

How To Read CU Financial Statements

See how the Balance Sheet and income statement are part of your danger-alert system and begin telling the story of your status and performance.

The three targets of this material:

1. Understand what is on a _____ .
2. Learn what makes up an _____ or performance statement, and
3. See how they affect each other.

Take what you know as a launching pad to learn something new

A Personal Balance Sheet

What I own:	What I owe:
Home _____	Home mortgage _____
Car 1 _____	Car loan _____
Car 2 _____	Credit cards _____
Total assets \$ _____	Total liabilities \$ _____

Total assets	_____
Minus total liabilities	_____
=	_____

This result is my approximate

FYI: there is a benchmark for personal net worth explained in the popular book, "The Millionaire Next Door."



How Your Personal Balance sheet and the Credit Union's Differ — Accounting formula

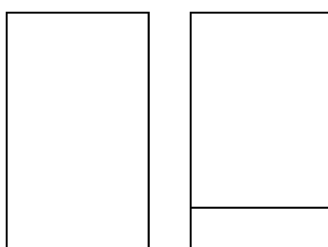
Personal: assets - liabilities = net worth

Business: assets = liabilities + net worth

13.

Typical Balance Sheet Layouts Debit and Credits

Balance Sheet



14.

How Your Personal Balance sheet and the Credit Union's Differ — Fixed Assets

Listen for this: “A business must record the

_____ of the asset and _____ it
over the useful life of the asset.”

If not in management's footnotes, or in footnotes to the annual audit, or management's narrative financial report, questions * you could ask:

1. When was the item purchased?
2. What is its useful life?
3. What is the estimate residual value?



15. Depreciation of the building

Building cost—residual value = depreciable amount

16. Depreciation of Furniture and Equipment

17. How Your Personal Balance sheet and the
Credit Union's Differ — Investments

Booked at _____.

Serious market devaluations may be explained in footnotes and accounted for in an allowance account, a negative line item near the investments on the balance sheet, and as a negative capital account, reducing net worth by the potential loss amount, what might actually be lost if the credit union sold them in the current market.

If not disclosed in footnotes or in management's narrative financial report, questions * you could ask:

1. Are there any investments undervalued at this time?
2. What conditions would cause us to sell them at a loss?

18. How Your Personal Balance sheet and the
Credit Union's Differ — Investments





Listen for this: "Book Value is the _____ paid for the security."

* Asking question is a major task of a director. First ask fact-finding questions. Only after you understand the facts should you ask judgment-challenging questions.



A Fine Point: all the following are the same value:
 One percent, 1%, 0.01, and 100 basis points
 A basis point is one hundredth of one percent. One divided by a hundred is one percent.
 One percent divided by a hundred is one basis point.

25 Calculating the Allowance for Loan Losses

	Historical Loss Factor		Current Total outstanding		Allowance Balance Requirement
		+		=	
		+		=	
		+		=	
		+		=	
On the balance sheet:					

26 Review of the Asset Side

27 Build ... use diagram on previous page

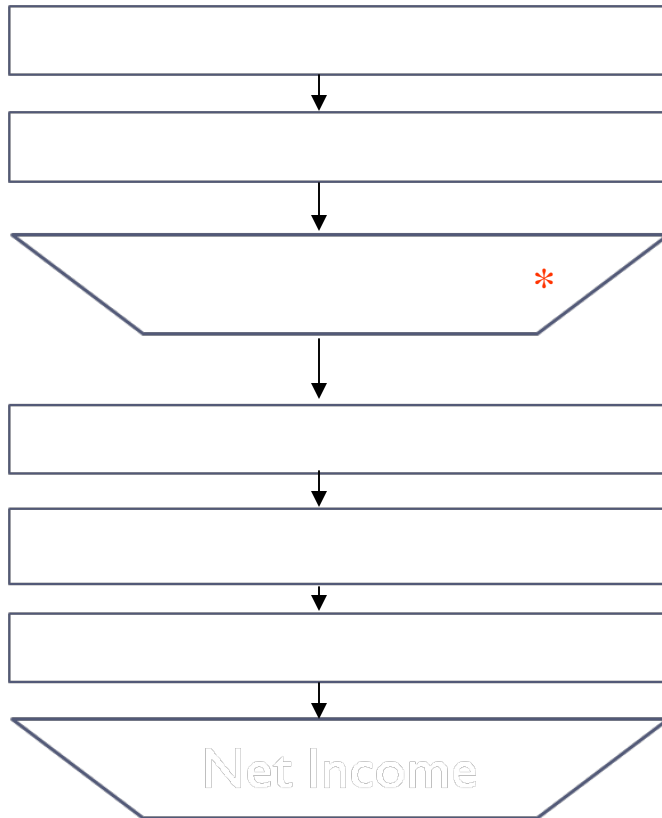
If not disclosed in footnotes or in management's narrative financial report, questions you could ask:

1. How many years of loss data do we use to compute loss factors?
2. Are any loan type calculated together because of similar loss factors?



29. 30. 31, 32, & 34

Build an Income Statement



* Also known as Gross Spread.

33



When the Allowance for Loan Loss account is below the “requirement,” management replenishes it by recording a Provision for Loan Loss Expense. Draw a line connecting the bucket to that expense line above.

