



For The People

By The People



2001 ANNUAL REPORT

# Annual Report

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## CHAIRMAN'S MESSAGE

Chartway Federal Credit Union's history is a long and distinguished one encompassing over four decades. Over these years, we have prided ourselves on always being there for our members regardless of circumstance, providing the value, service and security that you have come to count on - and that you deserve. We all know how difficult this past year has been, not only for our nation's economy, but the country as a whole. Few were spared the far-reaching effects of the events of 2001, marked by a nation in mourning, a volatile stock market, corporate downsizing and downturns in many business markets. But through it all, we have stayed the course, serving as a beacon of financial strength and community outreach.

Our unwavering focus has been and will continue to be our commitment to bringing people together to enhance their quality of life. As with any close-knit family, we are here to support our members, employees and surrounding communities in times of need. Of course, our rates and service continue to exceed those of our competitors - but more importantly, our commitment to charity and integrity has never been more apparent. Last year,



John L. McGrath  
CHAIRMAN OF THE BOARD

our C.A.RE. Team spearheaded various community outreach efforts, donating 862 volunteer hours and \$86,199. Also last year, Chartway members, employees and volunteers banded together and raised \$25,450 to support the United Way's September 11<sup>th</sup> Fund.

During difficult times, changes in the economy also initiate concern about the future - particularly concerning your investments and the achievement of long-term financial goals. Our CUSO subsidiary, Chartway Financial Services, can help you weather the storm. The sound financial services they provide will help you through the hard times, enabling you to reach your short- and long-term investment objectives.

Today, Chartway is 130,000 members strong and growing. With 24 branches in six states, more than \$700 million in assets, and the best products and services available, we are one of the largest and strongest credit unions in the country. And, while an ever-changing economic marketplace can sometimes make it difficult to make the right decisions, you can always rely on us as your trusted source for financial information, education and advice to help you achieve all of your goals today and in the future.

*"Chartway is one of the largest and strongest credit unions in the country today. The reason for our success is, of course, our members."*

A handwritten signature in dark ink that reads "John L. McGrath". The signature is written in a cursive, flowing style.

## P R E S I D E N T ' S M E S S A G E

This past year has been an exciting time for Chartway, and our future continues to hold great promise. Our potential to touch the lives of more members through our expansion initiatives resonates our strong belief in the power of "people helping people." This is not just our credit union philosophy, it is the way we conduct business each and every day.

In 2001, we grew stronger – spreading our wings and meeting each opportunity with success. For the fifth year in a row, Chartway has received the highest rating by federal regulators for financial stability, accuracy, and sound management practices. We remain one of the top 100 credit unions in the country given our asset growth, membership growth, our investment and use of technology, new delivery systems and membership expansion campaigns.

With the introduction of our Member Contact System and Resume Call Routing technologies, we have the ability to better identify and service your specific needs. The enhancement of our delivery systems brings the products and services you have come to count on closer at hand. A recent addition to our website is our "Members Only" section. You now have the flexibility to order your credit report, receive automobile information via CarFax, review credit card balances and create your own member



Ronald L. Burniske  
PRESIDENT AND CEO

e-mail account – all at one convenient location: [www.chartway.com](http://www.chartway.com). For those of you who prefer the more traditional means of conducting your financial business, we have added more branch and ATM locations in Cleveland, Ohio; Houston, Texas; Norfolk, Virginia Beach and Chesapeake, Virginia.

Our potential for growth has also been enhanced by the opportunity to extend Chartway membership within the cities of Norfolk and Virginia Beach, Virginia. If you have friends, neighbors or co-workers who live, work, worship or attend school in these cities, they may now be eligible to enjoy the benefits of credit union membership.

This is a big step for us, and one that we have been working toward for a long time. However, our success does not hinge on our size – it is founded on our responsiveness and ability to meet your needs. I am proud to announce that our 2001 Membership Survey confirmed that we are doing just that. We received the highest level of member satisfaction in our history; and in my opinion, that is the measure by which we will always gauge our level of accomplishment.

How we got here was not an overnight success. Rather, it is the result of the diligent efforts by the people committed to this organization: our members, our volunteers and our employees. By working together, helping each other, and exploring new possibilities, we have all contributed to making Chartway what is today – an organization built on strength, stability, and unparalleled value.

*“We’ll continue to create new opportunities that bring you value, convenience and service.”*

A handwritten signature in blue ink, appearing to read "Ronald L. Burniske". The signature is fluid and cursive, with a large, stylized initial "R".

## 2001 BOARD OF DIRECTORS



FRONT ROW, FROM LEFT TO RIGHT

John L. McGrath  
*Chairman of the Board*

Melvin S. Mizelle  
*1st Vice Chairman*

E. L. "Lou" Gull, Jr.  
*2nd Vice Chairman*

MIDDLE ROW, FROM LEFT TO RIGHT

Carl M. Atkinson  
*Treasurer*

Bettye P. Machen  
*Director*

James J. Sibley  
*Director*

David L. Carmichael  
*Director*

BACK ROW, FROM LEFT TO RIGHT

Edward A. Foshay  
*Secretary*

Albert C. Merritt  
*Director*

## TREASURER'S REPORT

The defining measures of a financial institution's success are revealed in its attention to service, the value it offers its members, its safety and soundness, and its financial strength. As a member of Chartway Federal Credit Union for 39 years, I have personally seen our Credit Union grow to become one of the largest in the country. Yet, during this time, Chartway never lost sight of its founding philosophy of "people helping people." In fact, this growth has allowed us to offer the most competitive products and services anywhere, expand our convenience through branches, ATMs and electronic services, and provide unparalleled service to our members.

Today, I am pleased to report that the financial health of Chartway Federal Credit Union remains stronger than ever. We attained steady growth in all facets of operations during 2001. And the safety and soundness of your funds are evident through our successful financial performance.

Our assets as of September 30, 2001 were \$715,140,947. This represents a growth of \$116,687,713 or 19.5%. Share deposits grew a total of \$111,013,256 for a growth of 20.7% during the year.



We had a net increase in loans of \$19,391,772 or a 5.4% increase for the year. In keeping with our strong commitment to financial stability and security, gross income for our 12-month period as reported by the independent firm of McGladrey & Pullen, LLP, Certified Public Accountants, totaled \$57,300,665 distributed as follows: \$24,107,473 or 42.1% of gross income in dividends to our members; \$8,502,213 or 14.8% of gross income in reserves and undivided earnings (retained earnings); and \$24,690,979 or 43.1% to offset credit union operating expenses.

Reserves and undivided earnings are the foundation of financial stability and ensure the future success of Chartway. At year-end, these retained earnings totaled \$63,755,215 representing a 9.0% increase over the previous year.

Chartway is poised to meet the challenges of the future. Your continued participation, support and trust will ensure stability and future financial success for you and your fellow members.

Carl M. Atkinson  
*Treasurer*

*The are no hard-edged rules for investing or saving. It's your choice. Do you like to play it safe ? Are you willing to take a little risk? Or a lot? The answers are in your personality, your situation, your lifestyle. Chartway is ready with the advice, the programs and the instruments to fit the choices you've made. Or will make in the future.*

# SUPERVISORY COMMITTEE'S REPORT

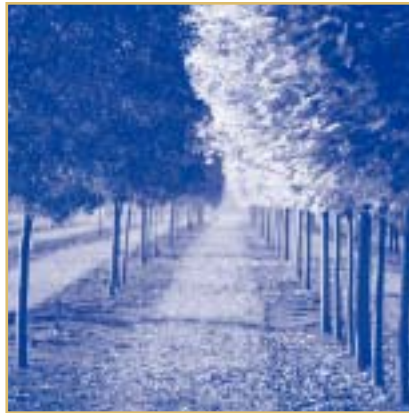
The Federal Credit Union Act requires the Supervisory Committee to conduct an annual appraisal of all the policies and procedures of Chartway Federal Credit Union.

Because our primary goal is always to protect the interests of our members, we contracted an independent certified public auditing firm to examine the year ending September 30, 2001. Following the examination and audit, we received an opinion letter confirming that Chartway's financial statements conform to generally accepted accounting principles.

Additionally, our federal regulator, the National Credit Union Administration (NCUA), completed an examination as of September 30, 2001 addressing the operational and financial

aspects of our credit union. NCUA reported that Chartway was in full compliance with the federal rules and regulations, bylaws and Credit Union Act as dictated by the NCUA.

The members of the Committee and I would like to extend our appreciation to the credit union staff, management, board of directors and especially our members for their cooperation during the past year. Without your support, our job would have been significantly more difficult.



Mr. Richard R. Ahlborn  
*Chairman*

Mrs. Judy Sparrow  
*Vice-Chairman*

Mrs. Eleanor Willhoite  
*Secretary*

Mr. Dallas England  
*Member*

Mrs. Jennifer Ramos  
*Member*

Mr. Gary Royse  
*Associate Member*

Mr. Melvin Mizelle  
*Associate Member*

Mrs. Ann-Marie Lewis  
*Internal Controls Assistant*

*The path you take today can affect you financially five or ten years down the road. Have the experience to help you map your future, and the flexibility to take a fork in the road in stride. Here, you always have a choice.*

# experience

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial condition of Chartway Federal Credit Union (a federally chartered credit union) and Subsidiaries as of September 30, 2001 and the related consolidated statements of income and comprehensive income, equity, and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.



The credit union has reported shares as equity in the accompanying financial statements that, in our opinion, should be reported as liabilities in order to conform with generally accepted accounting principles. If these shares were properly reported, liabilities would increase and equity would decrease by \$647,768,587 as of September 30, 2001.

In our opinion, except for the effect of the accounting practice described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the

consolidated financial position of Chartway Federal Credit Union and Subsidiaries as of September 30, 2001 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in

the United States of America.

McGladrey & Pullen  
*Certified Public Accountants*

*Most choices are neither right or wrong. They're personal preferences that reflect the individuality of our members. Unlike most banks, Chartway respects your preferences, doesn't expect you to conform to arbitrary standards, and we do our best to make your choices work for you. You aren't just an account number here.*

decisions

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION · SEPTEMBER 30, 2001

### Assets

Cash and cash equivalents	\$	135,922,552
Investments		
Available-for-sale		17,688,162
Held-to-maturity		159,584,670
Other		3,035,390
Loans to members, net of the allowance for loan losses		378,757,159
Accrued interest receivable		4,961,610
Property and equipment		6,914,742
Federal share insurance fund deposit		5,806,856
Other assets		2,396,775
Other real estate owned		73,031

\$ 715,140,947

### Liabilities

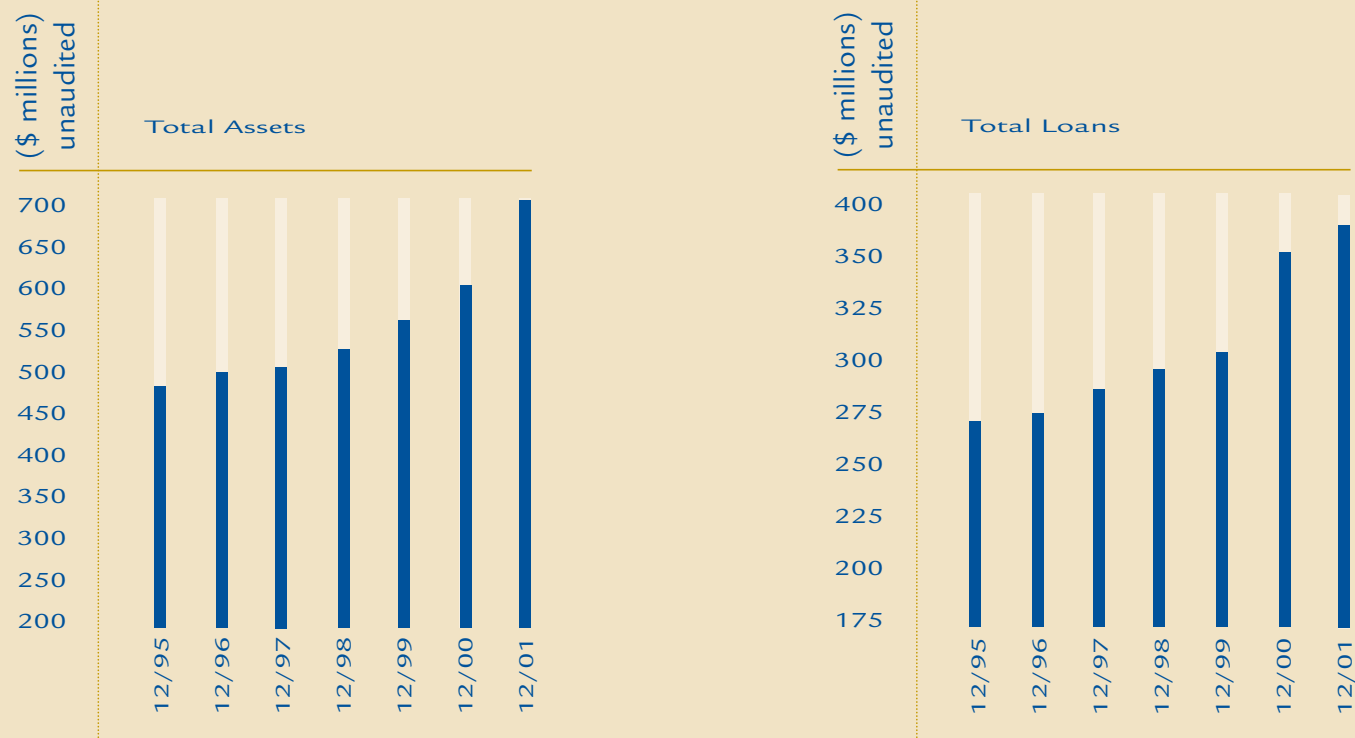
Accrued expenses and other liabilities	\$	3,309,144
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### Equity

Members' shares		647,768,587
Retained earnings, substantially restricted		63,755,215
Accumulated other comprehensive income		308,001
<b>Total equity</b>		<b>711,831,803</b>

\$ 715,140,947

The accompanying notes are an integral part of this statement.



## CONSOLIDATED STATEMENT OF INCOME · SEPTEMBER 30, 2001

<b>Interest income</b>	
Interest on loans to members	\$ 34,215,958
Interest on investments and cash equivalents	13,504,102
	47,720,060
<b>Interest expense</b>	
Dividends on members' shares	24,107,473
	23,612,587
<b>Net interest income</b>	23,612,587
<b>Provision for loan losses</b>	3,250,000
	20,362,587
<b>Net interest income after provision for loan losses</b>	20,362,587
<b>Non-interest income</b>	9,580,605
	29,943,192
<b>General and administrative expenses</b>	
Salaries and benefits	11,930,092
Operations	10,872,598
Occupancy	1,888,289
	24,690,979
	5,252,213
<b>Net income</b>	\$ 5,252,213
<b>Other comprehensive income</b>	
Unrealized holding gains on investments classified as available-for-sale	278,625
	5,530,838
<b>Comprehensive income</b>	\$ 5,530,838

The accompanying notes are an integral part of this statement.

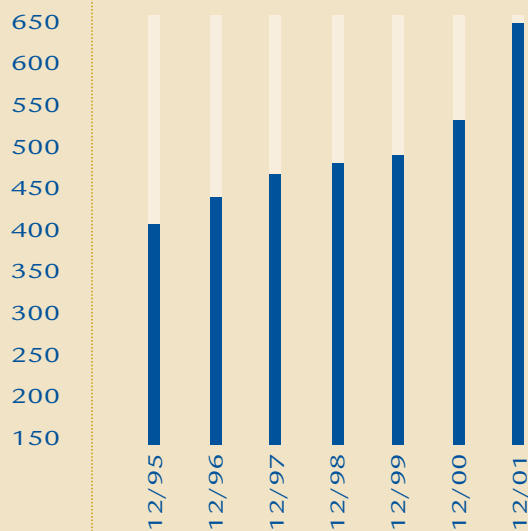
## CONSOLIDATED STATEMENTS OF EQUITY • SEPTEMBER 30, 2001

	Retained Earnings		Accum. other comprehensive income Net unrealized gains (losses) on available-for-sale investments	Total
	Appropriated regulatory	Unappropriated		
<b>Balance, Sept. 30, 2000</b>	\$8,964,617	\$49,538,385	\$29,376	\$58,532,378
Net income		5,252,213		5,252,213
Net change in unrealized gains (losses) on available-for-sale investments			278,625	278,625
<b>Balance, Sept. 30, 2001</b>	\$8,964,617	\$54,790,598	\$308,001	\$64,063,216

The accompanying notes are an integral part of this statement.

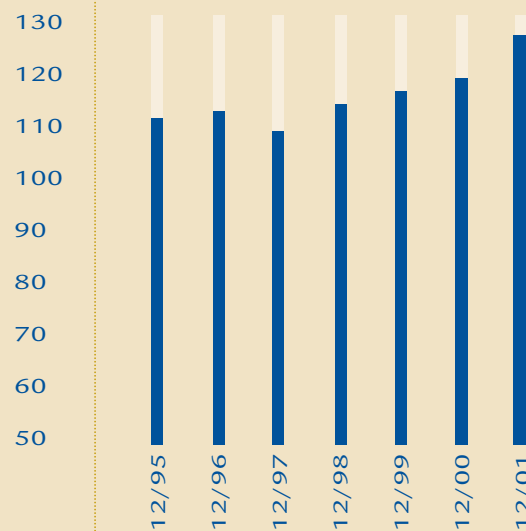
(\$ millions)  
unaudited

Total Shares



(Thousands)  
unaudited

Total Members



## CONSOLIDATED STATEMENT OF CASH FLOWS · SEPTEMBER 30, 2001

<b>Operating Activities</b>	
Net income	\$ 5,252,213
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of net premium on investments	36,020
Provision for loan losses	3,250,000
Depreciation and amortization	1,960,021
Gains on sale of loans	381,501
Increase in accrued interest receivable	(455,452)
Increase in other assets	(153,499)
Increase in accrued expenses and other liabilities	143,619
Net cash provided by operating activities	10,414,423
<b>Investing Activities</b>	
Purchases of available-for-sale investments	(4,021,347)
Proceeds from available-for-sale investments	2,036,503
Purchases of held-to-maturity investments	(107,676,927)
Proceeds from held-to-maturity investments	99,935,442
Net increase in other investments	(65,083)
Net increase in loans to members	(49,783,273)
Proceeds from sale of loans	26,760,000
Increase in the share insurance fund deposit	(732,085)
Purchases of property and equipment	(1,416,464)
Net cash used in investing activities	(34,963,234)
<b>Financing Activities</b>	
Net increase in members' shares	111,013,256
<b>Increase In Cash And Cash Equivalents</b>	<b>86,464,445</b>
<b>Cash And Cash Equivalents At Beginning Of Year</b>	<b>49,458,107</b>
<b>Cash And Cash Equivalents At End Of Year</b>	<b>\$ 135,922,552</b>

The accompanying notes are an integral part of this statement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statement includes the accounts of Chartway Federal Credit Union (the credit union) and its wholly-owned subsidiaries, CFS, Inc., and Newtown Associates, Inc. These subsidiaries are engaged in related financial service activities, including selling insurance and investment products. All material intercompany balances and transactions have been eliminated in consolidation.

**ORGANIZATION:** The credit union is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

**USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**MEMBERS' SHARES:** Members' shares are the savings deposit accounts of the owners of the credit union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the credit union.

Dividend rates are set by the credit union's Board of Directors.

Members' shares are classified as equity in the consolidated statements of financial condition. This classification conforms to the requirements of the National Credit Union Administration (NCUA). It is the credit union's position that members' shares represent an ownership interest and are properly classified as equity. Such classification is not in accordance with generally accepted accounting principles. Generally accepted accounting principles require members' shares be classified as liabilities. This change has no effect on the consolidated statements of income.

**CASH AND CASH EQUIVALENTS:** Cash and cash equivalents consist of cash on hand, demand deposits, overnight fed funds, and non-term share deposits in a corporate credit union.

**INVESTMENTS:** Investments that the credit union has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as a separate component of equity. Other investments are classified separately and are stated at cost.

**LOANS HELD FOR SALE:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse.

**LOANS TO MEMBERS AND ALLOWANCE FOR LOAN LOSSES:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and deferred net loan origination fees. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. Loan fees and certain direct

loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the credit union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

**ACCRUED INTEREST ON LOANS:** Accrual of interest on loans is discontinued when management believes, after considering economics, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

**PROPERTY AND EQUIPMENT:** Land is carried at cost. Building, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

**OTHER REAL ESTATE OWNED:** Real estate acquired through or in lieu of foreclosure is carried at the lower of cost or net realizable value. The net realizable value is based on management's analysis of the estimated selling price less costs to dispose of the property. Initial write-downs are charged to the allowance for loan losses. Operating costs and any

subsequent write-downs of the carrying value to net realizable value are charged to expenses.

**NATIONAL CREDIT UNION SHARE INSURANCE FUND DEPOSIT:** The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to 1% of its insured members shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board.

**NCUSIF INSURANCE PREMIUM:** The credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2001 insurance premiums.

**CAPITAL REQUIREMENTS:** The credit union is subject to various regulatory capital requirements administered by the National Credit Union Administration (NCUA). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by the NCUA that, if undertaken, could have a direct material effect on the credit union and the financial statements. Management believes, as of September 30, 2001, that the credit union meets all capital adequacy requirements to which it is subject.

**INCOME TAXES:** The credit union is exempt, by statute, from federal and state income taxes. The credit union's wholly owned subsidiaries, however, are subject to federal and state income taxes.

**SUPERVISORY COMMITTEE:** The credit union has an audit committee that is appointed by the Board of Directors. The committee meets with management, officials, and their independent accountants to review the financial affairs of the credit union. The committee reports to the membership at the annual meeting.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 2. INVESTMENTS

#### Investments classified as available-for-sale consist of the following:

September 30, 2001	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Guaranteed loans made to the United States agency for international development	\$ 1,176,829	\$ 29,156	\$ 0	\$ 1,205,985
U.S. government obligations and federal agency securities	9,966,563	240,957	0	10,207,520
Mutual funds of U.S. government obligations and federal agency securities	6,075,072	26,155	0	6,101,227
Mortgage-backed securities	161,697	11,733	0	173,430
	\$ 17,380,161	\$ 308,001	\$ 0	\$ 17,688,162

#### Investments classified as held-to-maturity consist of the following:

September 30, 2001	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agency securities	\$159,584,670	\$ 3,411,259	\$ 0	\$ 162,995,929

#### Other investments consist of the following:

Certificates of deposit			\$ 207,582
Credit Union Service Corporation of Virginia			327,958
CU24 Stock			4,260
Member capital account in a corporate credit union			2,495,590
			\$ 3,035,390

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

#### Investments by maturity are summarized as follows:

September 30, 2001	Available for-Sale	Held-to-Maturity	Other	Total
No contractual maturity	\$ 6,101,227	\$ 0	\$ 2,827,808	\$ 8,929,035
Less than 1 year maturity	10,207,520	70,420,180	207,582	80,835,282
1 - 5 years maturity	0	89,164,490	0	89,164,490
Over 5 years maturity	1,205,985	0	0	1,205,985
Mortgage-backed securities	173,430	0	0	173,430
	\$ 17,688,162	\$ 159,584,670	\$ 3,035,390	\$ 180,308,222
Weighted average yield	5.1%	5.4%	3.1%	5.3%

Expected maturities of debt securities, including mortgage-backed securities, may differ from contractual maturities because borrowers may have the right to call or prepay the obligations. Member capital accounts have been classified with no contractual maturity.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 3. LOANS TO MEMBERS

#### Loans to members consist of the following:

Mortgage loans:	
Fixed rate	\$ 58,662,185
Variable rate	8,004,311
Home equity line of credit, variable rate	55,939,360
	122,605,856
Vehicle loans	163,734,180
Government guaranteed student loans	5,876,325
Credit card loans, unsecured	55,604,439
Consumer loans, primarily unsecured	34,004,948
Consumer loans, secured by real estate	1,962,958
	383,788,706
Deferred net loan origination costs	1,108,819
Allowance for loan losses	(6,140,366)
	\$ 378,757,159
Weighted average yield	9.00%

Included in mortgage loans are loans held for sale at September 30, 2001 totaling \$508,750. The carrying value of loans held for sale approximates market value at September 30, 2001.

In the ordinary course of business, the credit union makes loans to its directors and officers at the same terms as those prevailing at the time of origination for comparable transactions with other members. Loans to directors and officers at September 30, 2001 total \$1,076,221.

#### The following is an analysis of the allowance for loan losses:

Balance, beginning of year	\$ 4,900,891
Provision for loan losses	3,250,000
Recoveries	546,935
Loans charged off	(2,557,460)
<b>Balance, end of year</b>	<b>\$ 6,140,366</b>

Outstanding mortgage loan commitments at September 30, 2001 total approximately \$1,059,800.

#### Available credit on home equity and unsecured lines of credit is summarized as follows:

Home equity	\$ 11,862,00
Credit card	117,043,000
Other consumer	5,766,000
	\$ 134,671,000

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the credit union. These commitments are not reflected in the financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 4. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Land	\$	405,609
Building		7,599,975
Leasehold improvements		1,966,230
Furniture and equipment		20,304,881
		30,276,695
<b>Accumulated depreciation and amortization</b>		<b>(23,361,953)</b>
	<b>\$</b>	<b>6,914,742</b>

The credit union leases 16 offices and two land properties. The operating leases contain renewal options and provisions requiring the credit union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at September 30, 2001 are as follows:

2002	\$	673,840
2003		448,973
2004		374,297
2005		355,088
2006		315,867
Subsequent years		1,737,848
	<b>\$</b>	<b>3,905,913</b>

Rental expense for the year ended September 30, 2001 for all facilities leased under operating leases totaled \$683,251.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 5. MEMBERS' SHARES

Members' shares and weighted average costs are summarized as follows:

Regular shares	3.18%	\$ 200,780,558
Checking accounts	1.24%	105,991,403
Money market accounts	3.65%	51,675,543
Individual retirement account shares	4.29%	23,133,371
Certificates	5.71%	266,187,712
	3.98%	\$ 647,768,587

Shares by maturity are summarized as follows:

No contractual maturity	\$ 381,580,875
0 - 1 year maturity	222,993,646
1 - 2 year maturity	23,688,219
2 - 3 year maturity	11,172,853
3 - 4 year maturity	3,510,285
4 - 5 year maturity	4,822,709
	\$ 647,768,587

Dividends paid on members' shares for the year ended September 30, 2001 total \$24,107,473.

Regular shares, checking accounts, money market accounts and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The credit union provides up to \$100,000 insurance through the National Credit Union Share Insurance Fund.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS · SEPTEMBER 30, 2001

### 6. CONCENTRATIONS OF CREDIT RISK

Participation in the credit union is limited to those individuals who qualify for membership. The field of membership is defined in the credit union's bylaws. A significant concentration of members resides in Virginia. Although the credit union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the defense industry or the overall geographic region in which borrowers reside.

### 7. COMMITMENTS AND CONTINGENT LIABILITIES

The credit union utilizes a demand loan agreement with a corporate credit union. The terms of this agreement call for the pledging of all assets as security for any and all obligations taken by the credit union under this agreement. The agreement provides for a credit limit of \$15,500,000 with interest charged at a rate determined by the lender on a periodic basis. Currently, there is no outstanding balance under this agreement. The agreement is reviewed for continuation by the lender and the credit union annually.

The credit union maintains a "Lending Agreement" with the Federal Reserve Bank of Richmond (Federal Reserve). Under the terms of this agreement, the credit union may make applications to the Federal Reserve for advances of funds. Interest rate is determined by the lender. Advances under the agreement are collateralized by a pledge of credit union assets. At September 30, 2001, there is no borrowing at the Federal Reserve.

The credit union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which,

in management's and legal counsel's opinion, would not be material to the financial condition of the credit union.

The credit union has no outstanding commitments to sell loans or investments at September 30, 2001.

### 8. NON-INTEREST INCOME

Included in non-interest income are the net gains on sales of loans to members totaling \$381,501 for the period ended September 30, 2001.

### 9. EMPLOYEE BENEFITS

The credit union has a 401(k) pension plan that allows employees to defer a portion of their salary into the 401(k) plan. The credit union matches a portion of employees' wage reductions. Pension costs are accrued and funded on a current basis. The credit union contributed \$ 348,646 year ended September 30, 2001.

### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the credit union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the credit union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

#### INVESTMENTS

Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated

fair values are based on quoted market prices of comparable instruments.

**LOANS TO MEMBERS**

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the credit union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

**MEMBERS' SHARES**

The estimated fair value of demand deposit accounts (regular share, checking, money market and IRA share accounts) is the carrying amount. The fair value of fixed-maturity certificates of deposit is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

**OTHER ON-BALANCE-SHEET FINANCIAL INSTRUMENTS**

Other on-balance-sheet financial instruments include cash and cash equivalents, accrued interest receivable, National Credit Union Share Insurance Fund deposits, and accrued expenses and other liabilities. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

**OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS**

Estimated fair value for the credit union's loan commitments is the carrying amount.

Financial instruments where the estimated fair value is different from the carrying value and is not disclosed elsewhere in the Notes to Financial Statements are summarized as follows:

	<b>Carrying value</b>	<b>Estimated fair value</b>
Loans to members	\$ 378,757,000	\$ 389,265,000
Members' shares	\$ 647,769,000	\$ 639,134,000

## MANAGERS & COMMITTEES

### EXECUTIVE MANAGEMENT

Ronald L. Burniske

*President/Chief Executive Officer*

Paul V. Annunziata

*Executive Vice President of Support Operations/CFO*

Jeffrey L. Garrenton

*Executive Vice President of Sales & Marketing*

### SENIOR MANAGEMENT

René G. Bollinger

*Vice President of Human Resources*

Larry Hedge

*Vice President of Lending*

Kevin M. Marshall

*Vice President of Technology*

Kimberly Oates

*Vice President of Retail*

Phillip A. Richards

*Vice President of Strategy*

Susan S. Verbeck

*Vice President of Operations*

### SUPPORT MANAGEMENT

Matt Foss

*Account Executive Business Development*

Bobbie Ivan

*Director of Office Operations*

Ken Maddrey

*Director of Retail*

Denise McRoberts

*Director of Support Operations*

Lewis Smith

*Controller*

Melissa Stocker

*Call Center Director*

Mike Tanner

*Director of Facilities*

Glenn Thomas

*Director of Information Technology*

Celia Woodham

*Director of Compliance*

### SALES MANAGEMENT

Donna Bunton

*General Booth, Great Neck, Holland & Lynnhaven*

*Sales Manager*

Clarence Doughty

*Pembroke, Southern & U-20*

*Sales Manager*

Suzanne Dull

*Great Bridge, Greenbrier & Western*

*Sales Manager*

Lori Ruzzano

*Wakefield & Warwick*

*Sales Manager*

Cynthia Taylor

*21st Street, Ferrell Parkway & Newtown*

*Sales Manager*

Daniel Winders

*Cullen Center, Hobby, JFK, North Houston & Richmond Avenue*

*Sales Manager*

### BACK OFFICE MANAGEMENT

Jill Haag

*Executive Office Manager*

Aaron Hatfield

*Desktop Technologies Manager*

Pam Kline

*System Operations Manager*

Wendy Matthews

*Collections Manager*

Bob Miller

*Accounting Manager*

Beth O'Toole

*Quality Assurance Manager*

Pernell Taylor

*Network Manager*

Kim Willey

*Human Resource/Training Manager*

Brian York

*Marketing Manager*

## MANAGERS & COMMITTEES

### ASSET LIABILITY MANAGEMENT COMMITTEE

Bettye P. Machen, *Chairman*  
Carl M. Atkinson, *Vice Chairman*  
E. L. "Lou" Gull, Jr.  
Melvin S. Mizelle  
Alfred Chambers  
Ronald Menia, *Associate Member*  
Judy Sparrow, *Associate Member*  
Ronald L. Burniske  
René G. Bollinger  
Paul V. Annunziata, *Advisor*

### DIRECTORS SCHOLARSHIP COMMITTEE

Bettye P. Machen, *Chairman*  
Robert Holmes  
George Sauer  
Kimberly Oates  
Celia Woodham

### HUMAN RESOURCE COMMITTEE

James J. Sibley, *Chairman*  
E. L. "Lou" Gull, Jr., *Vice Chairman*  
Edward A. Foshay  
C. Philip Machen, Jr.  
Ronald Menia  
Robert Holmes  
René G. Bollinger, *Advisor*

### LEGISLATIVE REGULATORY COMMITTEE

Melvin S. Mizelle, *Chairman/Legislative Rep.*  
David L. Carmichael, *Vice Chairman*  
Alfred Chambers  
Wayne Foshay  
Ronald L. Burniske  
Jeffrey L. Garrenton  
Susan S. Verbeck  
Celia Woodham

### LOAN REVIEW COMMITTEE

Edward A. Foshay, *Chairman*  
David L. Carmichael  
James J. Sibley

### MEMBERSHIP GROWTH COMMITTEE

David L. Carmichael, *Chairman*  
Edward A. Foshay, *Vice Chairman*  
Richard McGrath, *Associate Member*  
Jeffrey L. Garrenton  
Kimberly Oates  
Phillip A. Richards  
Matt Foss

### NEW SERVICES COMMITTEE

Albert C. Merritt, *Chairman*  
James J. Sibley, *Vice Chairman*  
Edward A. Foshay  
Bettye P. Machen  
Richard R. Ahlborn, *Associate Member*  
Ronald Perry  
George Sauer  
Ronald L. Burniske  
Paul V. Annunziata  
René G. Bollinger  
Phillip A. Richards

### SPECIAL ACTIVITIES COMMITTEE

Linda Merritt, *Chairman*  
Theresa Delp, *Vice Chairman*  
Edward A. Foshay  
James J. Sibley  
Edna Atkinson  
Alfred Chambers  
Gene Siebels  
Melinda Barbish  
Lisa Duebler  
Susanne Greene  
Laura Moreno  
JoAnn Morgan

### SUPERVISORY COMMITTEE

Richard R. Ahlborn, *Chairman*  
Judy Sparrow, *Vice Chairman*  
Eleanor Willhoite, *Secretary*  
Dallas England  
Jennifer Ramos  
Gary Royse  
Melvin S. Mizelle, *Associate Member*  
Ann-Marie Lewis, *Internal Controls Asst.*

### TECHNOLOGY COMMITTEE

E. L. "Lou" Gull, Jr., *Chairman*  
Robert Holmes  
Richard McGrath  
Ronald L. Burniske,  
Kevin M. Marshall

### VOLUNTEER RECRUITMENT & DEVELOPMENT COMMITTEE

E. L. "Lou" Gull, Jr., *Chairman*  
Melvin S. Mizelle, *Vice Chairman*  
David L. Carmichael

