



2006

Annual Report



Arthur B. Martinez

Report of the Chairman & President



Tony C. Budet

In 2006, its 70th anniversary year, University Federal Credit Union (UFCU) again excelled at meeting the financial needs of its member-owners in the Austin and Galveston higher education communities. UFCU membership grew at a rate more than three times the national credit union average to 117,000, assets exceeded \$762 million, and financial performance, audit, and examination results were exemplary. Several milestones are worthy of mention:

- **New Branch Locations** - To improve physical convenience for UT-Austin members, we relocated the former Dobie Mall Branch facility two blocks north to a site immediately adjacent to the University Co-op Bookstore. UFCU also secured real property on Ben White Boulevard at South Congress Avenue in order to build a facility in 2008 to better serve St. Edward's University. We currently are securing properties in Cedar Park, Pflugerville, and in the east Round Rock/Hutto areas for yet other new facilities.
- **Instant-Issue Debit Cards** - All UFCU branches instituted instant-issue debit card service, permitting new and replacement debit cards to be issued instantaneously.
- **Interactive Voice Response Redesign** - We redesigned our interactive voice response system to streamline call flow by reducing the quantity and length of prompts to which members must listen and respond to achieve desired routing.
- **Credit Union Business Solutions, LLC** - UFCU and seven Austin credit unions formed a partnership with the intent on supplying their respective members attractive business lending opportunities. It performed exceptionally well.
- **Launch of New Website** - The completely redesigned UFCU website enhances both the speed and quality of remote member services. Additionally, new eLert capabilities allow members to have digitally-generated eMails forwarded to them for a variety of reasons they select within a menu of parameters.
- **Shared Branch Outlets** - All UFCU facilities became shared branch outlets, which for all credit unions now number more than 2,500 nationally.
- **Quarterly Newsletter Enhancements** - A completely redesigned "Currency Affairs" newsletter is enhancing member communication while emphasizing consumer education and advocacy.
- **Increase in Member Focus** - Marketing and lending personnel continued extensive use of surveys and focus groups to ensure management remains knowledgeable with respect to member perceptions on a variety of issues.
- **Strengthened Management Commitment** - UFCU executives remain committed to personally demonstrating integrity and strong ethical practices. Management together read several business books this year, after which managers, in groups of six to eight, met with the president/CEO to establish, confirm and nurture a strong culture of integrity, ethics and values alignment to strengthen member trust, branding and competitive advantage in markets served.

Despite extraordinary changes in the financial services sector and exceptional growth of our cooperative over the last 70 years, much remains unchanged. We are proud to report the cooperative principles that inspired our founders to create our organization in 1936 remain alive and well today:

- First, we are a financial cooperative owned by our members, whereas most banks are owned and controlled by a select few investors.
- UFCU is a not-for-profit organization through which members pool their financial resources to help one another, whereas a bank's primary objective is to maximize its return to its investor-owners.
- UFCU members democratically elect a volunteer board of directors, whereas banks compensate their appointed directors. Our members have a say in who runs their financial institution and how they run it.
- UFCU membership is available only to those individuals within its field of membership, whereas banks serve the general public. No one understands and can meet your financial needs better than we.
- UFCU pays property and payroll taxes, but is exempt from federal income tax under Section 501(c)(1) of the Internal Revenue Code, whereas a (non-S corporation) bank's income is generally taxed. Our tax-exempt status enables UFCU to pass those tax savings to its members in the form of dividends and very competitive loan rates.
- As part-owner of UFCU, you trust us to deliver unbiased consumer educational resources. After all, as a co-op, we're successful only when we position our members for financial success.

Even though our almost \$800 million in assets make University Federal Credit Union the largest locally-owned financial institution in Austin, we have no Wall Street-types to impress. You, our members, are our only focus. This is your financial cooperative. You own us. We are unique in our structure, unique in our mission, and unique in how we've measured success for 70 years. Thank you for your membership and business!

Warm regards,

Arthur B. Martinez
Chairman

Tony C. Budet
President/CEO



Report of the Supervisory Committee

Ned H. Burns, Ph.D.

The primary responsibility of the University Federal Credit Union Supervisory Committee is to ensure financial statements accurately and fairly report UFCU's financial condition. To accomplish this objective, the committee retained certified public accountants Orth, Chakler, Murnane & Co. to audit the financial statements. We are pleased to announce the auditors expressed an unqualified opinion in their Independent Auditors Report. Copies of the report are available from the office of the president/CEO upon request.

The board-appointed, volunteer members of the supervisory committee regularly review management practices to ensure issues of safety and soundness are satisfactorily addressed. The committee also directs the internal audit activities of UFCU's assurance services function and meets regularly with management to review internal controls and regulatory compliance issues. UFCU's senior manager-assurance services jointly reports to the both the supervisory committee and the president/CEO.

We commend management for its responsiveness and commitment to address all external audit and National Credit Union Administration examination issues and for its attention to critical issues of computer network and information security.

Throughout the year, committee members attend board meetings and educational events, and review issues of governance. We are grateful to the board of directors for its support and exemplary relationship with the committee.

For their time and effort, I personally thank fellow committee members Dr. Urton Anderson, Dr. Neal Armstrong, Dr. Michael Harris and Chris Plonsky.

Warm regards,

Ned H. Burns, Ph.D.
Supervisory Committee
Chairman



Report of the Treasurer

Mary A. Seng

The year 2006 was financially challenging as a result of continually rising market interest rates, which depressed interest income margins for all financial institutions. Despite such circumstances, however, UFCU recorded exceptional financial performance due to members' continuing support and our commitment to deliver unequaled products and services to meet members' financial needs. This is evidenced by:

- Loan disbursements to members totaling \$532 million, boosting total loans outstanding to \$640 million, an increase of \$86 million, or 18%
- Increase in member deposits of \$52 million, or 8%, bringing year-end total deposits to \$674 million.

Total assets ended the year at \$762 million, representing annual growth of 9%. On total revenue of \$62 million, UFCU generated net income of \$6 million, representing a return on average assets of .80%. In addition, member equity increased by 10% to \$67 million.

Through our wholly-owned financial subsidiary, UFCU Financial Services, LLC, we were able to help members build and manage their wealth through attractive, nontraditional financial products and services, including comprehensive financial planning, online brokerage services, a variety of insurance alternatives, and attractive tax preparation services.

UFCU is financially strong and remains fully committed to further expanding and enhancing its products and services to meet the evolving financial needs of its 117,000 members.

Warm regards,

Mary A. Seng
Treasurer

2006

Consolidated Statements of Financial Condition (unaudited)

ASSETS	As of December 31,	
	2006	2005
Cash and Cash Equivalents	\$ 39,701,041	\$ 36,120,336
Investments	54,402,752	63,041,005
Loans to members (Net of Allowance for Loss)	636,703,938	569,991,060
Property and Equipment	17,242,561	16,606,416
NCUA Insurance Fund Deposit	5,823,586	5,607,272
Other assets	8,485,806	9,313,488
Total assets	\$ 762,359,684	\$ 700,679,577
LIABILITIES AND MEMBERS' EQUITY		
Members' share and savings accounts	\$ 673,818,325	\$ 622,072,062
Borrowed funds	797,677	953,770
Accrued expenses and other liabilities	20,977,589	16,864,151
Total liabilities	695,593,590	639,889,983
Members' equity	66,766,094	60,789,594
Total liabilities and members' equity	\$ 762,359,684	\$ 700,679,577

Consolidated Statements of Income (unaudited)

	For the years ended December 31,	
	2006	2005
Interest income from loans to members and investment	\$ 42,724,940	\$ 35,536,607
Dividend expense paid to member's deposits and interest on borrowed funds	13,870,520	8,417,336
Net interest income	28,854,420	27,119,271
Provision for credit losses	4,186,327	4,692,144
	24,668,093	22,427,127
Non-interest income	19,554,391	22,619,431
Operating expenses	38,267,837	37,863,436
Net income	\$ 5,954,647	\$ 7,183,122

Community Involvement

UFCU is proud to provide exceptional financial solutions to the Austin and Galveston communities and serve in a leadership role in the organizations that comprise the social fabric of the cities we call home. Below are the organizations that UFCU financially assisted in 2006.

- American Heart Association
- American Lung Association
- Austin Chapter of Credit Unions
- Austin Children's Hospital
- Austin History Center
- Capital Area United Way
- Children's Medical Center Foundation
- Credit Union Twister 10K Run
- Foundation for the Homeless
- Galveston Historical Foundation
- Girl Scouts of America
- Goodwill Industries
- Gymnastics Athletic Capital Foundation
- Holistic & Educational Health Network
- Honduras Medical Mission
- Humane Society of Central Texas
- Jeanette Abbott Memorial Foundation

- KUT Radio
- National Football & College Hall of Fame
- National Multiple Sclerosis Society
- Opportunity Austin
- Round Rock Chamber of Commerce
- Texas Appleseed Hispanic Market
- UCSF Children's Hospital
- UFCU Disch-Falk Field
- UT KIN Fest 2006
- UT Libraries
- UT Longhorn Band
- UT Neighborhood Longhorns
- UT Orange Santa
- UTMB School of Allied Health
- UTMB School of Nursing
- YMCA
- YWCA

We look forward to supporting our communities' continued growth and success in 2007.



Board of Directors

Arthur B. Martinez, Chairman

Thomas J. Ardis, Vice Chairman

Mary A. Seng, Treasurer

Cynthia A. Leach, Secretary

K. Denise Apperson, Ph.D.

Julien C. Carter

Carl E. Hansen, Ph.D.

Dana M. Malone

Marilla D. Svinicki, Ph.D.

George K. Herbert, Ph.D., Director Emeritus

Frank J. Peters, Director Emeritus

William T. Guy, Jr., Ph.D., Director Emeritus

Supervisory Committee

Ned H. Burns, Ph.D., Chairman

D. Michael Harris, Ph.D., Secretary

Urton L. Anderson, Ph.D.

Neal E. Armstrong, Ph.D.

Chris A. Plonsky

Principal Officers

Tony C. Budet, President/CEO

Steve E. Kubala, SVP, Operations/COO

James A. Nastars, SVP, Lending and Collections

Yung V. Tran, CPA, SVP, Finance/CFO

Michael T. Hintz, VP, Information Technology

Becky M. LeBlanc, VP, Leadership

Sheila J. Wojcik, Ph.D., VP, Membership