

# 2018 Annual Report

Federally insured by NCUA



**First Source**  
Federal Credit Union

## CHAIRMAN'S & CEO'S REPORT

Dear Valued Member,

Thank you for your continued support throughout 2018. As a member-owned financial cooperative, the Board, Management Team and Employees of First Source Federal Credit Union continue to focus on our mission of providing solutions to improve our Members' lives, taking care of our employees, being good stewards of our financial resources, and being a good corporate citizen by giving back to the communities where we work and live.

Over the years, we have positioned your Credit Union for future growth by building upon its financial strength. Growth is critical to the future of our organization. It enables us to expand our product and service offerings in an effort to provide you with effective solutions to meet your increasingly complex financial needs, while continuing to provide you value and exceptional personal service. We are proud to be at the point of strategic growth now, moving at a measured pace we believe will continue our position as a strong and viable financial institution.

During 2018, we set several new records for your Credit Union. We had a very successful year financially with new records in terms of Membership Growth, Loan Growth and Net Income. Our overall financial results compare very favorably with other credit unions across the country.

2018 brought many changes internally including the restructured Management and Training Departments, as well as many new positions and employment opportunities. We underwent a rebrand that delivers a more clear and concise message of our Mission to members and the community. We are in the process of several software upgrades and process efficiencies that will enhance all service channels for more consistent, streamlined experiences for members. We have put an emphasis on personal financial management providing our members and the community with financial literacy education and tools.

Finally, the Board of Directors named Tom Neumann our new President/Chief Executive Officer. After nearly twenty years as a CEO, Mike Parsons continues as our Chief Development Officer with a focus on member business services, community relations, and economic development.

As the world around us continues to change, you can be confident your Board of Directors, Management, and Staff are committed to providing you the best value in financial products and service. The Board and Management Team continually focus on the future and on remaining a viable and vital resource for our members and community. We understand that technology is more important than ever as the banking industry shifts to a more digital world; however, we cannot and will not lose our personal connection with our members. They will be turning to us for expertise and advice as they navigate their finances. Education on how to live financially smarter will be a benefit we continue to provide as we strive to fulfill our mission of improving the Quality of Life of Our Members and the Communities We Serve. Thank you for your continued support.

*Robert Jubenville, PhD, Board Chairman*  
*Thomas Neumann, President/CEO*

## TREASURER'S REPORT

First Source Federal Credit Union experienced another year of solid financial performance and growth during 2018 as total assets grew by \$80 million to end the year at \$588 million.

First Source had an excellent year in terms of net income and added over \$7 million to our financial reserves during the year. This set a new record for your credit union. Our reserves provide protection for the Credit Union from economic downturns and any challenges encountered. I am pleased to report that First Source remains financially strong with over \$59 million in reserves and a Net Worth Ratio of 10.01%; which is considered to be well capitalized by the National Credit Union Administration.

During the year we saw an improving economy, low unemployment and higher consumer confidence across the nation. During the year we helped members achieve their financial goals as total loans outstanding at the end of 2018 grew to \$544 million; up nearly \$71 million from the year before.

I am pleased to report that your credit union is financially strong and our strategies are designed to maintain that strength into the future.

*James Peterson, Board Treasurer*

## SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is the Members' official auditing team and representative in the review of overall financial operations. The review includes the oversight of Management and Staff to ensure that all regulations, procedures, and policies governing the Credit Union are followed.

Cash security and operational procedures were examined throughout the organization periodically during 2018. Accounting records and reports were reviewed for accuracy and reflect actual operations of the Credit Union. Internal controls were reviewed for effectiveness and monitored frequently to ensure adherence to Board policies and procedures.

A financial audit is completed annually by an independent Certified Public Accounting firm. Records are audited and operations reviewed. The Credit Union is also examined on a regular basis by the National Credit Union Administration. We are pleased to report that both of these reviews were completed resulting in strong ratings. The Supervisory Committee commends the Board of Directors, Management, and Staff for their high level of performance and service to our members.

*Byron W. Elias, Chairman*

## Highlights from 2018

- Total Assets = \$587,964,070
- Total Reserves = \$58,847,961
- Net Worth = 10.01%
- Loan to Share Ratio = 108.02%
- Return on Assets = 1.24%

**BALANCE SHEET**

Years Ended 12/31/2018 and 12/31/2017

	<u>\$ (Dollars)</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>			
Cash and Cash Equivalents		\$3,495,130	\$3,684,951
Cash on Deposit at Corporate Credit Union		18,497,379	8,210,529
Cash on Deposit at other Financial Institutions		3,887,571	2,901,804
Investments - Available for Sale		0	31,291
<b>Total Cash and Investments</b>		<b>25,880,080</b>	<b>14,828,575</b>
New Automobile		80,774,158	65,822,643
Used Automobile		92,716,303	71,194,534
Secured		17,984,205	14,557,109
Unsecured		42,276,471	30,888,599
Participation Loans		1,769,630	2,363,669
Member Business Loans		22,774,779	15,517,839
Credit Card		21,498,357	21,146,968
Real Estate		263,582,879	250,309,041
All Other		1,234,779	1,461,906
<b>Total Loans to Members</b>		<b>544,611,561</b>	<b>473,262,308</b>
Allowance for Loan Losses		(8,073,077)	(6,001,753)
<b>Total Loans, Net</b>		<b>536,538,484</b>	<b>467,260,555</b>
Mortgages Held For Sale		-	-
Accrued Interest Receivable		1,436,154	1,137,702
Property and Equipment, net of depreciation		6,523,559	6,954,683
NCUSIF deposit		4,556,205	4,288,511
Other Real Estate Owned		-	65,000
Prepaid expense and other assets		13,029,588	13,816,924
<b>Total Assets</b>		<b>\$587,964,070</b>	<b>\$508,351,950</b>
<b>LIABILITIES AND MEMBER EQUITY</b>			
<b>LIABILITIES</b>			
Notes Payable		20,011,784	10,016,519
Accounts payable and accrued liabilities		5,152,679	5,034,166
<b>Total Liabilities</b>		<b>25,164,463</b>	<b>15,050,685</b>
<b>MEMBER EQUITY</b>			
Members' share accounts		503,951,646	441,737,412
Total Reserves		58,847,961	51,563,853
<b>Total Liabilities and Member Equity</b>		<b>\$587,964,070</b>	<b>\$508,351,950</b>

**STATEMENT OF INCOME**

Years Ended 12/31/2018 and 12/31/2017

	<u>\$ (Dollars)</u>	<u>2018</u>	<u>2017</u>
<b>INTEREST INCOME</b>			
Interest on Loans		\$26,242,854	\$21,903,007
Interest on Investments		547,531	388,852
<b>Total Interest Income</b>		<b>26,790,385</b>	<b>22,291,858</b>
<b>INTEREST EXPENSE</b>			
Dividends on member's share accounts		2,745,342	1,812,991
Interest on notes payable		424,512	136,698
<b>Total Dividend Expense</b>		<b>3,169,855</b>	<b>1,949,689</b>
<b>Net Interest Income</b>		<b>23,620,530</b>	<b>20,342,170</b>
Provision for Loan Losses		5,600,000	5,500,000
<b>Net Interest Income after Provision for Loan Losses</b>		<b>18,020,530</b>	<b>14,842,170</b>
<b>NON-INTEREST INCOME</b>			
Fees, service charges and other income		8,738,110	8,004,269
<b>Total Non-Interest Income</b>		<b>8,738,110</b>	<b>8,004,269</b>
<b>Gross Income</b>		<b>26,758,641</b>	<b>22,846,439</b>
<b>NON-INTEREST EXPENSE</b>			
Compensation and Employee Benefits		10,984,107	9,853,861
Office Occupancy and Operations		5,886,750	4,929,087
Member Services, Education, and Promotion		1,250,621	1,127,554
Loan Servicing		1,705,221	1,541,573
Professional Fees		198,288	103,092
Other		596,670	557,900
<b>Total Non-Interest Expense</b>		<b>20,621,658</b>	<b>18,113,068</b>
<b>Total Net Operating Income</b>		<b>6,136,983</b>	<b>4,733,371</b>
Non-operating income/(expense)		1,058,000	538,940
Non-Operating gain		90,026	(114,422)
<b>Net Income</b>		<b>\$7,285,009</b>	<b>\$5,157,889</b>

**STATEMENT OF CHANGES IN MEMBER EQUITY**

Years Ended 12/31/2018 and 12/31/2017

	<u>\$ (Dollars)</u>	<u>2018</u>	<u>2017</u>
<b>REGULAR RESERVES</b>			
Balance at January 1		\$6,344,961	\$6,344,961
Transfers from Undivided Earnings		-	-
<b>Balance at December 31</b>		<b>6,344,961</b>	<b>6,344,961</b>
<b>UNDIVIDED EARNINGS</b>			
Balance at January 1		45,217,991	40,060,101
Net Income		7,285,009	5,157,890
Transfers from Regular Reserves		-	-
<b>Balance at December 31</b>		<b>52,503,000</b>	<b>45,217,991</b>
<b>UNREALIZED GAIN/LOSS ON AFS INVESTMENTS</b>			
<b>Balance at December 31</b>		<b>-</b>	<b>901</b>
<b>Total Member Equity as of 12/31</b>		<b>\$58,847,961</b>	<b>\$51,563,853</b>

**STATEMENT OF CASH FLOW**

Years Ended 12/31/2018 and 12/31/2017

	<u>\$ (Thousands)</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING CASH FLOW</b>			
Net Interest Income		\$26,790	\$22,292
Fees/Other Income		9,886	8,427
Expenses		(29,391)	(25,561)
<b>Net Income</b>		<b>7,285</b>	<b>5,158</b>
<b>NON-CASH EXPENSE ADJUSTMENTS</b>			
Provision for Loan Loss		5,600	5,500
Depreciation		731	963
<b>Net Cash from Operations</b>		<b>13,616</b>	<b>11,621</b>
<b>MEMBER ACTIVITIES</b>			
New Loans		(213,808)	(173,010)
Loan Principal Repayment		138,888	120,541
<b>Net Loan Principal Flow</b>		<b>(74,920)</b>	<b>(52,469)</b>
Net Change in Checking		8,626	6,369
Certificates Issued		55,991	40,110
Certificates Matured or Redeemed		(7,836)	(39,066)
Net Change in Other Shares		5,433	25,407
<b>Net Share Balance Flow</b>		<b>62,214</b>	<b>32,820</b>
<b>INVESTING &amp; OTHER ACTIVITIES</b>			
Decrease/(Increase) in Deposits at Corp CU		(11,271)	11,770
Investment Sales/Maturities		31	2,437
Investment Purchases		-	-
<b>Net Investment Principal Flow</b>		<b>(11,240)</b>	<b>14,207</b>
Change in MHFS		-	-
Change in Other Assets		326	(1,053)
Change in Other Liabilities		119	509
Sale of Fixed Assets		-	-
Purchase of Fixed Assets		(300)	(701)
<b>Net Change in Other Assets/Liabilities</b>		<b>145</b>	<b>(1,245)</b>
<b>FINANCING ACTIVITIES</b>			
Net Change in Borrowing		9,995	(4,988)
<b>Net Cash Flow</b>		<b>(190)</b>	<b>(54)</b>
Add: Beginning Cash & Cash Equivalents		3,685	3,739
<b>Ending Cash &amp; Cash Equivalents</b>		<b>\$3,495</b>	<b>\$3,685</b>



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