

Your Annual Report 2015

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FIRST SOURCE
FEDERAL CREDIT UNION

You're First.

CHAIRMAN'S & PRESIDENT'S REPORT

Dear Valued Member,

Thank you for your continued support throughout 2015. 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, 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 past two decades, we have been positioning your Credit Union for future growth and continuing to build 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 remaining the same Credit Union with which you are familiar...that of providing you value and exceptional personal service.

During 2015 we set several new records for your Credit Union. Most notably was loan growth of nearly 25% as we met member borrowing needs with \$146 million in new loans compared to \$90 million the year before. This is in addition to nearly \$35 million in new mortgage loans. We set a new record with 9% annual membership growth; and we hit a new record in terms of Net Income. Our overall financial results compare very favorably with other credit unions across the country.

Several service enhancements were added during 2015. We added additional member business services including credit card processing and payroll services. We prepared for credit card "chip technology" which adds another layer of security in preventing fraud. During the year our management team spent significant time researching new technologies to help us keep up with the ever changing world. Our work last year prepared us for launching an enhanced mobile banking platform in 2016, a new website and enhancements in our lending systems for even faster service. Also look for a new credit card offering in the near future that we believe you will enjoy.

As the world around us continues to change, you can be confident your Board of Directors, other volunteers, Management, and Staff are committed to providing you the best value in financial products and service. The Board and Management Team continually focus on long-term sustainability, succession planning and remaining a viable and vital source for our members and community.

We continue striving to fulfil 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

Michael Parsons, President/CEO

TREASURER'S REPORT

First Source Federal Credit Union experienced another year of solid financial performance and growth during 2015 as total assets grew by \$40.8 million to end the year at \$437.2 million.

First Source had an excellent year in terms of net income and added over \$4.1 million to our financial reserves during the year. These reserves provide insulation for the Credit Union from economic downturns and any challenges encountered. I am pleased to report that First Source remains financially strong with over \$41 million in reserves and a Net Worth Ratio of 9.46%; which is considered to be well capitalized by the National Credit Union Administration.

Despite some lingering uncertainty in the economy recovery, unemployment and low consumer confidence across the nation, we set a new record in terms of loan growth. During the year we helped members achieve their financial goals as total loans outstanding at the end of 2015 grew to over \$376.9 million; up nearly \$70 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, Treasurer

Highlights from 2015

- **Total Assets = \$437,167,745**
- **Total Reserves = \$41,349,086**
- **Net Worth = 9.46%**
- **Loan to Share Ratio = 98.56%**
- **Return on Assets = 0.94%**

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 at each office periodically during 2015. 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.

An 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 the highest possible ratings. The Supervisory Committee commends the Board of Directors, Management, and Staff for their high level of performance and service to our members.

Byron Elias, Chairman

BALANCE SHEET

Years Ended 12/31/2015 and 12/31/2014

	<u>\$ (Dollars)</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Cash and Cash Equivalents		\$4,057,036	\$3,549,906
Cash on Deposit at Corporate Credit Union		20,239,338	51,924,075
Cash on Deposit at other Financial Institutions		1,857,599	1,540,988
Investments - Available for Sale		13,348,806	11,010,668
Total Cash and Investments		39,502,778	68,025,637
New Automobile		51,413,063	43,377,091
Used Automobile		51,658,143	34,335,777
Secured		10,154,242	7,974,018
Unsecured		20,461,305	9,418,903
Participation Loans		3,911,303	4,047,059
Member Business Loans		7,009,904	2,913,023
Credit Card		17,892,104	16,169,324
Real Estate		213,087,392	187,556,976
All Other		1,278,588	1,323,191
Total Loans to Members		376,866,045	307,115,361
Allowance for Loan Losses		(2,845,214)	(2,269,060)
Total Loans, Net		374,020,831	304,846,302
Mortgages Held For Sale		-	996,668
Accrued Interest Receivable		892,207	727,512
Property and Equipment, net of depreciation		7,102,310	7,137,047
NCUSIF deposit		3,743,785	3,528,441
Other Real Estate Owned		91,246	16,036
Prepaid expense and other assets		11,814,589	11,153,469
Total Assets		\$437,167,745	\$396,431,111
LIABILITIES AND MEMBER EQUITY			
LIABILITIES			
Notes Payable		10,007,485	-
Accounts payable and accrued liabilities		3,430,356	3,295,226
Total Liabilities		13,437,841	3,295,226
MEMBER EQUITY			
Members' share accounts		382,380,818	355,896,079
Total Reserves		41,349,086	37,239,807
Total Liabilities and Member Equity		\$437,167,745	\$396,431,111

STATEMENT OF INCOME

Years Ended 12/31/2015 and 12/31/2014

	<u>\$ (Dollars)</u>	<u>2015</u>	<u>2014</u>
INTEREST INCOME			
Interest on Loans		\$15,615,435	\$13,318,143
Interest on Investments		308,023	286,860
Total Interest Income		15,923,458	13,605,003
INTEREST EXPENSE			
Dividends on member's share accounts		1,528,966	1,658,988
Interest on notes payable		13,350	-
Total Dividend Expense		1,542,316	1,658,988
Net Interest Income		14,381,143	11,946,015
Provision for Loan Losses		1,660,000	720,000
Net Interest Income after Provision for Loan Losses		12,721,143	11,226,015
NON-INTEREST INCOME			
Fees, service charges and other income		6,194,505	5,489,188
Total Non-Interest Income		6,194,505	5,489,188
Gross Income		18,915,648	16,715,203
NON-INTEREST EXPENSE			
Compensation and Employee Benefits		8,046,306	7,481,933
Office Occupancy and Operations		4,182,644	4,030,648
Member Services, Education, and Promotion		785,039	708,079
Loan Servicing		1,096,072	973,033
Professional Fees		152,244	116,140
Other		648,243	481,606
Total Non-Interest Expense		14,910,549	13,791,440
Total Net Operating Income		4,005,098	2,923,763
Non-operating income/(expense)		124,372	493,068
Non-Operating gain		-	-
Net Income		\$4,129,470	\$3,416,831

STATEMENT OF CHANGES IN MEMBER EQUITY

Years Ended 12/31/2015 and 12/31/2014

	<u>\$ (Dollars)</u>	<u>2015</u>	<u>2014</u>
REGULAR RESERVES			
Balance at January 1		\$6,344,961	\$6,344,961
Transfers from Undivided Earnings		-	-
Balance at December 31		6,344,961	6,344,961
UNDIVIDED EARNINGS			
Balance at January 1		30,892,807	27,475,976
Net Income		4,129,470	3,416,831
Transfers from Regular Reserves		-	-
Balance at December 31		35,022,277	30,892,807
UNREALIZED GAIN/LOSS ON AFS INVESTMENTS			
Balance at December 31		(18,150)	2,040
Total Member Equity as of 12/31		\$41,349,086	\$37,239,807

STATEMENT OF CASH FLOW

Years Ended 12/31/2015 and 12/31/2014

	<u>\$ (Thousands)</u>	<u>2015</u>	<u>2014</u>
OPERATING CASH FLOW			
Net Interest Income		\$14,381	\$11,946
Fees/Other Income		6,195	5,489
Expenses		(16,447)	(14,019)
Net Income		4,129	3,416
NON-CASH EXPENSE ADJUSTMENTS			
Provision for Loan Loss		1,660	720
Depreciation		582	694
Net Cash from Operations		6,371	4,830
MEMBER ACTIVITIES			
New Loans		(162,667)	(97,674)
Loan Principal Repayment		91,809	80,487
Net Loan Principal Flow		(70,859)	(17,187)
Net Change in Checking		13,858	7,109
Certificates Issued		39,425	44,110
Certificates Matured or Redeemed		(45,777)	(47,171)
Net Change in Other Shares		18,979	16,922
Net Share Balance Flow		26,485	20,970
INVESTING & OTHER ACTIVITIES			
Decrease/(Increase) in Deposits at Corp CU		31,707	(3,363)
Investment Sales/Maturities		7,773	9,000
Investment Purchases		(10,644)	(13,179)
Net Investment Principal Flow		28,836	(7,542)
Change in MHFS		997	(391)
Change in Other Assets		(920)	(810)
Change in Other Liabilities		136	778
Sale of Fixed Assets		-	-
Purchase of Fixed Assets		(547)	(563)
Net Change in Other Assets/Liabilities		(334)	(986)
FINANCING ACTIVITIES			
Net Change in Borrowing		10,007	-
Net Cash Flow		507	85
Add: Beginning Cash & Cash Equivalents		3,550	3,465
Ending Cash & Cash Equivalents		\$4,057	\$3,550



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