10 Ratios Every Volunteer Should Know

CUNA
Credit Union National Association

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Welcome to CUNA's Training on Demand Series for Volunteers. Today's program is "Ten Ratios Every Volunteer Should Know." This material has been prepared by Tim Harrington, a CPA who has worked with credit union boards of directors and management teams for nearly 20 years and the goal here to make these financial issues a little bit easier for you.

Objectives

- Determine the areas of financial statements where the figures for calculating ratios come from
- Establish what the key ratios are and why
- Learn how to calculate key ratios; and
- Explore the information that ratios reveal and the value they can provide for the strategy of the credit union

Where the Numbers Come From

Every credit union gets a set of financial statements. The management team produces a set of financial statements every month. Credit unions only use two of the three basic financial statements: the balance sheet and the income statement. And the balance sheet has many different names. You might know it as the "balance sheet", but you also might know it as the "statement of financial condition" or the "statement of condition." The income statement also has several names: "income statement" is common, but so is "profit and loss statement," or the "statement of revenues over expenses." It doesn't matter what you call them, but these two financial statements show us a lot of important information about the credit union.

However, these financial statements don't give us the ratios we need. They provide the raw material for the ratios. So if we don't get the actual ratios from management in some kind of useful pre-prepared form, we have to do them ourselves.

These balance sheets and income statements are important because they show essential information, but a balance sheet and income statement by themselves are not all that useful. Having comparative financial statements, or year-to-year comparisons make them more useful, and having trend information on key ratios is the most useful thing you can get. On the financial statements, the balance sheet is on the left side. And the balance sheet itself has two sides; the left side is called "Assets," all the things a credit union has, cash, loans, and investments, which are the earning assets.

There are also non-earning assets, the building and equipment that depreciate over time, the big deposit in the National Credit Union Share Insurance Fund, and a group of other assets. These represent all the things the credit union has.

The right side of the balance sheet, the center column of the example page, shows liabilities and capital. And the thing about accounting is that the left side has to equal the right side; the totals of the two sides should result in the same number. Liabilities plus capital should equal assets.

The top of the column shows miscellaneous liabilities, or what is owed someone else, such as shares owed to members. Shares are the biggest and most important of the liabilities that credit unions

Presentation Sample

Balance Sheet

Earning Assets

Loans

Investments

Non-Earning Assets

Property & Equip.
NCUSIF Deposit
Other Assets

Total Assets

Misc. Liabilities

Shares

Capital

Regular Reserves
Undivided Earnigns

Income Statement

Revenue

Loan Interest Income

Investment Interest Income

Fees & Other Inc.

Expenses

Occupancy
Personnel

Provision for Loan Losses

Cost of Funds

Dividends Paid
Undivided Earnigns

Net Income or Loss