amount of income earned on trading securities (excluding disposition gains or losses).

22- Income from Debt Securities. The total amount of income earned on debt securities, available-for-sale and held-to-maturity.

23- Other Interest Income. Miscellaneous interest income not reported above.

24- Total Interest Income. Sum of items 18 through 23 above.

INTEREST EXPENSE

25- Dividends. The actual or estimated amount of dividends for the reporting period.

26- Interest on Borrowed Money. The interest expense for borrowed money.

27- Total Interest Expense. Sum of items 25 and 26.

28- Net Interest Income. The gross profit of the credit union (item 24 minus item 27).

29- Provision for Loan Loss. The current period Provision for Probable Losses and related costs on loans and other loan receivables.

- 30- **Net Interest Income After Provisions for Losses.** Gross profit less Provisions for Loan Losses (item 28 minus 29).

OTHER NON-INTERST INCOME

- 31- **Net Gain (Loss) on Available-for-Sale Securities.** The amount the gain or loss on disposition of available-for-sale securities.
- 32- **Net Gain (Loss) on Trading Securities.** The amount of gain or loss on disposition of trading securities.
- 33- **Member service fees.** Service fees collected from members, excluding those on loan servicing.
- 34- **Loan Servicing fees.** Fees collected on the servicing of loans.
- 35- **Insurance commissions.** Commissions earned on permissible insurance services to members.
- 36- **Net gains on sale of loans.** The amount of gain or loss on disposition of loans.
- 37- **NCUSIF Refund.** Refunds received as authorized by the NCUA Board on the NCUSIF deposit.
- 38- **Other Income.** All operating income other than interest on loans, income from investments, and gain or loss on trading accounts.
- 39- **Non-Interest Income.** Total 31.-38.

NON-INTERST EXPENSE

- 40- **Employee Compensation and Benefits.** Compensation is the total amount of salaries paid to credit union employees, including the treasurer, if paid. Also includes sponsor reimbursement when employees are on the sponsor company's payroll. Benefits are all expenses relating to employee benefits. Includes pension plan costs, employer's social security taxes, unemployment compensation taxes, and other benefits provided to employees.
- 41 **Travel and Conference Expense.** The amount of authorized expenses incurred by employees and officers for travel and attendance at conferences and other meetings.
- 42- **Office Occupancy Expense.** All expenses relating to office occupancy including rent, utilities (except telephone), building depreciation, if owned, real estate taxes, and leasehold improvements amortization.
- 43- **Office Operation Expense.** All expenses relating to office operations including communications, stationery and supplies, insurance, furniture rental and/or maintenance, depreciation, bank service charges, etc.

- 44- Educational and Promotional Expense.** Includes advertisements or notices in newspapers, periodicals, radio, or television; publicity for member education; and other promotional expenses.
- 45- Loan Servicing Expense.** All expenses incurred in servicing loans such as collections, credit reports, recording fees, chattel lien insurance, etc.
- 46- Professional and Outside Services.** Expenses incurred for such items as legal fees, audit fees, accounting services, and management and consultant fees.
- 47- Member Insurance.** The cost of members' insurance, including premiums paid for life savings insurance, annual share insurance premium and borrowers protection insurance.
- 48- Operating Fees.** The NCUA annual operating fee, state supervision fee, and the cost of periodic examinations assessed by the supervisory agency, if any.
- 49- Miscellaneous Operating Expense.** Includes all miscellaneous operating expenses not separately listed.
- 50- Total Operating Expenses.** Sum of all operating expenses. Items 39 through 50.
- 51- Net Income (item 30 plus items 39 and minus 50).** The net profit or loss.

CLASSIFICATION OF LOANS OUTSTANDING

- 52-56 Classification of Loans Outstanding.** The number and amount of delinquent loans: current and less than 2 months delinquent; 2 and less than 6 months delinquent; 6 and less than 12 months delinquent; and 12 months and more delinquent. Obtain information on delinquent loans from a delinquent loan schedule as of the report date.
- 57- Number of Members at End of Month.** The actual number of members on record. Do not enter the number of accounts.
- 58- Number of Potential Members.** The number of actual members plus persons in the field of membership who have not joined the credit union. If utilizing field of membership data stated in terms of families, use an average of three persons per family to estimate the total individual potential membership.
- 59- Loans Sold and Being Serviced by the Credit Union.** The number and outstanding dollar amount of loans sold to others serviced by the credit union.
- 60- Real Estate Loans Made During Current Year.** The number and dollar amount of real estate loans (first liens with original maturities over 12 years) made during the current year.
- 61- Total Loans Made During Current Year.** The total number and amount of loans made during the current year.

- 62- Loans since organization.**
- 63- Total Loans Charged Off Year-to-Date.** The total amount of loans charged off year-to-date.
- 64- Recoveries on Loans Charged Off Year-to-Date.** The total amount of recoveries on previously charged off loans year-to-date.
- 65- Net Loans Charged Off Year-to-Date.** Net charge offs year-to-date; item 63 less item 62. This amount may be negative.

MEMBER'S EQUITY AND COMPREHENSIVE INCOME

- 66- Members' Equity Balance, Beginning of Period.** The beginning of period balances for the accumulated other comprehensive income, statutory reserve, other reserves, and undivided earnings. These balances may be translated from the previous period's Statement of Financial Condition, line items 15, 16, 17, and 18. Although NCUA considers shares part of equity, they are excluded in consideration of the Changes in Members' Equity (excluding shares).
- 67- Net Income/Loss.** The amount shown on the Statement of Income, Line item 51.
- 68- Other Comprehensive Income.**
- a. Unrealized gain or loss on AFS securities, net of reclassification adjustment.** Accumulated unrealized gains or losses corresponding to available-for-sale securities. Line item 68 should equal line item 18 on the Statement of Financial Condition.
 - b. Other Comprehensive Income.**
- 69- Comprehensive Income.** Total of line item 51, net income, and line item 68 b. other comprehensive income. Includes all changes in equity during a period except those resulting from investments by owners (excluding shares) and distributions to owners (excluding share dividends).
- 70- Transfers**
- a. Required Regular Reserve Transfer.** The current period transfer of Undivided Earnings to Regular Reserve consistent with requirements of Prompt Corrective Action and based on net worth classification, (Item 15. on the Financial Condition).
 - b. Special Transfers.** Other statutory or regulatory required transfers from undivided earnings not provided for elsewhere.
 - c. Other Transfers.** Discretionary appropriations of Undivided Earnings as determined necessary/expedient by the credit union board.

d. **Total Transfers.** The total of items 70 a. through c.

- 71- Uninsured Secondary Capital (CDCUs).** The capital portion of a CDCU's subordinated debt calculated on a sliding scale consistent with regulatory requirements. Uninsured secondary capital is the matching funds required for CDCU's participating in the Treasury Department's Community Development Financial Institution's Fund (CDFI).
- 72- Ending Balance.** The end of period balances for accumulated other comprehensive income, statutory reserve, other reserves, and undivided earnings. Cross-foot statement to total ending balance column.

STATEMENT OF CASH FLOWS

As stated in Section 200 of this manual, management must prepare the Statement of Cash Flows at least annually if they receive an opinion audit by an independent accountant. Management may prepare it more frequently than fiscal year end. Federal credit unions without opinion audits may also wish to prepare the statement.

The Statement of Cash Flows illustration uses the basic information illustrated for Our Federal Credit Union from Figures 9-1, 9-2, and 9-3. Report the cash effects of management's operating activities, investing activities, and financing activities. Explain the changes during the period in cash and cash equivalents. Figures 9-5C and 9-5D are illustrations of some of the preliminary work papers for the Statement of Cash Flows.

There are two ways to report cash flows:

- 1) Gross receipts and gross payments, or
- 2) Net receipts and/or payments.

Federal credit unions use the net/receipts or payments method. Items qualifying for "net" reporting are cash flows from all investments, loans, and debt with original maturities of 3 months or less (considered to be short term).

Also, share draft accounts and any other types of share accounts management is basically holding and disbursing cash on behalf of the member.

NOTES TO THE FINANCIAL STATEMENTS

Notes provide information that cannot be sufficiently described within the body of the financial statements without detracting from the clarity of the statements. Do not use notes as a substitute for proper accounting entries, accounting classifications, valuations, or descriptions. Do not contradict items disclosed within the financial statements.

Common types of notes are:

- a) Explanations of creditors rights to specifically pledged assets;
- b) Explanations of changes in accounting methods or techniques;
- c) Disclosure of contingent assets and liabilities, restrictions on dividend payments, and executory contracts; and
- d) A description of accounting policies used.

Exercise caution when preparing notes to accompany the financial statements. Readers may disregard notes if they are difficult to un-

derstand and read without further research and analysis.

Illustration of The Use of Notes To The Financial Statements

To continue with the credit union example set forth in this chapter, following are the related

illustrative notes to the financial statements. Independent accountants or another qualified accounting professionals of your choosing can advise you further on the use and content of footnotes and related disclosures, especially those credit unions seeking an opinion audit. Most often these footnote disclosures are those which the independent accountant would prepare to accompany audited financial statement on which he/she is rendering an opinion.

Figure 9-5A: Illustration of Statement of Cash Flows

Our Federal Credit Union Statement of Cash Flows For the Year Ended December 31, 200X		
Cash flows from operating activities:		
Interest received	68,027	
Fees and commissions received	11,875	
Proceeds from sales of trading securities		
Purchase of trading securities		
Financing revenue received under leases		
Dividends/Interest paid	(30,637)	
Cash paid to suppliers and employees	(19,217)	
Net cash from operating activities		30,048
Cash flows from investing activities:		
Proceeds from sales of securities (other than trading securities)		
Purchase of securities (other than trading securities)	(18,658)	
Loans made to members and principal collections, net	(61,998)	
Purchase of assets to be leased		
Principal payments received under leases		
Capital expenditures		
Proceeds from sale of property, plant, and equipment		
Other Investment Cash Flows		
Return of NCUSIF investment	960	
Net decrease in deposits in CUs, banks, and S&Ls	53,587	
Investment in Corporate	(18,642)	
Net cash from investing activities		(44,751)
Cash flows from financing activities:		
Net increase in demand deposits, NOW accounts, and savings accounts	36,027	
Net increase in federal funds purchased		
Net increase in 90-day borrowings		
Proceeds from issuance of non-recourse debt		
Proceeds from issuance of 6-month note		
Proceeds from issuance of long-term debt		
Repayment of long-term debt		
Other Financing Activity		
Net cash from financing activities		36,027
Net increase in cash and cash equivalents		21,324
Cash and cash equivalents at beginning of year		32,454
Cash and cash equivalents at end of year		53,778

Figure 9-5B: Illustration of Reconciliation of Net Income to Net Cash From Operating Activities

Our Federal Credit Union Statement of Cash Flows For the Year Ended December 31, 200X		
Net income		26,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation-Land and Buildings		
Depreciation-Furniture and Fixtures	1,328	
Provision for probable loan losses	1,000	
Loss on sales of securities (other than trading securities)		
Gain on sale of equipment		
Increase in trading securities		
Increase in interest receivable	622	
Increase in interest payable		
Decrease in fees and commissions receivable		
Increase in accrued expenses	205	
Total adjustments	<u>3,155</u>	3,155
Net cash provided by operating activities		<u><u>30,048</u></u>

Figure 9-5C: Illustration of Comparative Statements of Financial Condition

Our Federal Credit Union			
Comparative Statements of Financial Condition			
January 1 and December 31, 200X			
	12/31/0X	12/31/2X	Changes
Assets:			
Cash	32,454	53,778	21,324
Federal funds sold			
Total cash and cash equivalents	32,454	53,778	21,324
Trading Securities			
Available-for-Sale Securities			
Held-to-Maturity Securities		18,658	18,658
Loans	794,363	854,361	61,998
Allowance for Loan Losses	(2,636)	(1,636)	(1,000)
Interest receivable	2,870	2,248	(622)
Fees and commissions receivable			
Investment in direct financing lease			
Investment in Corporates		18,642	18,642
Investment in CUs, Banks, S&Ls	1,086,543	1,032,956	(53,587)
Investment in NCUSIF Deposit	16,068	15,108	(960)
Investment in Shares in CLF			
Property, plant, and equipment, net	4,883	3,555	(1,328)
Other			
Total assets	1,934,545	1,997,670	63,125
Liabilities and Equity			
Federal funds purchased			
Borrowings			
Dividends payable			
Accrued expenses	1,572	1,777	205
Other Liabilities			
Share Drafts			
All Other Share Accounts	1,596,131	1,632,158	36,027
Regular Reserve	47,982	47,982	
Undivided Earnings	288,860	315,753	26,893
Total liabilities and equity	1,934,545	1,997,670	63,125

Figure 9-5D: Illustration of Statements of Income

Our Federal Credit Union		
Comparative Statements of Income		
For the Year Ended December 31, 200X		
	12/31/0X	12/31/2X
Interest Income:		
Interest income	65,275	67,405
Total Interest Income	\$65,275	\$67,405
Interest Expense:		
Dividend/Interest expense	29,200	30,637
Total Interest Expense	\$29,200	\$30,637
Net Interest Expense	\$36,075	\$36,768
Less: Provision of loan losses		
Net Interest Income After PLL	\$36,075	\$36,768
Operating Expenses:		
Operating expenses	24,000	21,750
Total expenses	\$24,000	\$21,750
Other Operating Income:		
Fees and commissions	10,346	11,875
Lease income		
Total revenues	\$10,346	\$11,875
Non-operating Income:		
Net gain on sales of trading and other securities		
Gain on sale disposition of assets		
	0	0
Net income	\$22,421	\$26,893

OUR FEDERAL CREDIT UNION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 200X

Note 1-Significant Accounting Policies

Investments. Our Federal Credit Union has the intent and ability to hold all securities to maturity, and as such, has classified such securities as held-to-maturity. Securities are stated at cost adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities, when purchased, are carried at fair value as adjusted through member's equity. The gains and losses on dispositions are computed using the specific identification method.

Loans to Members. Loans are reported in the Statement of Financial Condition at book value. Interest income is recognized over the term of the loan and is generally computed using the simple interest method.

Allowance for Loan Losses. This account represents the amount set aside by management to absorb probable loan losses which exist as this financial statement date related to loans currently outstanding. The Allowance for Loan Losses is derived from charges made to the Provision for Loan Losses adjusted by charge-offs, and net of recoveries. The Allowance for Loan Losses represents management's evaluation of various factors influencing the collectability of individual loans and management maintains it at a level adequate to absorb probable losses which exist today related to loans currently outstanding.

Regular Reserve. The Our Federal Credit Union is required to maintain this statutory reserve in accordance with Section 116 of the Federal Credit Union Act. This required reserve represents an appropriation of Undivided Earnings. These amounts are not available for the payment of dividends.

Furniture and Equipment. This account represents all other fixed assets. Furniture and Equipment is stated at cost. Depreciation is computed over the estimated useful lives of the related assets using the straight-line method of depreciation.

Income Taxes. The Our Federal 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.

Dividend Expense. The dividend rate is set by the board of directors on a quarterly basis for regular share accounts and dividends are charged to the Statement of Income when declared.

Note 2-Investments

The carrying value and approximate fair value of held-to-maturity securities are as follows:

	Carrying Value	Fair Value
Federal Agency Securities		
U.S. Government Obligations		
Other Securities	18,658.00	15,000.00
TOTAL	18,658.00	15,000.00

Note 3-Loans to Members

The composition of loans to members is as follows:

Commercial Loans		
Real Estate Loans (over 12 years)		\$127,013.00
Lines of Credit to Members		
Consumer Loans:		
Automobile Loans		
Education Loans		
Unsecured Loans	\$634,718.00	
Loans fully secured by shares	92,630.00	727,348.00
Total Loans to Members		\$854,361.00

Note 4-Allowance for Loan Losses

A summary of the changes in the Allowance for Loan Losses is as follows:

Balance on January 1, 200X		\$636
Add:		
Provision for Loan Losses Expense	--	
Recoveries on Charged-off Loans	1,000	
Subtotal		\$1,636
Less:		
Charged-off Loans	--	
Balance, December 31, 200X		\$1,636

Note 5-Other Assets

Other assets are summarized as follows as of December 31, 200X:

Other Fixed Assets:

Furniture and Equipment	\$4,883.00	
Less:		
Allowance for Depreciation of Furniture and Equip- ment	1,328.00	\$3,555.00
Accrued Interest on Loans		2,248.00
Other Assets		\$5,803.00
Total Other Assets		

Note 6-Savings Accounts

A summary of savings accounts is as follows:

			Percent of Total
<u>Share Certificates</u>			
Money Market Certificate Accounts	--		
Other Share Certificates	--	--	
<u>Share Draft Accounts</u>		--	
<u>Other Member Savings:</u>			
Shares-Regular		\$1,632,158.00	100%
Total Savings/Shares/Depos- its		\$1,632,158.00	100%

Note 7 - Related Party Transactions

Loans to credit union officials contain interest rates, terms, and collateral requirements comparable to those of other members. The aggregate amount of these loans is not significant to the financial statements. Employees of Our Company provide management and consulting services on a voluntary basis. The Our Federal Credit Union also uses the Our Company EDP facilities for processing daily transactions and preparing payroll. Our Company charges a nominal rate for these services. The Our Federal Credit Union does not consider the income or expense effects of these services to be material to the financial statements.

Note 8 - Commitments and Contingent Liabilities

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