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MEMBERS' SHARES

Federal credit unions are empowered to issue share accounts at varying dividend rates and share certificates at varying dividend rates and maturities, subject to rates, terms, and conditions as established by a credit union's board of directors. Section 701.35 of the National Credit Union Administration Rules and Regulations provides flexibility to allow each federal credit union to develop a system of share accounts and share certificate accounts of its members.

The following are the account titles which can be used for the various types of share accounts:

- Regular Shares
- Share Drafts
- Club Accounts
- Other Shares
- Escrow Accounts
- IRA/Keogh Retirement Accounts
- Share Certificates of Deposit
- Unposted Payroll Deduction Shares

Public Unit Shares
Money Market Shares, and
Shares of Nonmembers

Additional sub-accounts of the Regular Shares account may be established and assigned the next account number in the sequence that the credit union has established.

The National Credit Union Administration Rules and Regulations Part 707 address the required disclosures for share accounts.

DEMAND DEPOSITS

Demand deposits are accounts that may bear interest (dividends) and that the depositor is entitled to withdraw at any time without prior notice.

Demand deposits equate to Share Drafts accounts in most credit unions.

Share Draft Accounts

Traditionally, a Share Draft account is an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order. In order to facilitate monitoring for reporting purposes, any account that is accessible by draft, except for "Money Market Shares" needs to be included in this account classification. The account should represent the total of all individual Share Draft accounts as shown on the separate Individual Share and Loan Ledger subsidiary records. The board of directors may declare dividends on such accounts as provided in the Federal Credit Union Act.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record; unused Journal and Cash Record columns may be used or the credit union may use the Journal and Cash Record Continuation Sheet.

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the Share Draft accounts columns of the Journal and Cash Record at the end of each month.

Posting to Members' Accounts

The individual items which are accumulated in the debit column of the Journal and Cash Record for Share Draft accounts for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for deposits to the share draft accounts should be recorded from Cash Received Vouchers; other credit entries should be posted from appropriate Journal Vouchers.

Balancing Individual Share Draft Accounts

The total of the individual share draft accounts, as shown in the Individual Share and Loan Ledgers, should be proved with the "Share Draft Accounts" in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) When a member opens an account or makes a deposit to a Share Draft account:

Dr. -Cash	\$200.00	
Cr.-Share Draft Accounts		\$200.00

b) When a transfer is made from another share account to replenish a Share Draft account or to clear an overdraft:

Dr.-Shares	\$50.00	
Cr.-Share Draft Accounts		\$50.00

c) When an overdraft is cleared through a line of credit:

Dr.-Lines of Credit to Members	\$50.00	
Cr.-Share Draft Accounts		\$50.00

d) When a charge is made for issuing drafts to a member:

Dr.-Share Draft Accounts	\$6.00	
Cr.-Miscellaneous Fee Income		\$6.00

e) When a Share Draft is cleared and posted to a member's account:

Dr.-Share Draft Accounts	\$75.00
Cr.-Cash-Share Draft Settlement Account.	\$75.00

Detailed Transactions

Credit:

- a) With amounts received from share deposits.
- b) With amounts transferred from another share account.
- c) With amounts transferred from a line of credit.
- d) With amounts of dividends applied.

Debit:

- a) With drafts that clear through the Share Draft settlement account.
- b) With service charges, such as costs to issue drafts to members.

SAVINGS DEPOSITS

Savings deposits bear interest and have no stated maturity.

Savings deposits include the following types of accounts:

- Regular Share Accounts
- Money Market Shares
- Other Share Accounts
- Escrow Accounts
- Unposted Payroll Deductions Shares
- Public Unit Shares
- Shares of Nonmembers

Regular Share Accounts

Federal credit unions must make available to its members a share account which does not require the holder to maintain a minimum balance greater than the stated par value of one share. This account confers ownership rights to the member and provides for continued membership in the credit union. This type of share account is defined as a "Regular Share Account." The board of directors of any federal credit union may establish Regular Share accounts with varying dividend rates. Every type of share account need not receive the same dividend rate, and accordingly, federal credit unions are authorized to value the dividend rates on different Regular Share accounts, provided the rates are established and paid in a nondiscriminatory manner. However, all accounts within a participating class must receive identical treatment.

Regular Shares represents the total of all members' Regular Share accounts as shown on the Individual Share and Loan Ledgers.

Entries in the Journal and Cash Record

This account is credited as "Shares Paid In" with amounts collected from members as shown on summary vouchers which represent payments on shares, and with dividends and interest refunds credited to members share accounts. This account is debited as "Shares Withdrawn" when amounts are withdrawn or applied on amounts due the credit union.

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of "Shares" from the Journal and Cash Record at the end of each month.

Illustrative Entries

- a) When payments on shares and entrance fees

are received from members:

Dr.-Cash	\$10.00	
Cr.-Regular Shares		\$8.00
Cr.-Fees and Charges		2.00

b) When a member withdraws from his share account:

Dr.-Regular Shares	\$20.00	
Cr.-Cash		\$20.00

c) When a member authorizes the credit union to apply his shares to his outstanding loan:

Dr.-Regular Shares	\$50.00	
Cr.-Loans		\$49.00
Cr.-Interest on Loans		1.00

Detailed Transactions

Credit:

- a) With amounts received for share purchases.
- b) With amounts of dividends and interest refunds applied toward the purchase of shares.

Debit:

- a) With amounts of withdrawals from share accounts.
- b) With amounts of shares applied on outstanding loans.

Entries in Member's Passbook

All payments on and withdrawals of shares must be entered in the Member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt of the cash or cash disbursement.

Postings to Individual Share and Loan Ledger

The items which are accumulated as "Shares Withdrawn" in the Journal and Cash Record are recorded individually in the member's account on the Individual Share and Loan Ledger "Shares

Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher.

Balancing Individual Share Accounts

The total of the individual Share account balances as shown in the Individual Share and Loan Ledgers should be balanced with the "Regular Shares" in the General Ledger at least monthly and the trial balance listings (adding machine tapes or computer trial balance must be retained).

Money Market Shares

This account represents the total of all the individual money market share accounts as shown on the separate Individual Share and Loan Ledger subsidiary records established for money market shares.

Generally, a Money Market Share account is a short-term, draft account designed to pay competitive money market rates.

The specific terms and conditions are determined by the board of directors of the credit union.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record columns; unused "Journal and Cash Record" columns may be used or the credit union may use the Journal and Cash Record continuation Sheet.

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the "Money Market Share Accounts" column of the Journal and Cash Record at the end of the month.

Posting to Members' Accounts

The individual items which are accumulated in the Journal and Cash Record for Money Market Shares Accounts, for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account.

Credit entries for deposits to the Money Market Share Accounts should be recorded from Cash Received Vouchers; other credit entries should be posted from the appropriate Journal Vouchers.

Balancing Individual Money Market Share Accounts

The total of the individual Money Market Share Accounts as shown in the Individual Share and Loan Ledgers should be proved with the “Money Market Share Accounts” in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) When payments on Money Market Shares are received:

Dr.-Cash	\$10,000.00
Cr.-Money Market Shares	\$10,000.00

b) When dividends are applied to member’s Money Market Shares earning a daily dividend:

Dr.-Dividends Payable	\$2.00
Cr.-Money Market Shares	\$2.00

c) When a Money Market Share Draft is cleared and posted to a member’s account:

Dr.-Money Market Shares	\$502.00
Cr.-Cash-Money Market Draft Settlement	\$502.00

d) When Money Market Shares are withdrawn (paid to the member):

Dr.-Money Market Shares	\$9,500.00
Cr.-Cash	\$9,500.00

Detailed Transactions

Credit:

- a) With amounts received from share deposits.
- b) With amounts transferred from another share account.
- c) With amounts of dividends added to the account.

Debit:

- a) With amounts of withdrawals from the account paid to the member.
- b) With amounts of penalties charged if the account is withdrawn under the minimum balance requirement.
- c) With drafts that clear through the money market share settlement account.

Other Share Accounts

This account represents the balance of share accounts for which no other provision is made.

Examples include the following:

- A notice account is an account which requires the holder to give written notice of the intent to withdraw.
- A minimum balance account is an account which requires the holder to maintain a specified balance in the account for at least an entire dividend period. The board of directors can establish any minimum balance they choose.
- A split rate account is an account which earns dividends at a different rate on the portion of the balance above a certain minimum requirement.

Further valuations may be established. The board of directors may declare dividends on such accounts as provided for in Section 117 of the Federal Credit Union Act.

Escrow Accounts

If escrow accounts are required and the borrower is a member, the escrow account should be maintained as a special limited withdrawal share account. The escrow account should provide for the accumulation of funds to pay for not more than one year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position. At the time the account is opened, the member-borrower should be required to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each borrower for whom an escrow account is maintained to promptly submit to the FCU for payment, any statements received by the borrower relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents.

Shares in escrow accounts may not be pledged as security for loans nor may any such shares be applied to loans which are delinquent. Withdrawals of the amount in excess of that amount required to pay the fees for which the account was established are permissible at any time. Other withdrawals, except to pay the fees for which the account was established are not permissible.

For dividend purposes an escrow account is considered a Regular Share account. This account should represent the total of all individual Share-Escrow Accounts as shown on the separate Individual Share and Loan Ledger subsidiary records. The balance on this account may be combined with the balance of "Regular Shares" for the preparation of the monthly financial reports.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as "Miscellaneous" in the Journal and Cash Record unless, because of volume, the credit union identifies as separate the credit and/or debit activity.

Posting to Members' Accounts

All payments to, and withdrawals from escrow accounts should be entered on the Member's Passbook or the member's Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All receipts and disbursements on escrow accounts should be recorded individually in the member's account in the Individual Share and Loan Ledger. Shares Paid-In entries are made in the member's Passbook or the Member's Statement of Account and the Individual Cash Received Voucher; Shares Withdrawn entries are made from the Journal Voucher.

Balancing Individual Escrow Accounts

The total of the individual share accounts for escrow accounts as shown in the separate Individual Share and Loan Ledger should be proved with the "escrow account" in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) To record receipt of funds from settlement on real estate loan (hazard insurance-\$30; Mortgage insurance-\$20; Property Taxes-\$317):

Dr.-Cash	\$367.00	
	Cr.-Escrow Accounts	\$367.00

b) To record payment of real estate property taxes from Escrow Account:

Dr.-Escrow Accounts	\$317.00
Cr.-Cash	\$317.00

Detailed Transactions

Credit:

- a) With amounts received at settlement on real estate loan.
- b) With amounts received from a real estate borrower on a periodic basis.

Debit:

- a) With amounts for payment of taxes, insurance, etc., for which the Escrow Account was established.
- b) With withdrawals of amounts in excess of the amount required to pay fees for which the account was established.

Unposted Payroll Deductions

This account is used for processing payroll deductions made from members' paychecks by their employer(s). This account should represent the accumulated amount of payroll deductions not yet distributed to "Regular Shares," "Loans," and "Interest on Loans," etc. Any amount in this account at month end should be combined with the amount in "Regular Shares" in the monthly financial report.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as "Miscellaneous".

Detailed Transactions

Credit:

- a) With the total of each periodic payroll deduction received.

Debit:

- b) With the total of payroll deductions previously credited to this account when applied to appropriate accounts; e.g., "Regular Shares", "Loans", "Interest on Loans", etc.

Public Unit Shares

A *public unit account* represents share deposits made by a governmental unit, e.g., city, county and so on as authorized by Section 107(6) of the Federal Credit Union Act and defined in Part 745.1 of the NCUA Rules and Regulations. These accounts could be regular share, share draft, or share certificate accounts. Normally, these accounts are of a highly volatile nature and the credit union needs to use caution in managing them. Refer to Parts 701.32 and 745.10 of the NCUA Rules and Regulations for more information.

If funds are received from more than one public unit, separate ledgers shall be maintained for each unit. For accounting purposes, public funds will be entered in the General Ledger under Shares-Public Unit Accounts.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as "Miscellaneous" in the Journal and Cash Record unless, because of volume, the credit union identifies as separate the credit and/or debit activity.

Posting to Members' Accounts

All payments and withdrawals on Public Unit Shares should be entered on the custodian's Passbook or the Statement of Account at the time of receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by custodians on Public Unit Shares should be recorded individually in the

shareholder's account in the Individual Share and Loan Ledger. "Shares Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher.

Balancing Individual Public Unit Share Accounts

The total of the individual share accounts for Public Unit Shares as shown in the separate Individual Share and loan ledgers must be proved with this "Public Unit Shares" account in the General Ledger at least monthly and the listings retained in the file.

Illustrative Entries

-
- a) When payments on Public Unit Shares are received:

Dr.-Cash	\$60.00	
Cr.-Shares-Public Unit Accounts		\$60.00

- a) When dividends are applied to Public Unit Share Accounts:

Dr.-Dividends Payable	\$5.00	
Cr.-Shares- Public Unit Accounts		\$5.00

- a) When Public Unit Shares are withdrawn (paid to shareholder):

Dr.- Shares- Public Unit Accounts	\$125.00	
Cr.-Cash		\$125.00

Detailed Transactions

Credit:

- With amounts received for share purchase.
- With amounts of dividends applied toward the purchase of shares.

Debit:

- With amounts of withdrawals of Public Unit Shares.

Shares of Nonmembers

A *nonmember share account* represents the shareholdings of other federally insured credit unions and, in the case of credit unions serving predominantly low-income members, the shareholdings of nonmember individuals or organizations. Refer to Parts 701.32 and 701.34 of the NCUA Rules and Regulations for more information.

Each share account must be maintained on an Individual Share Ledger record and must be kept separate from the members' individual share accounts.

Entries in the Journal Cash Record

Transactions involving this account should be maintained separately from the Regular Share transactions recorded in the "Shares" columns. If there are a number of transactions each month, separation should be provided in the Journal and Cash Record. If there are relatively few transactions "Miscellaneous" grouping may be used.

Posting to Members' Accounts

All payments on shares and withdrawals of shares should be entered in the nonmember's passbook or the Statement of Account, at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

Share withdrawal items recorded in the Journal and Cash Record are also recorded individually in the nonmember's account in the Individual Share Ledger. Share Paid In entries are made in the nonmember's Individual Share Ledger from the Cash Received Voucher.

Balancing Individual Nonmember Share Accounts

The total of the individual nonmember share accounts as shown in their individual ledgers should be proved with the "Shares of Nonmembers" in the General Ledger at least monthly and the listing retained in the files.

Illustrative Entries

a) When payments on shares are received from nonmembers:

Dr.-Cash	\$300.00
Cr.-Shares of Nonmembers	\$300.00

b) When a nonmember withdraws from his share account:

Dr.-Shares of Nonmembers	\$250.00
Cr.-Cash	\$250.00

Detailed Transactions

Credit:

- a) With amounts received for share purchases.
- b) With amounts of dividends applied toward the purchases of shares of nonmembers.

Debit:

- a) With amounts of withdrawals from share accounts by nonmembers.

TIME DEPOSITS

Time deposits bear interest for a fixed, stated period of time.

Time deposits include the following types of accounts:

- IRA/Keogh Retirement Accounts
- Share Certificates of Deposit
- Club Accounts

Brokered Deposits

Ira/Keogh Retirement Accounts

Federal credit unions are free to design Individual Retirement Accounts (IRA) in any manner they choose, without any maturity or dividend ceiling restrictions. Members may be permitted to convert any share, share certificate, or share draft account to an IRA without penalty. Any taxpayer can open an IRA account.

The members should be advised to consult their tax advisers to determine the deductibility of their contributions. The credit union should refrain from offering tax advice.

This account represents the total of all individual share accounts established pursuant to Sections 401(d) and 408 of the Internal Revenue Code as shown on the separate Individual Share and Loan ledger subsidiary records. Shares in this account may not be pledged as security for loans nor may such shares be applied to loans which are delinquent. Withdrawals from these accounts are subject to restrictions as specified in the individual trust or custodial agreements.

The credit union in its capacity of trustee for these accounts must comply with certain reporting requirements as established by the Internal Revenue Code.

A properly-completed, duly-approved application for membership plus an initial payment into a share account established for retirement purposes under a trust or custodial agreement is sufficient to qualify for membership. A companion Regular Share account is not required for membership.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as "Miscellaneous" in the Journal and

Cash Record unless, because of volume, the credit union identifies separate grouping for the credit and/or debit activity.

Postings to Members' Accounts

All payments on Retirement Plan Shares and withdrawals should be entered on the member's Passbook or Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by members on Retirement Plan Shares should be recorded individually in the member's account in the Individual Share and Loan Ledger. Shares Paid In entries are made in the Share and Loan Ledger from the Cash Received Voucher.

Balancing Individual IRA/Keogh Retirement Accounts

The total of the individual share accounts for IRA/Keogh retirement plan shares as shown in the separate Individual Share and Loan ledgers should be proved with "IRA/Keogh Retirement Plan Shares" account in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) When payments on Retirement Plan Shares are received:

Dr.-Cash	\$60.00	
Cr.-Shares-Retirement Plans		\$60.00

b) When dividends are applied to Retirement Plan Shares of members:

Dr.-Dividends Payable	\$5.00	
Cr.-Shares-Retirement Plans		\$5.00

c) When Retirement Plan Shares are withdrawn (paid to member):

Dr.-Shares-Retirement Plans	\$125.00	
Cr.-Cash		\$125.00

Detailed Transactions

Debit:

- a) With amounts of withdrawals of retirement plan shares.
- b) With amounts of fees assessed for trusts or custodial services.

Credit:

- a) With amounts received for share purchases.
- b) With amounts of dividends applied toward the purchase of shares.

Share Certificates of Deposit

This account represents the total of all individual share certificate accounts as shown on the separate Individual Share and Loan Ledger subsidiary records established for the share certificates.

Entries in the Journal and Cash Record

All entries affecting this account should be entered separately in the Journal and Cash Record or Journal and Cash Record (Continuation Sheet).

Posting to Members' Accounts

All payments on Share Certificate accounts and withdrawals should be entered on the Member's Passbook or the Member's Statement of Account, at this time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments and withdrawals by members on

Share Certificate accounts should be recorded individually in the member's certificate account in the Individual Share and Loan Ledger. Shares Paid In entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher.

Balancing Individual Share Certificate Accounts

The total of the individual share certificate accounts for Share Certificates as shown in the separate Individual Share and Loan Ledger should be proved with the "Share Certificate" account in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) When payments on Share Certificates are received:

Dr.-Cash	\$10,000.00
Cr.-Share Certificates	\$10,000.00

b) When dividends are applied to Share Certificates of members:

Dr.-Dividends Payable	\$700.00
Cr.-Share Certificates	\$700.00

c) When Share Certificates are withdrawn (paid to member):

Dr.-Share Certificates	\$10,700.00
Cr.-Cash	\$10,700.00

Detailed Transactions

Credit:

a) With amounts received for certificates purchase.

b) With amounts of dividends added to the account.

Debit:

a) With amounts of withdrawals from the certificates.

b) With amounts of penalty charges for premature withdrawals.

Club Accounts

A credit union may, if the board of directors deems it desirable, permit more than one share account for each member. These additional accounts may be opened for certain purposes such as Christmas savings, vacations, and savings for an educational fund. The member retains full control over his/her Club accounts, as with a Regular Share account, subject to the terms and conditions set by the board of directors. If club accounts are used, they should be included with the member's Regular account in determining whether the shares held by him have exceeded the limit set by the board of directors. If a member is permitted to establish a club account, it should be indicated on the share trial balance and/or share ledger somewhat as follows:

"John Jones", Club Share Account.
The accounts should either be numbered consecutively such as Club Account No. 1, No. 2, etc., or be titled by the type of account, such as Christmas Savings, Share Account, Vacation Share Account, and so on.

The credit union may segregate the different valuations of Club Accounts in separate General Ledger accounts (i.e., for Christmas Savings and for Vacation Savings). The balances of these segregated Club accounts may be combined with the balance of "Regular Shares" for the preparation of the monthly financial reports. The balance of each segregated Club Account must equal the total of the individual accounts for each valuation of Club Account. The balancing should be done at least monthly.

Posting Payments and Withdrawals to Club Accounts

All entries affecting this account should be recorded in the Journal and Cash Record. Total debits and credits to this account in the General Ledger are made by posting the totals of the "Club Accounts" in the Journal and Cash Record at the end of each month. The individual payments on and withdrawals of club shares should also be entered in the member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt or cash disbursement.

Brokered Deposits

Brokered deposits are third-party deposits placed by or with the assistance of a deposit broker. Deposit brokers sometimes sell interests in deposits placed with third-parties. Section 701.32(b) of the NCUA Rules and Regulations restricts nonmember accounts, including brokered deposits, to 20 percent of the total shares of a federal credit union, or \$1.5 million, whichever is greater.

Entries in the Journal and Cash Record

All entries affecting this account should be entered separately in the Journal and Cash Record or Journal and Cash Record (Continuation Sheet).

Posting to Members' Accounts

All payments on Brokered Deposit accounts and withdrawals should be entered on the nonmember passbook or the Statement of Account, at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments and withdrawals on Brokered De-

posits accounts should be recorded individually in the nonmember's certificate account in the Individual Share and Loan Ledger. Shares Paid In entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher.

Balancing Individual Brokered Deposits

The total of the individual brokered deposit accounts as shown in the separate Individual Share and Loan Ledger should be proved with the "Brokered Deposits" account in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

a) When payments on Brokered Deposits are received:

Dr.-Cash	\$100,000	
Cr.-Brokered Deposits		\$100,000

b) When dividends are applied to Brokered Deposits of nonmembers:

Dr.-Dividends Payable	\$700	
Cr.-Brokered Deposits		\$700

c) When Brokered Deposits are withdrawn (paid to nonmember):

Dr.-Brokered Deposits	\$100,700	
Cr.-Cash		\$100,700

Detailed Transactions

Credit:

- With amounts received for brokered deposits.
- With amounts of dividends added to the account.

Debit:

- With amounts of withdrawals from the brokered deposits.

- b) With amounts of penalty charges for premature withdrawals.

DEFINITIONS

Share Account-refers to a regular share account and any other account that is not a share certificate account. A regular share account is an account that does not require a holder to maintain a balance greater than the par value and one that does not require notice of intent to withdraw, except as may be imposed in accordance with the Federal Credit Union Bylaws, and that qualifies for a dividend.

Share Draft Account-means an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order.

Share Certificate Account-refers to an account that will earn dividends at a specified rate for a specified period of time, if held to maturity, upon which a penalty may be assessed for premature withdrawal prior to maturity.

Premature Withdrawal-refers to an early withdrawal of all or any portion of the principal amount of a share or share certificate account prior to its maturity. It also refers to the withdrawal of all or any portion of the principal amount prior to providing any required notice of withdrawal.

MICR stands for Magnetic Ink Character Recognition and refers to the numbering printed in magnetic ink at the bottom of each share draft.

Payable through bank means a bank that has been designated to make presentment of a share draft to the federal credit union for payment.

Payable at bank means a draft drawn on the credit union that is payable at any correspondent or Federal Reserve Bank. It is payable when it falls due out of any funds of the maker or acceptor. The bank is expected to make payment without consulting the credit union. In this situation the draft is endorsed, "Payable at any

bank" and it bears the routing and transit number of the credit union.

Truncation-means the original negotiable or transferable instrument is not returned to the drawer.

PROCESSING BASIC SHARE TRANSACTIONS

When Payments On Shares Are Received

When cash is received for payment on shares or share certificates, a Cash Received Voucher should be prepared for the date of receipt in the credit union office. The amount to be credited to the member's account(s) is written in the space opposite "Shares". The total cash received is written in the space opposite "Total" and should equal the actual cash received. The person who received the cash for the credit union should initial the voucher in the space opposite "Received by."

After the payment is entered in the member's passbook, the balance shown in the passbook should be entered in the proper spaces under "Member's Passbook Balances" on the Cash Received Voucher. This will serve as a comparison of the member's passbook with the credit union's records when posting to the Individual Share and Loan Ledger and will often disclose errors which may occur, thus saving time in balancing the individual share ledgers with the General Ledger Account, "Shares", at the end of the month.

When cash is received from a member with an accompanying Cash Received Voucher, the amount received should immediately be entered in the member's passbook which is then returned to the member. No further receipt is necessary.

Each item of cash received which involves a member's share draft and/or share certificate account should be posted individually from the Cash Received Voucher to the "Paid In" column of the member's Individual Share Ledger account. To make posting easier, it is suggested that the Cash Received Vouchers be sorted in numerical

order by account number. To assist in keeping track of what accounts have been posted, as each account is posted a check mark can be made in the space provided on the Cash Received Voucher.

When Shares Are Withdrawn

When a member wishes to withdraw some of his/her shares or share certificates, a Journal Voucher should be prepared. If the shares to be withdrawn are pledged as security on a loan and the shares remaining after the withdrawal would be less than the member's direct or indirect liability to the credit union, or if the member's loan or a loan for which he cosigned is delinquent, the form should be initialed by the chairman or secretary of the credit committee or a loan officer showing approval for the withdrawal. If any person cosigned a loan for which the member's shares are pledged, that person's approval should also be obtained before the shares are released. Otherwise, the cosigner may be relieved of liability on the cosigned loan. The cosigners can indicate their approval by signing on the space "Authorized or Approved By" on the Journal Voucher form. Some written evidence of the co maker's approval is essential.

The date and amount of the withdrawal should be entered in the member's passbook under the applicable headings "Shares", "Date" and "Withdrawn." The amount of withdrawal should be deducted from the balance and the new balance remaining in shares and/or share certificates should be entered in the column "Balance". The entry should be initialed by the person paying out the money for the credit union.

Each item of cash paid out which involves a member's share or share certificate account should be posted individually from the Journal and Cash Record or a Journal Voucher to the Individual Shares Ledger account of the member. A share withdrawal is posted as "Withdrawn" in the Shares Ledger and deducted from the previous share or share certificate balance. The new balance is identified as the new "Balance."

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MEMBERS' EQUITY

UNINSURED SECONDARY CAPITAL

Federally insured credit unions designated as low-income are authorized to establish secondary capital accounts. The increased capital is intended to enable those credit unions to support greater lending and improve other financial services for the limited income groups and

communities they serve. Certain restrictions are placed on these accounts, foremost among them is that the accounts may be *offered only to organizational investors*, not to natural person members or other natural person investors. Other key restrictions are:

- The accounts are not insured by the NCUSIF or any other government entity, and may not

be offered as share accounts. They will take the form of subordinated debt.

- The funds in the accounts must be available to cover losses, after reserves and undivided earnings, but prior to liquidation.
- The accounts must have a minimum maturity of 5 years.
- The accounts may not be used as security on other obligations of the account holder.
- The accounts will not “carry over” as secondary capital in the event of merger into a credit union that is not low-income designated.

A declining scale for the capital value of accounts with less than 5 years remaining maturity has been established. All funds, however, will continue to be at risk to cover losses that exceed reserves and undivided earnings. Accounts with remaining maturities of at least:

- 4 years, but less than 5 years are counted as capital at 80 percent of face value;
- 3 years, but less than 4 years are counted as capital at 60 percent of face value;
- 2 years, but less than 3 years are counted as capital at 40 percent of face value;
- 1 year, but less than 2 years are counted as capital at 20 percent of face value; and
- less than one year remaining maturity will be counted as capital at 0 percent of face value.

A disclosure and acknowledgment must be provided and executed by an authorized representative of the account holder. State-chartered, federally insured credit unions may establish these accounts in accordance with the terms and conditions authorized for federal credit unions and to the extent they are not inconsistent with applicable state law, regulation, and accounting requirements.

A regulatory accounting position (RAP) has been taken to establish these accounts and to recognize them as secondary capital. These accounts are subordinated debt and the account holder does not have voting or ownership rights. Credit unions should record the amount of secondary capital in the equity section of the balance sheet, although any secondary capital that has a remaining maturity of less than 5 years will be split into capital and liability components based on a sliding scale. To be consistent with generally accepted accounting principles (GAAP), the credit union’s outside auditor may recognize accounts established as secondary capital as subordinated debt, and for financial statement presentation purposes, may reflect the entire balance in these accounts in the liability section of the balance sheet.

Credit unions must adopt a written plan for use of the funds in the accounts and subsequent liquidity needs to meet repayment requirements upon maturity.

The secondary capital accounts may not be established as share accounts and, therefore, will be considered a form of subordinated debt, in effect a borrowing. In most cases of borrowed funds, the stated interest rate is guaranteed contrary to dividends on share deposits for credit unions which are limited to the amount of funds available from earnings, both current and accumulated. The credit union should consider its ability to meet the interest payment obligation in light of its current and accumulated earnings. Interest payable on these accounts must be accrued at least monthly. The credit union should consider the effect on regular members’ dividends when setting the interest rate or index for these accounts.

Section 107(9) of the Federal Credit Union Act limits a credit union’s borrowing to 50 percent of its paid-in and unimpaired capital and surplus. The amount held in secondary capital accounts held by low-income credit unions is to be included in total borrowings for purposes of this limitation. Secondary capital accounts, plus any other borrowings by the low-income credit union will not exceed the 50 percent limit.

Part 705 of the NCUA Rules and Regulations addresses the Community Development Revolving Loan Program for Credit Unions. A credit union participating in the program may receive up to \$300,000 in the form of a loan. A matching requirement encourages credit unions to develop a permanent source of *member shares* within one year of loan approval.

Accounts established as secondary capital by low-income designated credit unions may not be used as a source of matching funds for this program. First, secondary capital is not a *member share* and second, the regulation requires that the credit union maintain the increase in the total amount of *share deposits* for the duration of the loan from the program. These accounts “may not be offered as share accounts.”

Uninsured secondary capital accepted from a non-natural person investor should be recorded as follows:

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as “Miscellaneous” in the Journal and Cash Record

Illustrative Entries

a) When a low-income designated credit union accepts a secondary capital account of \$100,000 with a 6-year maturity from a non-natural person investor:

Dr.-Cash	\$100,000
Cr.-Uninsured Secondary Capital	\$100,000

b) When the remaining maturity of the above account is between 4 and 5 years the following adjusting entry should be recorded to reflect only 80 percent of the account as secondary capital:

Dr.-Uninsured Secondary Capital	\$20,000
Cr.-Subordinated CDCU Debt	\$20,000

Note: In the event that a low-income credit union has depleted its reserves and undivided earnings and incurs an operating loss, the loss, as realized, will be distributed pro rata among the current secondary capital account holders. For example, a credit union has 5 secondary capital investors, each depositing \$100,000 for total secondary capital of \$500,000. The credit union incurs an operating loss of \$120,000; each account will be debited for \$24,000. The remaining balance in each account will be \$76,000, with a total remaining secondary capital of \$380,000. A credit union that has funds split between “Uninsured Secondary Capital” and “Subordinated CDCU Debt” should first absorb any pro rata loss from “Subordinated CDCU Debt”, with any remaining loss carried over to “Uninsured Secondary Capital”.

If a secondary capital account holder wishes to withdraw the investment at maturity, the credit union must determine losses as of the previous month end and allocate the loss, again on a pro rata basis to all account holders, prior to releasing the funds. Keep in mind that all funds will continue to be at risk to cover losses that exceed reserves and undivided earnings regardless of their capital values based on their final maturities.

REGULAR RESERVE

Consistent with requirements of the Federal Credit Union Act as amended by the Credit Union Membership Access Act (CUMAA) and implemented by the NCUA Board in its Rules and Regulations §702, a credit union must determine its net worth category classification at the end of each calendar quarter and subsequently set aside accumulated earnings in its Regular Reserve account. The net worth ratio calculation and mandated transfer requirements are discussed below.

Note: Risk based net worth requirements (RBNW) are not discussed in this Manual because this Manual is targeted to credit unions under \$10 million in assets; credit unions which are also excluded through rulemaking from the RBNW requirements. If a credit union's assets grow to over \$10 million, it should be aware additional RBNW transfers may be required. See the NCUA Rules & Regulations §702.

Net Worth Ratio Calculation

All credit unions must determine their net worth category classification at the end of each calendar quarter. Required transfers to the Regular Reserve are dependent on the net worth ratio calculation and related net worth classification.

The net worth ratio is calculated as:

Net Worth divided by *Total Assets*.

Net Worth. For purposes of this calculation, the "net worth" numerator is GAAP (generally accepted accounting principles) retained earnings consisting of undivided earnings, regular reserves, and any other appropriations of undivided earnings designated by management, regulatory authorities or the board. Appropriations are amounts which have flowed through the income statement to undivided earnings and then have been set aside in an appropriation for a given purpose. For low income-designated credit unions, by law, net worth also includes secondary capital accounts

that are uninsured and subordinate to all other claims.

Net worth includes amounts the credit union had previously closed from net income into undivided earnings. If the credit union does not close its net income into undivided earnings during interim periods, examiners will treat the net income as if it had been closed into undivided earnings.

Net worth does not include the:

- 1) Allowance for Loan & Lease Losses;
- 2) Contributions of tangible fixed-assets recorded as "Donated Equity" per regulatory accounting practice (RAP);
- 3) Unrealized Gains or Losses on Available for Sale Securities and/or other items of Other Comprehensive Income; or
- 4) Alternative sources of capital (e.g., paid-in-capital accounts), except that for low-income designated credit unions, net worth includes uninsured secondary capital accounts subordinate to claims of creditors, shareholders, and the NCUSIF. This exception applies only to low-income credit unions.

Total Assets. A credit union can choose its method for determining the "total assets" denominator as measured by one of the following:

- 1) Average quarterly balance - the average of quarter-end balances of the four most recent calendar quarters; or
- 2) Average monthly balance - the average of month-end balances over the three calendar months of the calendar quarter; or
- 3) Average daily balance - the average daily balance over the calendar quarter; or
- 4) Quarter-end balance - the quarter-end balance of the calendar quarter as reported on the credit union's quarterly call report and as calculated on the PCA worksheet.

For each quarter, credit unions will elect which method of determining total assets they will use for that specific quarter to determine the net worth ratio and, if applicable, the earnings transfer and asset growth restriction. This method also applies in the determination of whether or not a credit union is a new credit union. It does not apply to risk-based net worth for complex credit unions.

Calculation Effective Date

The effective date of the credit union’s net worth category classification is the most recent of the following:

- 1) The last day of the calendar month following the end of the calendar quarter; or
- 2) The date the credit union’s net worth ratio is recalculated by or as a result of its most recent final examination report; or

3) The date the credit union received written notice from NCUA or, if state-chartered, the appropriate State official, of reclassification on safety and soundness grounds as provided under 702.102(b) or 702.302(d).

Statutory Net Worth Categories

Illustration 3-A below shows the net worth categories for all credit unions. The left side shows net worth categories for credit unions other than those defined as new. The right side shows net worth categories for credit unions defined by statute as new (less than 10 years in operation and less than \$10 million in assets).

One must recognize that new credit unions initially have no net worth and that they need reasonable time in which to accumulate it. Illustration 3-B is an example of a reasonable (although not a mandatory) timetable for building net worth.

Other Than New Credit Unions

New Credit Unions

Net Worth Category	Net Worth Ratio	Net Worth Category	Net Worth Ratio
Well Capitalized	7% or greater	Well Capitalized	7% or greater
Adequately Capitalized	6% to 6.99%	Adequately Capitalized	6% to 6.99%
Undercapitalized	4% to 5.99%	Moderately Capitalized	3.5% to 5.99%
First Tier	5% to 5.99%	Marginally Capitalized	2% to 3.49%
Second Tier (and failed RBNW)	4% to 4.99%	Minimally Capitalized	0% to 1.99%
Significantly Undercapitalized	2% to 3.99%	Undercapitalized	Less than 0%
Critically Undercapitalized	Less than 2%		

Illustration 3-A

Reasonable Timetable to Build Net Worth

Within # of Years in Operation	Net Worth Ratio
3 Years	0% to 1.99%
5 Years	2% to 3.49%
7 Years	3.5% to 5.99%
10 Years	6% to 6.99%

Illustration 3-B

Earnings Transfers

Quarterly earnings transfers from Undivided Earnings to the Regular Reserve are mandated by implementing NCUA Rules and Regulations. Beginning with the effective date of classification as “adequately capitalized” or lower, a federally-insured credit union must transfer an amount equivalent to at least 1/10th percent (0.1%) of its total assets for the current quarter (or more by choice) from Undivided Earnings to its Regular Reserve account until it is “well-capitalized”.

Entries in the Journal and Cash Record

All increases and decreases to the Regular Reserve are credited and debited as "Miscellaneous".

The Regular Reserve account should be increased (credited):

a) At the end of the accounting period with the amount of Undivided Earnings required to be transferred to the Regular Reserve (i.e., an amount equivalent to 1/10th percent of total assets until the credit union’s net worth classification category reaches “well capitalized”).

The Regular Reserve account should be decreased (debited) with:

a) Other losses provided that either the charge will not cause the credit union’s net worth classification to fall below “well capitalized” or the charge has been previously approved in writing by the appropriate Regional Director, or if state-chartered, the appropriate state official.

b) A transfer of funds to “Undivided Earnings” to pay dividends if the credit union has depleted its “Undivided Earnings”, provided that either the charge will not cause the credit union’s net worth classification to fall below “well capitalized” or the charge has been previously approved in writing by the appropriate Regional Director, or if state-chartered, the appropriate state official.

Posting to the General Ledger

All debit and credit entries are posted from "Miscellaneous" in the Journal and Cash Record to the General Ledger. All entries must be explained in the "Explanatory Remarks" section of the General Ledger.

Illustrative Entries

At the close of the accounting period:

a) To transfer the required amount of earnings to the Regular Reserve:

Dr.-Undivided Earnings	\$800	
Cr.-Regular Reserve		\$800

Detailed Transactions

Credit:

At the end of the accounting period:

a) With amount of earnings transfer required by statute and rule as amended; offsetting debit to "Undivided Earnings."

Debit:

At the end of the accounting period:

a) With amount of other losses provided that either the charge will not cause the credit union's net worth classification to fall below "well capitalized" or the charge has been previously approved in writing by the appropriate Regional Director, or if State-Chartered, the appropriate state official; offsetting credit to "Undivided Earnings".

b) With the amount necessary to pay dividends if the credit union has depleted its "Undivided Earnings", provided that either the charge will not cause the credit union's net worth classification to fall below "well capitalized" or the charge has been previously approved in writing by the appropriate Regional Director, or if State-Chartered, the appropriate state official; offsetting credit to "Undivided Earnings".

Special Reserve

Each federally-insured credit union shall establish and maintain such reserves as may be required by the Federal Credit Union Act, by state law, by regulation, or in special cases by the NCUA Board or appropriate State official. Specific accounting instructions pertaining to this account are furnished by the National Credit Union Administration when the "Special Reserve" is ordered. This account should not be used unless ordered or authorized by the National Credit Union Administration.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

UNDIVIDED EARNINGS

This account is used to show the balance of the accumulated earnings of the credit union for prior periods and the earnings of the period just closed which are available for dividends.

The Undivided Earnings account should be increased (credited) with:

- a) The net earnings transferred at the end of each accounting period from the "Net Income (Loss)" account.
- b) The amount transferred from "Special Reserve for Losses", when this reserve is reduced or eliminated.
- c) The amount transferred from "Reserve for Loss Contingencies", when this reserve is reduced or eliminated.
- d) The amount transferred from "Appropriated Undivided Earnings", when this account is reduced or eliminated.
- e) The determined conversion amount for accrued income when converting to the Accrual Basis of Accounting (the debit side of this entry is to the accrued income account series.)

The Undivided Earnings account should be reduced (debited) with:

- a) The amount of the net loss transferred at the end of the accounting period from the "Net Income (Loss)" account.
- b) At the end of each accounting period, the required earnings transfer to the "Regular Reserve".
- c) The amount transferred to any Special Reserve for Losses which may be required by the NCUA Board.
- d) The amount transferred to "Reserve for Losses Contingencies".
- e) The determined conversion amount for accrued expenses when converting to the Accrual Basis of Accounting (the credit side of this entry is to the accrued expenses account series).
- f) The amount transferred to "Appropriated Undivided Earnings".

Expenses incurred or paid should not be charged directly to the Undivided Earnings account but must be charged to the appropriate expense accounts during the period they are incurred or paid. Likewise, income should not be credited directly to this account but credited to the appropriate income accounts. Bonuses to employees are not to be charged to this account but are to be considered as expenses. Dividends are also considered as expenses and charged to "Dividends Expense". Interest refunds are considered as reductions of income and credited to "Interest Refunds".

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered as "Miscellaneous" in the Journal and Cash Record.

Illustrative Entries

-
- a) To close period net income into Undivided Earnings:

Dr.-Net Income	\$5,000	
Cr.- Undivided Earnings		\$5,000

a) To establish an appropriation of Undivided Earnings for a board-established purpose:

Dr.-Undivided Earnings	\$2,000	
Cr.- Appropriation for Building Fund		\$2,000

Detailed Transactions

Credit:

- a) At the end of the accounting period, with the net earnings transferred from "Net Income (Loss)".
- b) With transfers to reduce or eliminate the "Special Reserve for Losses" when authorized by the National Credit Union Administration Board.
- c) With transfers from the "Reserve for Loss Contingencies" or other reserves when authorized by the board of directors.
- d) With the determined conversion amount for accrued income when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

Debit:

- a) At the end of the accounting period with net loss for the period transferred from "Net Income (Loss)".
- b) With the required earnings transfer to the Regular Reserve for the accounting period.
- c) With transfers to establish or increase the "Reserve for Loss Contingencies" (or other reserves) when authorized by the board of directors.
- d) With the determined conversion amount for Accrued Expense when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

Appropriated Undivided Earnings

This account may be established by any credit union, with the approval of the board of directors, for planned expenditures or liabilities, not otherwise shown on the credit union's records. This account should represent a further allocation of Undivided Earnings. It should be included in the equity section of the Statement of Financial Condition. Even though an Appropriated Undivided Earnings account has been established for a particular liability or expenditure, such as future dividend costs, relocation costs for moving to a new building or costs incurred for parking lot resurfacings, etc., expenditures of this nature should not be charged directly to this account. Rather, they should be charged to their respective expense accounts and included in the "Operating Expenses (Control)", or the respective General Ledger expense account balance total that is closed to "Undivided Earnings". Past earnings should be transferred from "Appropriated Undivided Earnings" to "Undivided Earnings" in amounts equal to the appropriated cost

charged to the current period expenses during the accounting period. This will eliminate any reduction in Undivided Earnings that would have resulted from the charge to expenses.

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered as "Miscellaneous" in the Journal and Cash Record.

Posting to the General Ledger

Entries to this account in the General Ledger should be posted individually as "Miscellaneous" in the Journal and Cash Record.

Illustrative Entries

a) To establish, or increase the balance of, the Appropriated Undivided Earnings account when determined necessary by the board of directors:

Dr.-Undivided Earnings	\$5,000	
Cr.-Appropriated Undivided Earnings		\$5,000

b) To eliminate, or decrease balance of the Appropriated Undivided Earnings when determined to be necessary by the board of directors or to reimburse Undivided Earnings for planned expenditures or an incurred liability.

Dr.-Appropriated Undivided Earnings	\$2,500	
Cr.-Undivided Earnings		\$2,500

Detailed Transactions

Credit:

a) As authorized by the board of directors with amounts to be established, for a specific expenditure or liability, as Appropriated Undivided Earnings and with authorized increases in this account.

Debit:

a) As authorized by the board of directors with amounts of expenditures incurred that were included in operating expenses and resulted in a further reduction of the Appropriated Undivided Earnings Account.

Reserve for Loss Contingencies

The board of directors has the power, after the required Regular Reserve transfer requirements have been set aside, to provide for probable losses by establishing a "Reserve for Loss Contingencies". A Reserve For Loss Contingencies may only be established when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, future events will confirm the existence of the loss, and the loss can be reasonably estimated. Contingent losses not otherwise shown on the credit union's records should be recorded for amounts equal to those portions of the probable loss. Since the

approximate date of the loss will probably be known, the expense may be accrued prior to the payment of the loss. This is accomplished by debiting the appropriate current period expense account and crediting a liability account "Accrued Loss Contingencies" for an equivalent amount. At the same time, Undivided Earnings can be debited for a like amount and the Reserve for Loss Contingencies appropriation established.

The amount of the liability accrual will need to be adequate enough to allow the accrued liability account to equal the amount of the estimated loss at the time payment is expected to be made. Losses should not be charged directly against the "Reserve for Loss Contingencies". After the loss has been paid and charged against the accrued liability account, the designated Reserve for Loss Contingencies balance should be eliminated and "Undivided Earnings" credited for a like amount at the end of the dividend period.

This account should also be used in cases where the deductible on the federal credit union's fidelity bond exceeds 10 percent of the federal credit union's Regular Reserve account.

This account should only be increased with amounts necessary to maintain the difference between the deductible and 10 percent of the Regular Reserve Account. The amount of such excess should be credited to this account with an offsetting debit to "Undivided Earnings". The account should be eliminated when the deductible becomes less than or equal to 10 percent of federal credit union's Regular Reserve account. This is accomplished by debiting this account and crediting "Undivided Earnings".

Entries in the Journal and Cash Record

All entries affecting this account should be recorded as "Miscellaneous" in the Journal and Cash Record.

Illustrative Entries

a) To establish, or increase the balance of, a Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Undivided Earnings	\$5,000	
Cr.-Reserve for Loss Contingencies		\$5,000

a) To decrease or eliminate the amount of the Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Reserve for Loss Contingencies	\$2,000	
Cr.-Undivided Earnings		\$2,000

Detailed Transactions

Credit:

a) As authorized by the board of directors with amounts to be established as a Reserve for Loss Contingencies and with authorized increases in this reserve.

Debit:

a) As authorized by the Board of Directors with amounts to decrease the Reserve for Loss Contingencies.

Reserve for Nonconforming Investments

Federally-insured state chartered credit unions are required under terms of the insurance agreement to establish an investment valuation reserve for non-conforming investments which are otherwise accounted for at historical cost (e.g., non-conforming held-to-maturity securities). Nonconforming investments are those investments permissible under state law for a state chartered credit union, but which are impermissible for federally chartered credit unions. Refer to Part 741.3(a)(3) of the NCUA Rules and Regulations for further explanation. Refer to “Reserve for Loss Contingencies” above for similar illustrative accounting entries and detailed transactions.

ACCUMULATED UNREALIZED GAINS/ LOSSES ON AVAILABLE-FOR-SALE SECURITIES

This account, an item of Other Comprehensive Income, is used to record unrealized gains/losses on available-for-sale (AFS) securities. When available-for-sale securities are written to fair value, an entry is made directly to the investment account with the corresponding debit/credit to this account. This account is a separate component of equity; separate from the regular reserve or undivided earnings. Nonetheless, this separate equity account should be netted against accumulated current and undivided earnings *when assessing a credit union’s ability to pay dividends*.

Upon disposition of the related security, the portion of this account that relates to the security disposed of is reversed with the gain or loss on disposition of the security recorded through the income statement as a Gain or Loss on Disposition of Investments. Refer to “Investments” in Section 300 of this manual for further explanation and illustrative entries.

DONATED EQUITY

This account is used by credit unions under \$10 million in assets that wish to account for the receipt of donated fixed assets under a regulatory accounting practice (RAP). Generally accepted accounting principles (GAAP) require such donations to be recorded as income when received. Credit unions following GAAP should record all contributions received/made in income/expense when received/made. Contributions include many of the donations credit unions receive such as office space, utilities, auditing service, etc.

Under this RAP, when a credit union receives as a gift or donation a tangible fixed asset of material value, the value of such asset should be established by a credit to this account as a separate classification of the credit union's equity. The offsetting debit should be to the appropriate asset account(s) for tangible fixed assets: e.g., furniture and equipment, building, etc.

Donated fixed assets should be recorded in the accounts based on the estimated fair market value of the assets at the date of acquisition. Depreciation of donated fixed assets should be charged to expense in each accounting period over the useful lives of the assets in the same manner as for other fixed assets.

When fixed assets donated to a credit union are not considered of a "material" value, the value of the assets debited to the appropriate fixed asset account(s) should be credited to "Other Non-operating Income (Expense)".

Note: Contributions of cash or reimbursement of services or other expenses (e.g., office space, utilities, supplies, etc.) that are not tangible fixed assets, should be credited to "Other Non-Operating Income" with the offsetting debit to cash or the appropriate expense account. Refer to "Other Non-Operating Income" in Section 600 of this manual for further explanation.

Entries are illustrated below.

Illustrative Entries

a) When a donated fixed asset of material value is received by the credit union:

Dr.-Furniture and Equipment	\$2,400	
Cr.-Donated Equity		\$2,400

b) When the sponsor contributes for payment of utilities on the credit unions behalf:

Dr.-Utilities Expense	\$500	
Cr.-Other Miscellaneous Operating Income		\$500

c) When depreciation is recorded:

Dr.-Depreciation of Furniture & Equipment	\$120	
Cr.-Allowance for Depreciation of Furniture and Equipment		\$120

Dr.-Donated Equity	\$120	
Cr.-Miscellaneous Income		\$120

d) If donated equipment is disposed of by sale: assume a donated asset valued at \$2,400 with an accumulated allowance for depreciation of \$900 is sold for cash of \$1,600. The entry is:

Dr.-Donated Equity	1,500	
Dr.-Cash	\$1,600	
Dr.-Allowance for Deprecia- tion of Furniture and Equipment	900	
Cr.-Furniture and Equipment		\$2,400
Cr.-Gain (Loss) on disposition of Assets		100
Cr.-Miscellaneous Income		1,500

NET INCOME (LOSS)

This account is used to accumulate the various income and expense accounts into a single account to determine the net income or loss for the accounting period and to transfer the net income or loss to "Undivided Earnings".

This account is credited with:

a) The credit balances of all operating income, operating expense, and non-operating income (expense) accounts when the books are closed; offsetting debits should be to the individual General Ledger income and expense accounts showing credit balances.

This account is debited with:

a) The debit balances of all operating expense, income and non-operating income (expense) accounts when the books are closed; offsetting credits should be to the individual General Ledger income and expense accounts showing a debit balance.

b) The balance of this account, if a credit, after all income and expense accounts are closed; offsetting credit should be to "Undivided Earnings".

Entries in the Journal and Cash Record

All entries affecting this account should be entered as "Miscellaneous" in the Journal and Cash Record.

Posting to the General Ledger

Entries to this account are posted individually from the "Miscellaneous" grouping in the Journal and Cash Record to the General Ledger. The "Explanatory Remarks" related to this account in the General Ledger should be used to indicate the nature of amounts closed into or transferred from this account.

Illustrative Entries

a) To close the income and non-operating gain accounts with credit balances:

Dr.-Interest on Loans	\$6,000	
Dr.-Income from Other		
Investments	2,000	
Dr.-Fees and Charges	65	
Dr.-Gain (Loss) on		
Investments	100	
Cr.-Net Income (Loss)		\$8,165

b) To close the operating expenses and income accounts with debit balances:

Dr.-Net Income (Loss)	\$6,920	
Cr.-Interest Refunds		\$1,800
Cr.-Rent		1,200
Cr.-Communications		120
Cr.-Provision for Loan Losses		600
Cr.-NCUA Operating Fee		200
Cr.-Dividends		3,000

c) To transfer net income for the period to Undivided Earnings:

Dr.-Net Income (Loss)	\$1,245	
Cr.-Undivided Earnings		\$1,245

Detailed Transactions

Credit:

a) When books are closed with the sum of the credit balances of all operating and non-operating income (expense) and operating expense accounts.

b) With balance of the account, if a debit, after all income and expense accounts have been closed; transfer to Undivided Earnings.

Debit:

a) When books are closed with the sum of the debit balances of all operating and non-operating expense and income accounts.

b) With balance of the account, if a credit, after all income and expense accounts have been closed; transfer to Undivided Earnings.