



FOUNDATIONS OF FINANCIAL LITERACY FOR DIRECTORS: ANALYSIS OF FINANCIALS AND CALCULATION OF RATIOS

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BOARD OF DIRECTOR RESPONSIBILITIES

The board of directors is responsible for the general direction and control of the affairs of each Federal credit union. While a Federal credit union board of directors may delegate the execution of operational functions to Federal credit union personnel, the ultimate responsibility of each Federal credit union's board of directors for that Federal credit union's **direction and control is non-delegable.**

BOARD OF DIRECTOR RESPONSIBILITIES

(1) Carry out his or her duties as a director in **good faith**, in a manner such director reasonably believes to be in the best interests of the membership of the Federal credit union as a whole, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances;

(2) Administer the affairs of the Federal credit union **fairly and impartially** and without discrimination in favor of or against any particular member;

BOARD OF DIRECTORS RESPONSIBILITIES

(3) At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, have at least a **working familiarity with basic finance and accounting practices**, including the ability to read and understand the Federal credit union's balance sheet and income statement and to **ask, as appropriate, substantive questions** of management and the internal and external auditors; and

(4) Direct management's operations of the Federal credit union **in conformity with** the requirements set forth in the Federal Credit Union Act, this chapter, other applicable law, and sound business practices.

BOARD OF DIRECTORS RESPONSIBILITIES

Credit Union National Association (CUNA)

Generally speaking, the board's job is to **set direction for and control the credit union**, making sure it is operated in a sound and prudent manner and that all decisions are guided by the **best interests of the members.**

BOARD OF DIRECTORS RESPONSIBILITIES

Primary Responsibilities

1 Set Policy

2 Plan the credit union's course

3 Make sure the credit union maintains its sound financial condition

4 Keep communication open to educate members on services

5 Review the chief executive officer's progress in achieving goals and objectives

6 Report to the members at the annual meeting

BOARD OF DIRECTOR RESPONSIBILITIES

Necessary Knowledge and Skills



An **understanding** of credit union philosophy



A desire to **better the financial lives** of members



Ability to **understand basic financial statements**



Ability to **think and plan strategically**

BOARD OF DIRECTORS RESPONSIBILITIES

Specific Responsibilities

- Work with the CEO and the board to develop objectives and goals for the credit union, including strategic plans
- Make sure the credit union adheres to pertinent laws, regulations, and sound business practices
- Make sure the credit union maintains sound financial conditions and that the credit union's assets are protected against unauthorized or illegal acts. Designate depositories, authorize borrowing and investing, and provide for bonding and other security factors, including internal control policies and procedures. Approve **interest rates, dividends, and refunds, or approver policies to guide management in doing so. Approve loan limits and savings minimums.**

BOARD OF DIRECTORS RESPONSIBILITIES

Specific Responsibilities

- Develop **personnel policies**, or make sure they are developed, and then approve them for all credit union programs and activities. Review policies and bylaws at least one a year and update as necessary.
- Make sure **new products and services** are developed as needed.
- **Approve** the credit union **budget**
- Define the **scope of the CEO's** job, hire someone to fill the position, and review his or her progress in attaining goals and objectives.
- Attend monthly board meetings, **exercise judgment independently from the CEO**, and report to the members at the annual meeting.

BOARD OF DIRECTORS RESPONSIBILITIES

Key Areas of Responsibilities

- ✓ Exercise sound judgment
- ✓ Assure the credit union's viability and strategic direction
- ✓ Develop and Maintain sound, robust policies
- ✓ Assess the credit union's financial performance
- ✓ Provide guidance and oversight of CEO

BOARD OF DIRECTORS RESPONSIBILITIES

Foundational to all other duties is the responsibility to assure that the credit union is pursuing a direction that will assure business success.

DEFINITIONS AND TERMS

**Balance
Sheet**

**Income
Statement**

**Key
Ratios**

DEFINITIONS AND TERMS

Balance sheet – Statement of:

ASSETS – cash, investments, loans, other assets (building, equipment, REO, etc.)

LIABILITIES – money owed, deposits, other liabilities (taxes, accruals, etc.)

EQUITY/CAPITAL –retained earnings, reserves, adjustments to investment value

BALANCE SHEET

Balance Sheet

Assets		Liabilities	
<i>Consumer Loans</i>	\$ 10,000,000	Payables	\$ 250,000
<i>Real Estate Loans</i>	\$ 10,000,000	Other	\$ 150,000
Total Loans	\$ 20,000,000	Total Liabilities	\$ 400,000
<i>ALLL</i>	\$ (150,000)	<i>Regular Shares</i>	\$ 17,750,000
Net Loans	\$ 19,850,000	<i>Share Drafts</i>	\$ 4,450,000
Cash	\$ 750,000	<i>Money Market</i>	\$ 12,500,000
Investments	\$ 25,000,000	<i>Share Certificates</i>	\$ 7,761,000
Fixed Assets	\$ 1,000,000	Total Deposits	\$ 42,461,000
Other Assets	\$ 500,000	Equity	\$ 4,239,000
Total Assets	\$ 47,100,000	Total Liabilities & Equity	\$ 47,100,000

DEFINITIONS AND TERMS

Income Statement

REVENUES

interest on loans, interest on investments, non-interest income(fees)

EXPENSES

operating expenses, dividends

NET MARGIN

bottom line earnings

INCOME STATEMENT COMPONENTS

Operating Income	
Total Loan Income	\$ 136,983
Total Investment Income	\$ 12,277
Fees/Charges	\$ 12,063
Total Misc. Income	\$ 12,134
Total Income	\$ 173,457

INCOME STATEMENT COMPONENTS

Operating Expenses	
Total Compensation	\$ 60,541
Travel and Conference	\$ 2,121
Accociation Dues	\$ 1,103
Office Occupancy	\$ 14,468
Office Operations	\$ 19,340
Education and Promo	\$ 2,636
Loan Servicing Expense	\$ 23,183
Outside Services	\$ 8,139
Prov for Loan Loss	\$ 10,000
Exam Fees	\$ 2,982
Cash Over/Short	\$ -
Annual Meeting	\$ -
Misc Operating Expenses	\$ 1,119
Total Expense	\$ 145,632

INCOME STATEMENT COMPONENTS

Dividends	
Regular Shares	\$ 652
Share Drafts	\$ 35
Club Accounts	\$ 1
Share Certificates	\$ 3,314
IRA Accounts	\$ 400
Total Dividends	\$ 4,402
Net After Dividends	\$ 23,423

INCOME STATEMENT COMPONENTS

Summary	
Total Income	\$ 173,457
Total Expense	\$ 145,632
Total Dividends	\$ 4,402
Net After Dividends	\$ 23,423

KEY RATIOS- FOCUS OF MEASUREMENT

FINANCIAL PERFORMANCE

Application and return of financial resources

GROWTH

Increases in key resources

ASSET QUALITY

Risk associated with assets

FINANCIAL PERFORMANCE

Loan Yield

Investment
Yield

Other
Income

Operating
Expenses

Cost of
Funds

ROA

Equity
Ratio

FINANCIAL PERFORMANCE

LOAN YIELD

Average interest rate earned on loans

CALCULATION

Annualized interest income/total loans

RESULT

Return on each dollar of loans

FINANCIAL PERFORMANCE

		Annualized (x12)
Interest Income	\$ 136,983	\$ 1,643,796.36
Loans		\$ 20,000,000
Loan Yield		8.22%

FINANCIAL PERFORMANCE

INVESTMENT YIELD

Average interest rate earned on investments

CALCULATION

Annualized interest income/total investments

RESULT

Return on each dollar of investments

FINANCIAL PERFORMANCE

		Annualized (x12)
Interest Income	\$ 12,277	\$ 147,321.24
Investments		\$ 25,000,000
Investment Yield		0.59%

FINANCIAL PERFORMANCE

COST OF FUNDS

Dollar cost on total deposits

CALCULATION

Annualized interest expense/deposits

RESULT

Interest cost for each dollar of deposits

FINANCIAL PERFORMANCE

		Annualized (x12)
Dividend Expense	\$ 4,402	\$ 52,824.72
Deposits		\$ 42,461,000
Cost of Funds		0.12%

FINANCIAL PERFORMANCE

NON-INTEREST INCOME (fees, charges)

Dollar income from non-interest sources

CALCULATION

Annualized non-interest/assets

RESULT

Non-interest income on each dollar of assets

FINANCIAL PERFORMANCE

		Annualized (x12)
Non-Interest Income	\$ 24,197	\$ 290,365.44
Assets		\$ 47,100,000
Other Income/Assets		0.62%

FINANCIAL PERFORMANCE

OPERATING EXPENSE

Dollar cost for non-interest expenses

CALCULATION

Annualized non-interest expense/assets

RESULT

Non-interest cost on each dollar of assets

FINANCIAL PERFORMANCE

		Annualized (x12)
Operating Expense	\$ 145,632	\$ 1,747,587.24
Assets		\$ 47,100,000
Operating Expense/Assets		3.71%

FINANCIAL PERFORMANCE

ROA (Return on Assets)

Dollar return for each dollar of assets

CALCULATION

Interest Income

-Interest Expense

=Net Interest Margin

+Other Income

-Operating Expense

=Net Income/Assets = ROA

FINANCIAL PERFORMANCE

		Annualized (x12)
Net After Dividends	\$ 23,423	\$ 281,071.08
Assets		\$ 47,100,000
Return on Assets		0.60%

FINANCIAL PERFORMANCE

EQUITY RATIO

Dollars of reserves as a percent of total assets (primary indication of financial strength)

CALCULATION

Total equity/total assets

RESULT

Dollars of reserves in relation to total assets

FINANCIAL PERFORMANCE

Total Equity		\$	4,239,000.00
Assets		\$	47,100,000
Equity Ratio			9.00%

GROWTH

ASSETS

% change from prior period

DEPOSITS

% change from prior period

LOANS

% change from prior period

CALCULATION METHOD

- Identify most recent period balance
- Identify previous period balance
- Subtract previous from current
- Divide result by previous period
- Result in the rate of change

GROWTH

	2012	2013	Change \$	Change %
Assets	\$ 46,750,000	\$ 47,100,000	\$ 350,000	0.75%

	2012	2013	Change \$	Change %
Deposits	\$ 42,011,000	\$ 42,461,000	\$ 450,000	1.07%

	2012	2013	Change \$	Change %
Consumer	\$ 7,500,000	\$ 10,000,000	\$ 2,500,000	33.33%
Real Estate	\$ 11,000,000	\$ 10,000,000	\$ (1,000,000)	-9.09%
Total	\$ 18,500,000	\$ 20,000,000	\$ 1,500,000	8.11%

ASSET QUALITY

THE QUALITY OF ASSETS

Measured by delinquency, loss or use of assets

MEASURES

Delinquencies

Charge-offs

Loan to Share

ASSET QUALITY

DELINQUENCY MEANING

How many dollars are past due (30 or 60)

Dollars vs. Numbers

MEASUREMENT

Divide dollars/numbers delinquent by total dollars/number of loans

ASSET QUALITY

Delinquencies	\$ 245,800
Loans	\$ 20,000,000
DQ Rate	1.23%

ASSET QUALITY

CHARGE-OFF MEANING

How many dollars have been charged off (lost)
Dollars vs. Numbers

MEASUREMENT

Divide dollars/numbers charge-offs by total dollars/number of loans

ASSET QUALITY

Charge-off Loans	\$ 56,500
Loans	\$ 20,000,000
C/O Rate	0.28%

ASSET QUALITY

LOAN TO DEPOSIT (SHARE) RATIO

MEANING

What percent of deposits are currently out in loans

MEASUREMENT

Divide total loans by total deposits (shares)

ASSET QUALITY

Loans	\$ 20,000,000
Deposits	\$ 42,461,000
L/S Ratio	47.10%



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