

Your Annual Report 2017

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First Source
Federal Credit Union

CHAIRMAN'S & CEO'S REPORT

Dear Valued Member,

Thank you for your continued support throughout 2017. 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 years, 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 2017 we set several new records for your Credit Union. We had a very successful year financially with a new record in terms of Net Income. Our overall financial results compare very favorably with other credit unions across the country and we had solid new membership growth.

Several enhancements were added during 2017. We updated our website with a new interface to provide a better and easier user experience. Content is continually evolving to meet our members' needs on this heavily used money management and credit union information platform. In the virtual banking arena we updated our mobile app to include a quick view feature and added a separate new credit card app. Our phone system improvement also increased authentication, improved member experience while waiting in queue and added functionality for Credit Union employees. We are in the process of several software upgrades and process efficiencies that will enhance all Member Service channels for more consistent, streamlined experiences during Account Opening and Lending.

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 2017 as total assets grew by \$33 million to end the year at \$508.4 million.

First Source had an excellent year in terms of net income and added over \$5 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 \$51 million in reserves and a Net Worth Ratio of 10.14%; 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 2017 grew to \$473.3 million; up nearly \$49 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 at each office periodically during 2017. 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 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 Elias, Chairman

Highlights from 2017

- **Total Assets = \$508,351,950**
- **Total Reserves = \$51,563,853**
- **Net Worth = 10.14%**
- **Loan to Share Ratio = 107.07%**
- **Return on Assets = 1.01%**

BALANCE SHEET

Years Ended 12/31/2017 and 12/31/2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$3,684,951 | \$3,739,382 |
| Cash on Deposit at Corporate Credit Union | 8,210,529 | 20,475,909 |
| Cash on Deposit at other Financial Institutions | 2,901,804 | 2,403,918 |
| Investments - Available for Sale | 31,291 | 2,473,602 |
| Total Cash and Investments | 14,828,575 | 29,092,810 |
| New Automobile | 65,822,643 | 57,797,542 |
| Used Automobile | 71,194,534 | 60,627,050 |
| Secured | 14,557,109 | 12,862,507 |
| Unsecured | 30,888,599 | 24,054,985 |
| Participation Loans | 2,363,669 | 3,093,128 |
| Member Business Loans | 15,517,839 | 11,318,920 |
| Credit Card | 21,146,968 | 20,807,351 |
| Real Estate | 250,309,041 | 232,783,194 |
| All Other | 1,461,906 | 1,364,731 |
| Total Loans to Members | 473,262,308 | 424,709,408 |
| Allowance for Loan Losses | (6,001,753) | (4,699,666) |
| Total Loans, Net | 467,260,555 | 420,009,741 |
| Mortgages Held For Sale | - | - |
| Accrued Interest Receivable | 1,137,702 | 990,594 |
| Property and Equipment, net of depreciation | 6,954,683 | 7,216,817 |
| NCUSIF deposit | 4,288,511 | 3,972,223 |
| Other Real Estate Owned | 65,000 | 50,000 |
| Prepaid expense and other assets | 13,816,924 | 13,523,306 |
| Total Assets | \$508,351,950 | \$474,855,492 |
| LIABILITIES AND MEMBER EQUITY | | |
| LIABILITIES | | |
| Notes Payable | 10,016,519 | 15,005,407 |
| Accounts payable and accrued liabilities | 5,034,166 | 4,524,217 |
| Total Liabilities | 15,050,685 | 19,529,624 |
| MEMBER EQUITY | | |
| Members' share accounts | 441,737,412 | 408,919,290 |
| Total Reserves | 51,563,853 | 46,406,579 |
| Total Liabilities and Member Equity | \$508,351,950 | \$474,855,492 |

STATEMENT OF INCOME

Years Ended 12/31/2017 and 12/31/2016

| | 2017 | 2016 |
|--|--------------------|--------------------|
| INTEREST INCOME | | |
| Interest on Loans | \$21,903,007 | \$19,610,754 |
| Interest on Investments | 388,852 | 295,189 |
| Total Interest Income | 22,291,858 | 19,905,943 |
| INTEREST EXPENSE | | |
| Dividends on member's share accounts | 1,812,991 | 1,586,716 |
| Interest on notes payable | 136,698 | 89,604 |
| Total Dividend Expense | 1,949,689 | 1,676,320 |
| Net Interest Income | 20,342,170 | 18,229,623 |
| Provision for Loan Losses | 5,500,000 | 3,950,000 |
| Net Interest Income after Provision for Loan Losses | 14,842,170 | 14,279,623 |
| NON-INTEREST INCOME | | |
| Fees, service charges and other income | 8,004,269 | 7,097,118 |
| Total Non-Interest Income | 8,004,269 | 7,097,118 |
| Gross Income | 22,846,439 | 21,376,742 |
| NON-INTEREST EXPENSE | | |
| Compensation and Employee Benefits | 9,853,861 | 8,753,782 |
| Office Occupancy and Operations | 4,929,087 | 4,917,159 |
| Member Services, Education, and Promotion | 1,127,554 | 1,122,992 |
| Loan Servicing | 1,541,573 | 1,442,859 |
| Professional Fees | 103,092 | 132,244 |
| Other | 557,900 | 563,165 |
| Total Non-Interest Expense | 18,113,068 | 16,932,202 |
| Total Net Operating Income | 4,733,371 | 4,444,540 |
| Non-operating income/(expense) | 538,940 | 593,285 |
| Non-Operating gain | (114,422) | - |
| Net Income | \$5,157,889 | \$5,037,825 |

STATEMENT OF CHANGES IN MEMBER EQUITY

Years Ended 12/31/2017 and 12/31/2016

| | 2017 | 2016 |
|--|---------------------|---------------------|
| 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 | 40,060,102 | 35,022,277 |
| Net Income | 5,157,889 | 5,037,825 |
| Transfers from Regular Reserves | - | - |
| Balance at December 31 | 45,217,991 | 40,060,102 |
| UNREALIZED GAIN/LOSS ON AFS INVESTMENTS | | |
| Balance at December 31 | 901 | 1,517 |
| Total Member Equity as of 12/31 | \$51,563,853 | \$46,406,578 |

STATEMENT OF CASH FLOW

Years Ended 12/31/2017 and 12/31/2016

| | 2017 | 2016 |
|---|-----------------|-----------------|
| OPERATING CASH FLOW | | |
| Net Interest Income | \$22,292 | \$18,230 |
| Fees/Other Income | 8,427 | 7,097 |
| Expenses | (25,561) | (20,290) |
| Net Income | 5,158 | 5,038 |
| NON-CASH EXPENSE ADJUSTMENTS | | |
| Provision for Loan Loss | 5,500 | 3,950 |
| Depreciation | 963 | 608 |
| Net Cash from Operations | 11,621 | 9,596 |
| MEMBER ACTIVITIES | | |
| New Loans | (173,010) | (157,185) |
| Loan Principal Repayment | 120,541 | 107,248 |
| Net Loan Principal Flow | (52,469) | (49,937) |
| Net Change in Checking | 6,369 | 6,088 |
| Certificates Issued | 40,110 | 37,890 |
| Certificates Matured or Redeemed | (39,066) | (40,891) |
| Net Change in Other Shares | 25,407 | 23,450 |
| Net Share Balance Flow | 32,820 | 26,537 |
| INVESTING & OTHER ACTIVITIES | | |
| Decrease/(Increase) in Deposits at Corp CU | 11,770 | (1,274) |
| Investment Sales/Maturities | 2,437 | 11,386 |
| Investment Purchases | - | - |
| Net Investment Principal Flow | 14,207 | 10,112 |
| Change in MHFS | - | - |
| Change in Other Assets | (1,053) | (1,995) |
| Change in Other Liabilities | 509 | 1,094 |
| Sale of Fixed Assets | - | - |
| Purchase of Fixed Assets | (701) | (723) |
| Net Change in Other Assets/Liabilities | (1,245) | (1,624) |
| FINANCING ACTIVITIES | | |
| Net Change in Borrowing | (4,988) | 4,998 |
| Net Cash Flow | (54) | (318) |
| Add: Beginning Cash & Cash Equivalents | 3,739 | 4,057 |
| Ending Cash & Cash Equivalents | \$3,685 | \$3,739 |



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