



AMERICA'S
CREDIT UNIONS™



FCUL

Florida Credit Union News

A publication of the Florida Credit Union League 

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Newspaper says banks avoided taxes in scheme; Florida authorities also examining

The *Wall Street Journal*, in an exclusive story, has revealed that some of the nation's largest bank corporations have sheltered hundreds of millions of dollars from state taxes by creating investment funds that didn't sell shares publicly but paid tax-exempt dividends to the banks. The story appeared in the *Journal's* August 7th issue and was written by Glenn R. Simpson, a *Wall Street Journal* reporter.

The *Journal's* story reports that a review of Securities and Exchange Commission records shows that at least 10 major banks shifted more than \$17 billion into such funds. Bank of America Corp. alone transferred at least \$8 billion into its fund, sheltering more than \$750 million in income from 1999 through last May, according to the *Journal* story. The newspaper reported that all but one of the known funds — 11 in all — were set up with advice from KPMG LLP, an accounting firm whose tax shelter practices are under scrutiny by the Internal Revenue Service. They were created in 1999 and 2000, but have been gradually shut down over the last two years, after the SEC and California revenue officials quietly began looking into the practice. It is not known if more such funds remain active.

Meanwhile, in Florida, the Florida Department of Revenue (FDOR) is taking a look at the issues raised in the *Wall Street Journal* story to see if the same situations raised in that story apply in Florida. FDOR spokesman Dave Bruns told *Florida Credit Union News* that his department had been aware of some of the issues raised in the story. Bruns said that he had seen the story

after it was published on August 7 and had forwarded it on to the department's compliance section for review.

"I can't go into very much detail about this because of confidentiality issues," Bruns said, "but I can confirm that we're aware of the issues that have been raised nationally and in other states and will take appropriate action."

The *Journal* reported that SEC records show that the following 10 institutions created investment fund subsidiaries under the federal law that governs mutual funds: Washington Mutual Inc., the nation's eighth largest bank; Bank of America, the third largest; Summit Bancorp, now part of Fleet Bank; Zions First National Bank, now Zions Bancorp, which had two funds; Cathay Bancorp; East-West Bancorp; City National Bank Corp.; NBT Bancorp; Imperial Bank, now part of Comerica Inc.; and Chinatrust.

FCUL President/CEO Guy Hood had this comment about the *Journal* story and FDOR's apparent decision to examine the issues raised: "We commend the Department of Revenue for apparently deciding to examine the issues exposed by the media. During a time period in which bankers have been constantly reminding everyone about the credit union tax exemption it is troubling," said Hood, "that banks have been extremely creative in their efforts to avoid paying taxes. Credit unions find it troubling that bankers are furiously working to impose taxes on credit unions while they have been working just as furiously to avoid them."

June 2004

Thursday
17

**2004 FCUL
CONVENTION &
EXPOSITION++**

Friday
18

**THE WYNDHAM PALACE
RESORT & SPA**

Saturday
19

**JUNE 17-19, 2004
ORLANDO**

++DON'T MISS THIS!!!!

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Not resting on our laurels

There was a time in my life when the summer months, especially July and August, were looked upon as the “dog” days of summer. And, what we meant by that was that it was usually hot and lazy. We relaxed by the pool or at the fishing hole or simply relaxed in the hammock in the backyard. Those days are apparently over.

Now, even though it is the height of the summer, the political world continues to pick up the pace, and those of us in the credit union movement have to keep up. Candidates are beginning to surface for next year’s elections and the incumbents are beginning to gear up their reelection efforts. And, in this new era we’re in, the League and our affiliates are asked to participate.

So, the League is working hard to put together Hike the Hill events, Candidate Meet and Greets and participate in fundraisers. Unlike previous years, these are continuing, unabated, through the summer months. The activity this year, with the potential of a big U.S. Senate race and races for Congress and the legislature, has been pretty busy. The phones continue to ring at a record pace here at the League from candidates seeking our help, and most important, our money.

As one news pundit observed recently, there are no “slow” news days anymore. With the continued growth of 24-hour cable news networks, newspaper websites that constantly refresh, and seemingly more going on, the pace of campaigning is non-stop and never ending. Look at some of the

big stories of just the month of August. The Northeast power blackout, the California recall election and the situation in the Middle East are just a few of the bigger events that

are occupying the continuous news cycle. Meantime, here in Florida, we’ve seen non-stop legislative sessions and trips to Washington to try and persuade our congressional delegation to continue the fight over several issues still pending in Congress. Our national association has even spent time this month at the Federal Communications Commission trying to convince

them that their rule on fax communications needs more work. Fortunately, that one has been put off until January, 2005.

All of this activity has necessarily created a new mindset here at the League. And that is a mindset that never takes a day off. Being able to stay in touch through newer and more technologically superior tools enables all of us to utilize a quicker and more efficient means to stay informed and to direct strategy. Yes, we do find time to relax, just not all at once.

Even though there might be some resentment about this scenario, we know that our banker friends are beginning to work just as hard as we are. They are on a mission and that mission is not good for credit unions and their members.

We won’t relax because they won’t relax. And we intend to maintain this pace for as long as necessary—which might be forever.



*Guy M. Hood
President/CEO*

Tallahassee Chapter welcomes Congressman and mayor

Congressman Allen Boyd and Tallahassee Mayor John Marks recently attended and spoke at the Tallahassee Chapter dinner hosted by Sunshine State Credit Union. Speaking to a full house, Congressman Boyd commented on issues that are the hot topics in Congress and spent time answering many questions from the audience.



*Foy Thompson, President/CEO, FL DOT CU, and
Congressman Allen Boyd (right)*

Boost membership: Reach Generation Y'ers on their terms.

Credit unions wanting to boost their membership figures can find a golden opportunity by focusing on Generation Y members.

GenY members are a very special group. They look, spend and talk differently than baby boomers. The future of your credit union depends on you and them “hooking up.” But you have to reach them on their terms. Product marketing brochures in your statement mailings and in cash back envelopes, for example, won’t reach them. They withdraw their cash at an ATM, not a drive-through window. And they get their statements online, not via snail mail. Reach them with simple and non-intrusive ads on your website’s PC-branch account statement page. When they view their checking account balance, pop up an ad for your credit or debit card; when they check their savings balances, pop them about car loans (complete with your APR rate). E-mail marketing offers options, too.

GenY’ers are also the perfect market for automobile loans. Many are just getting full-time jobs and earning a steady income.

They need cars, but they won’t settle for just any old ride. Because their families have always had two decent cars, they want the same. And they’re getting bombarded with zero percent financing to make it happen.

How do you reach them? When marketing, you need to explain that you have a better deal, and it’s easy, fast and hassle-free to pre-qualify. For your message to reach them, take it to where they shop, virtually and actually. Consider partnering with a local coffee shop and pop up printable coupons with your name prominently displayed on certain hometown web pages your GenY’ers visit, and of course, on your credit union’s website. Here are some other tips:

- Print coupons on the back of paper receipts from your ATMs.
- Mail members loan marketing materials and a pre-activated coffee credit card—good for a cup and a donut— just for telephoning your lending call center or loan officer and making an inquiry.
- Free music CD’s or dollars off on albums could reward them for their interest.

GenY members demand service far beyond the traditional credit union hours of operation. Data from CUNA Mutual’s The LoanLink Center, which serves more than 230 credit unions 24/7, shows 42% of total loan applications are taken between 5 p.m. and 8 a.m., and 20% come in on weekends. Make sure your website or call center can handle this demand. If not, get help to capture these opportunities.

Debt consolidation, credit counseling and credit cards are also services GenY members need. And instead of marketing retirement, solutions for saving for a mortgage down payment are much more relevant to them than IRAs and annuities. Maintain your contact and keep the message relevant. Don’t wait for the GenY’ers to come to you. You’ve built it, tell them why they should come. Even better, come to them on their turf.

Is it creditworthy?

Evaluating business financial statements

When a credit union considers making a loan to a small business member, it needs to look at that business’s financial statements. These statements, including balance sheets, income statements and statements of cash flow, can give the credit union a picture of the financial health of the business—and suggest how likely it may be to repay a loan. These financial statements must be analyzed very critically by the credit union. Have they been created with objectivity, accuracy and consistency? Are they a fair, accurate representation of actual events? If you apply absolutely terrific credit analysis to badly prepared financial information, your analysis won’t be worth much.

Jim Devine, founder, chairman and

CEO, and Bob Hogan, president/chief operating officer, of Hipereon Inc., Redmond, Wash., described ways credit unions can assess the quality of business financial statements during the first day of the first week of CUES’ School of Business Lending held recently in Indianapolis.

Hogan described three ways business financial statements can be prepared—and how trustworthy each method is considered. Financial statements prepared step by step by an independent CPA firm provide the highest degree of verification. But many smaller businesses can’t afford these kinds of statements.

“Because [these statements] have been ‘blessed,’ they’re expensive,” he said.

Second-level verification is when a business has its statements reviewed (but not prepared) by an independent firm; the lowest degree of verification is when a business’ financial data has been compiled by the business owner and not reviewed by an independent accountant.

Still, a business “using software that’s based on GAAP (generally accepted accounting principles) can give some reassurance that the data is being structured in a standardized, analytical way,” Devine added. “If what you get is the proverbial shoebox, that’s a different story.”

Since credit unions may not always be able to get audited financials from

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Credit Union Political Action

Two Florida Representatives key to vote outcome at NCSL



Aletta Shutes,
Executive VP,
FCUL

The League applauds the participation of Rep. Donna Clarke (R-Sarasota) and Rep. Don Brown (R-Defuniak Springs) in the National Conference of State Legislators' Financial Services (NCSL) Committee Meeting in San Francisco. Without their vote against an amendment by a Utah legislator to NCSL policy on the credit union dual chartering system that would have made it easier to tax state chartered credit unions, the Florida vote would have been to abstain.

The abstention would have come because the Florida legislators present had to vote by consensus, and when the meeting began only two Florida legislators were present. Rep. Brown and Rep. Clarke had been briefed prior to the NCSL meeting by Mark Landreth and Grace Potter Freni, and were in support of credit unions from the beginning. But Rep. Carl Domino (R-Palm Beach Gardens) was in favor of the tax amendment. Efforts by League contract lobbyist Jim Smith, League Board Member Tom Shea, and League staff to discuss the issue with Rep. Domino prior to the NSCL meeting were not fruitful. Rep. Clarke was scheduled to be in both the Financial Services Meeting and another meeting, but slipped into the back of the room for an update just minutes after the subject of dual chartering began. Grace, who was in the meeting, immediately briefed Rep. Clarke on the status of the Florida vote



Rep. Don Brown

and as a result, she stepped in to break the Florida tie.

The amendment was robustly defeated by a vote of 15-4. Bankers, their trade associations and their allies in state legislatures appear intent upon opening new fronts in their assault on credit unions, and had the vote gone the other way, it would have been a particularly negative development. The defeat sent a strong message to those who might try a similar tactic at future NCSL policy meetings. Florida being on the prevailing side was also important for the League position on the national level as well as the state level.

Being on the scene made all the difference. No one from the Florida Bankers Association was in San Francisco. Grace attended this meeting on the chance something like this occurred. I hope this experience shows Florida's credit unions we need to continue to keep credit unions visible before our legislators as much as possible. The Florida Credit Union League is and will continue to be a leader for positive credit union policies and legislation.



Rep. Donna

Unrelated Business Income Tax (UBIT)

In last month's newsletter, the League provided an overview of UBIT and how it might affect your credit union. This month, we present a description of how the audit process might occur should a credit union be audited by the Internal Revenue Service

THE AUDIT PROCESS

IMPORTANT: The following describes what a credit union can generally expect from the IRS during and after an audit. However, no audit is standard and the IRS may deviate from a "usual" course depending on the circumstances. Nothing it does, however, can alter the basic process and appeal procedures outlined below.

The IRS has increased the frequency with which it audits state-chartered CUs. In these audits, an IRS auditor(s) will visit (one or more times) to review financial statements and related information. An auditor may look at anything from whether payments to independent contractors have been documented correctly to whether the IRS believes certain income is subject to unrelated business income tax (UBIT)

After an audit has begun, a credit union should expect to receive inquiries (information document requests - "IDRs"), relating to many items of income on its financial statements. Some IDRs will be directed towards establishing the credit union's expenses that can be allocated to these items of income in order to determine UBIT liability.

While a credit union must generally be cooperative and responsive, a credit union should be careful about following UBIT-related tax advice provided by IRS auditors, such as filing Form 990-T unrelated business income tax returns. Advice provided by IRS agents, while given in good faith, may not

Q: When is the best time to lobby?

A: When you don't need anything.

— continued on next page

be appropriate in a given credit union's situation. Keep in mind IRS UBIT advice concerning income related to insurance and other financial services products is not grounded in established credit union UBIT legal precedent (because there is no such precedent) and must be viewed in that light.

Following an examination, the IRS may issue one of two notices stating its opinion that UBIT is owed. One notice is called a "Notice of Proposed Adjustment," and the other is a "Thirty-Day Letter" (which may lead to a "Ninety-Day Letter"). Alternatively, the IRS may first request that a CU that has not previously filed a Form 990-T do so for one or more items of income. The 990-T is the form used to report unrelated business income. Each of these potential notices is described below, along with other IRS procedures related to the tax assessment process.

REQUEST FOR FORM 990-T

When the IRS examines CU that has not previously filed a 990-T, the IRS may issue a letter requesting the credit union file this form for one or more items of income the IRS alleges is subject to UBIT. Such a letter will acknowledge the credit union is under no obligation to file a 990-T and may, instead, respond within a specified period with a statement outlining both why the credit union believes that UBIT is not owed and the legal arguments behind that belief.

Notice of Proposed Adjustment

A Notice of Proposed Adjustment is a proposal by the IRS to adjust taxes previously paid by an individual or organization. For state-chartered CUs that have not previously paid UBIT, the purpose of the notice will be to establish an amount of tax owed for the year(s) under examination. While the notice is not a bill, it will likely show a proposed tax, based on income received, net of reasonable expenses. Although IRS agents examining credit unions often indicate credit unions

will have the opportunity to determine and claim their own expenses, the IRS may adjust those expenses if it finds them "unreasonable" (a finding that can be challenged by the taxpayer).

The notice offers your credit union an opportunity to agree, partially agree, or disagree with the proposed tax. If you agree, or partially agree, your credit union will sign an agreement with the IRS and a tax will be assessed, which will include interest and possibly penalties. If you disagree completely—or partially agree, but the

IRS chooses to proceed with assessing a higher tax—the IRS will issue a Thirty-Day Letter. This letter allows your CU 30 days to appeal the proposed assessment to a separate Appeals Office at the IRS.

It is important to note IRS agents examining credit unions are not required to send a Notice of Proposed Adjustment. They can proceed directly to a Thirty-Day Letter, which is described below. Or, the

IRS may decide to seek a Technical Advice Memorandum (TAM) from the National Office at this stage, or even send another letter demanding a 990-T filing for income from a product different than those first challenged. The IRS has

lots of options before the formal procedure inaugurated by the Thirty-Day Letter begins.

THIRTY-DAY LETTER

If your CU disagrees with the Notice of Proposed Adjustment, or the agent bypasses this step, the case will be sent for processing to the appropriate IRS district office. Shortly thereafter, the credit union will receive what is known as a Thirty-Day Letter, notifying the credit union of its right to appeal the proposed assessment within 30 days of the

date of the Thirty-Day Letter.

If, after receiving the Thirty-Day Letter, your credit union agrees to the proposed changes, it can pay the tax and end its case. *However, we strongly recommend you contact the league before deciding to pay any tax.*

If your CU is unwilling to accede to the IRS demand, it may file a formal administrative appeal with the IRS Appeals Office (an independent review office within the IRS). The request for review is called a "protest" and requires a detailed factual statement

and legal arguments. The taxpayer (CU) is also entitled to a face-to-face conference with an IRS Appeals Officer, including the presence of legal counsel or other representative, to explain the case. The protest/conference procedure will consume at least several months and probably a year or more.

If a credit union does not respond to the Thirty-Day Letter, or continues to resist after an adverse decision by an IRS Appeals Officer, the IRS will send a "notice of deficiency," or Ninety-Day Letter, described below.

NINETY-DAY LETTER

The "Ninety-Day Letter" gives the CU 90 days from the date of the letter to either pay the disputed tax or file a petition for relief in the United States Tax Court, which was established to resolve federal tax disputes.

You are not required to pay the tax prior to being heard in the Tax Court, which is independent of the IRS. Generally, the Tax Court will not hear cases that have not exhausted their administrative route through the IRS Appeals Office. As discussed below, interest will accrue on any amounts ultimately determined to be owed.

...a credit union should be careful about following UBIT-related tax advice provided by IRS auditors... advice provided by IRS agents, while given in good faith, may not be appropriate in a given credit union's situation.

The IRS has increased the frequency with which it audits state-chartered credit unions.

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Regulatory Update

Bill Berg, CCUE, CUCE, director of compliance, brings regulatory changes to your attention through this column. If anyone has questions or suggestions for additional topics, call 800.342.1266 or 850.576.8171 ext. 1028, FAX to 850.558.1029 or e-mail billb@fcu.org.

Annual Privacy Notice

If your credit union has not sent its annual privacy notice this year to your members, a conjunctive mailing along with your September statements will be the last quarter end mailing that permits you to meet the requirement this year.

Your notice must be clear, conspicuous, and written in such a way that receipt can reasonably be expected and in a form that can be retained. It can be included as a newsletter article, at the beginning or end of the member's statement, or as an insert with the member's statement.

e-Guide posts new topic on IRS actions

CUNA has updated its *e-Guide to Federal Laws and Regulations*, adding a new resource for credit unions that explains the IRS' authority to summons records, papers, and other data that may be held by credit unions.

The Treasury Department may issue an IRS summons for the purpose of inquiring into "any offense connected with the administration or enforcement of the internal revenue laws."

An IRS summons can also be issued to a credit union as a 'third-party recordkeeper' requesting that a member's financial records be produced to the IRS. When a third-party summons is issued, the person about whom the summons was issued must be served a notice of the summons and has the right to file a petition to quash the summons. The credit union must start collecting the records and prepare to produce the records immediately after getting the summons.

Although IRS is required to provide notice to credit unions, the IRS does not have to provide notice to the member or comply with the waiting period for certain types of summons. Your credit union should examine any summons it receives to see if an exception applies. If an exception applies, your credit union does not have to wait

before producing records and can not notify the member it has received a summons.

Credit unions can recover the cost of complying with a summons so they should maintain records of all costs associated with producing records for the summons.

The *e-Guide* contains information about IRS levies on member deposits in a credit union as well. Levies may include member deposits, such as shares, certificates of deposits, club accounts, and joint accounts.

Retirement Benefits for Federal Credit Union Employees

The NCUA Board unanimously approved a final rule for federal credit unions (FCUs) regarding reasonable retirement benefits for their employees and officers. NCUA had issued two proposals on this rule – one in December 2001 and a revised proposal in September 2002.

In the final rule, NCUA clarifies that the scope of the rule is not limited only to retirement benefits but is more broadly applicable to other employee benefit plans. The intent of the rule is to provide FCUs with flexibility to use safe, reasonable and efficient methods to fund their employee benefit obligations.

The rule is now renamed "Benefits for Employees of Federal Credit Unions." An FCU investing to fund an employee benefit plan obligation may purchase an investment that would otherwise be impermissible if the investment is directly related to the FCU's obligation or potential obligation under the employee benefit plan and the FCU holds the investment only for as long as it has an actual or potential obligation under the employee benefit plan. In the Supplementary Information section of the final rule, NCUA indicates that if an FCU is holding an otherwise impermissible investment to fund an employee benefit, the FCU's records should reflect that fact. NCUA lists the types of information in an

FCU's records that would demonstrate such a purpose. In addition, the FCU must comply with safety and soundness standards by ensuring that the kind and value of employee benefits it offers are reasonable given its size and financial condition as well as the duties of the employees. Finally, an FCU acting as a fiduciary of the plan must obtain appropriate liability insurance coverage according to the Employee Retirement Income Security Act of 1974 (ERISA). The final rule clarifies that ERISA describes certain kinds of insurance coverage and permits certain parties to purchase that insurance but does not require any party to purchase insurance.

Under the proposal, defined benefit plan, as opposed to defined contribution plan, investments were required to meet additional criteria. Based on the comments of CUNA and others, NCUA decided not to distinguish between defined benefit and defined contribution plans in the final rule or place additional requirements on defined benefit plans not covered by ERISA. Since NCUA believes that defined benefit plans not subject to ERISA pose additional risks for FCUs, the final rule includes guidance stating that if an FCU makes such investments, then it should diversify its investment portfolio to minimize the risk of large losses, unless it is clearly prudent not to do so under the circumstances. The final rule also applies to corporate credit unions.

STAR, VAP and MERIT Certificates

Congratulations to the following individuals who have earned certification levels in the Staff Training and Recognition (STAR), Volunteer Achievement (VAP), Volunteer Leadership Program (VLP) and Mid-Manager's Enrichment Training (MERIT) Programs. Additionally, we salute these credit unions who have recognized the importance of investing in their most important assets ... their staff and volunteers.

VAP CERTIFICATES:

Bay Gulf CU: Robert Krasnicki
Bay Pines FCU: Joseph Langhans
Clay Electric ECU: Carol McCamy
Florida West Coast CU: Carmen Bell
Gold Coast FCU: Roy Childers, Clyde Hopkins
Gulf States CU: Richard Ferlazzo
Harvesters FCU: Scott Poynter
IBM Southeast EFCU: Kathleen Boyd
McCoy FCU: Richard Albert, Fred Bierbaum
Metro North FCU: John Hood
Orlando FCU: Robert Sanders, Debbie Owen
Sunshine State CU: John Madden

STAR CERTIFICATES:

Bay Pines FCU: Sheila Henderson
Broward Schools CU: Elizabeth Sandoz
Central Florida HealthCare FCU: Corene Croaker, Tracy Guillermo
Community Educators CU: Shelly King, Jennifer England
Duval FCU: Qshawn Smith, Wilchele Singleton
Eckerd CU: Terry Gelvin, Kristy Godfrey
Escambia County ECU: Simone Bartnikowski
First Choice CU: Diane Penick, Lisa Soto, Roxanne Tennant
First CU of Gainesville: Diane DeMarco, Clinton Smith
Florida Central CU: Frances Cherry, Julie Flatt
Florida Commerce CU: Suzanne Poarch
GTE FCU: Tracy Ballard, Kimberly Bevis,

Shannon Barnett, Kristina Belkola, Karen Donavon, Lisette Gonzalez, Kim Hatfield, Bonnie Henry, Holly Hindman, Carolynne Kreutzer, Cathy Long, Deborah McCoy, Cheryl Patton, Sandra Pratt, Marie Pszonek, Diana Ramos, Meta Signorelli, Karen Smith, Linda Sowell, Sonia Sullivan, Reno Suwarno, Sharon White

Harvesters FCU: Deborah Baker
Health Services CU: Debra Baswell
Insight Financial CU: Deanna Mancil, Jonathan Harris, Lydia Tikasingh, Angela Toth
MacDill FCU: Kathleen McMinn
Pen Air FCU: Cabrini Bowe
Pinellas County Teachers CU: Joni Johnson, Patricia Leach, Linda Montgomery, Katherine Odell
Railroad and Industrial CU: Deanna Lemelin, Ashley Mann
Sarasota Coastal CU: Natasha Sinclair
Seminole Schools FCU: Linda Cara, Eliza Williams
Suncoast Schools FCU: Anita Artz, Alisa Ammerman, Darlene Behringer, Barbara Blair, Hilarie Boggus, Terri Bowlin, Laura Bowen, Margo Brown, Robyn Coleman, Heather Cudworth, Debbie Garwood, Raylina Heldenbrand, Linda Hillman, Julie Hunter, Karen Karppe, Deborah Nodine, Judy Patten, Bekki Rayner, Gwen Smith, Lynn Thompson
Sunshine State CU: Lisa Arnold, Misty Smith

UCF FCU: Michael Aviles
VyStar CU: Regina Archbold, Karen Bean, Leigh Bishop, Jan Blais, Mary Brown, Letrice Clements, David Clendenin, Rachel Collins, Voncretia Conie, Ellen Davis, Arlene Deasis, Portia Ferrell, Randy Flowers, Cecilia Galvan, Meredith Gattoni, Melissa Gruber, Jennifer Hardwick, Myranda Heffner, Gail Hersey, Carrie Higginbotham, Carla Jackson, Julie Jaillet, Tarra Johnson, Barbara Jonte, Jessica Kendall, Susan Leisher, Belinda Lerche, Marnita Lewis, Nina McCray, Jitka Morales, Kimberly Nobles, Deborah Oliver, Dawn Parrish, Kristina Pogue, Lori Pitkat, George Regan, Heather Reis, Lyda Seiler, John Silliman, Robin Simcoke, Sara Streeter, Tara Stull, Kasey Taylor, Joanne Templeton, Linda Tufano, Erica Whitehurst, Laura Williams, Elizabeth Willinger, David Zasvoyski

MERIT CERTIFICATES:

Educational Community CU: Tasha Brooks
Florida Central CU: Julie Moyers
Florida Commerce CU: Patricia Wilder
Martin FCU: Leroy Costner
Sarasota Coastal CU: Nancy Maciag
Suncoast Schools FCU: Kristy Broughton, April Flasher
VyStar CU: Jessica Kendall, Cora Perry, Vickie Tucker

Seven tips for keeping a loyal member

1. Superior product. Be very clear as to the specific superiority of your product or business, and then publicize it aggressively.
2. On time, within budget. If you promise a product at a certain time for a certain price, keep that promise.
3. Fix it now, discuss later. Find the quickest, most effective solution. It might not be the permanent fix, but at least you're practicing damage control. Then invite the member to assist with the post-mortem.

4. Consistency and reliability. To have loyal member means to be a business person that your members can rely on for consistency of product, and adherence to the promised schedule.
5. Generosity of spirit. Make them feel at home in your office. Always invite them back. Make them feel like they can come in at anytime for anything.
6. Get personal. You know your member's name but go the extra step to get to know

them. You have to genuinely care about people to take the extra time to get to know your members.
7. Treat the customers like royalty. Personally greet them. After they've finished their transaction, ask if you can help them with anything else. If they have to wait for some reason, check in with them every so often to let them know they have not been forgotten. Constantly strive to let your members know they are important.

CIF fund: a win/win/win investment opportunity for your credit union

The National Credit Union Foundation has recently disbursed \$241,856 for the 2nd



Connie Stoutamire

Quarter 2003 to the 33 states leagues/foundations participating in the Community Investment Fund (CIF).

Win for credit unions:

By simply investing funds in your corporate credit union's special CIF fund – your corporate, in turn, will invest that money in U.S. Central – your credit union will receive a portion of the CIF return and will have the satisfaction of knowing your charitable contribution is making an impact on credit union development in your state as well as around the country.

Win for the National Credit Union Foundation: A maximum of two percent of the return on your CIF investment goes to the National Credit Union Foundation in support of domestic credit union development initiatives. The impact of Foundation grantmaking is truly global. Since 1980, more than \$9 million have been distributed to credit unions and related organizations in support of innovative programs and credit union needs here in the U.S. and abroad.

Your CIF investment will increase the National Credit Union Foundation's ability to fund projects in the following four areas:

- Access to affordable financial services;
- Financial literacy;
- Savings and asset accumulation; and
- Small credit union development

Win for the Florida Credit Union Foundation: One half of the National Credit Union Foundation's return on your CIF investment is distributed, pro rata, back to the state foundations in the states of investment origin. These funds are specifically earmarked for state and local development activities, including:

- Projects that extend credit union services to the full range of membership, with emphasis on the unserved or underserved;
- Small credit union initiatives;

- Community Outreach;
- International partnerships through World Council of Credit Unions;
- Financial education through the National Endowment for Financial Education (NEFE) program;
- Creation of bilingual material that emphasize financial education; and
- Consumer education programs to raise awareness on the shattering efforts of bankruptcy.

There are different investment options available for the CIF fund. If you have questions or would like to make an investment in the CIF fund, contact your corporate credit union; call the National Credit Union Foundation at 800.356.9655 ext 4397; or contact Connie Stoutamire, Director of Horizons at 800.342.1266 ext. 1052.

A big thanks to the following credit unions in Florida that have made an investment in the CIF fund:

- Suncoast Schools FCU**
- GTE FCU**
- Gold Coast FCU**
- The CU of Palm Beach County**
- Fairwinds CU**

A foundation for credit unions

The Annual Fund Drive for the Florida Credit Union Foundation is still underway. If you have not made your contribution to the Foundation for 2003, *why wait?* Contact Connie Stoutamire, Director of Horizons, at 800.342.1266 ext 1052 or via email at connie.stoutamire@fcu.org.

A sincere thanks to the following for contributing to the Foundation Fund Drive:

Bronze Level (\$100 - \$249)
Peter F. Carroll (President/CEO 8 Flags FCU)

Platinum Level (\$1,000 or more)
FCUL Service Group

Monsanto Employees CU now Gulf Winds FCU

Chris J. Rutledge, President/CEO, announced recently that Monsanto Employees Credit Union will be known as "**Gulf Winds Federal Credit Union.**" The credit union has converted into a federal charter to position the credit union for future growth. Growth, properly managed, provides the fuel necessary to allow the credit union to compete on price with other institutions and to keep up to date by enhancing services and adding new services.

The intent in becoming Gulf Winds FCU is to better reflect who the credit union is now that it can offer its services to all who live, work, worship or attend school in Escambia and Santa Rosa counties, in Florida.

"There are many in the community who – because of the name "Monsanto" – do not realize they can join. With a new name that better describes who we are, we will help ensure continued growth and our ability to continue offering new products and services for the benefit of our current and future members," states Rutledge.

Insight Financial named in Top 100

Insight Financial Credit Union was selected by Central Florida Family magazine as one of the top 100 Companies for Working Families for the third year. The credit union was chosen for family-friendly programs and benefits offered to the credit union's 140 employees.

Lynn W. Owen III, President/CEO said, "By adding office locations over the past year, we greatly increased the size of our team. We are proud to continue offering the benefits and programs that allow our employees to put family first, and we are honored to be among the Top 100 this year."



Send submissions for the "News From You" section to the League by the first of each month.

Pen Air FCU Mobile Service Center comes to town

Pen Air Federal Credit Union is proud to announce the arrival of the Pen Air Mobile Service Center – a 38-foot mobile office on wheels designed to provide “curbside” financial service to members and serve the community at special events. The Pen Air Mobile Service Center offers ATM access, as well as account and teller access through its state-of-the-art satellite communications system.

The interior of the Mobile Service Center offers two enclosed offices for privacy and a central area where members and potential members can pick up literature or applications to join the credit union. The Mobile Service Center is equipped with security alarms, cameras and computerized tracking device to help avoid vandalism, robbery and other security issues.

Plans are being made for the Pen Air Mobile Service Center to participate in local festivals as well as various school and employee group events. “We are very excited to have our Mobile Service Center on the road serving our membership,” comments Patty Veal, Pen Air Marketing Manager.



Pen Air's Mobile Service Center

War Eagle Credit Union

Envision Credit Union has opened its first student run branch in Wakulla High School, just south of Tallahassee.

The War Eagle Credit Union used to be the War Eagle Bank, but after four years Citizens Bank notified Principal Randy Newland that it would not support the program after the 2002 – 2003 school year.

Teacher Brenda Hatcher, Principal Newland and four students visited Envision President/CEO Ray E. Cromer, Jr. and several of his staff to convince them to take over operation of the branch.

“They made an outstanding presentation” Cromer said. “There was a PowerPoint presentation with photos and information about what they had accomplished. We also heard persuasive arguments from the principal, the teacher and each of the students.”

After getting approval from the Wakulla School Board, Envision staff went to work to get the facility ready for the new school year.

Six students operate the War Eagle Credit Union for 1 ½ hours at lunch and for an hour after school. The teacher, Brenda Hatcher, hand picked the six students who

receive no pay, but do get volunteer credit for Bright Futures Scholarships.

Hatcher also received training at Envision so she can supervise operation of the branch until the credit union can arrange for a regular staff member to be on hand.

“We think this is a worthwhile community service,” Cromer said. He also noted that Envision has two employees who came through the program (when it was a bank) and now work part-time while going to college.



(left to right) Ray E. Cromer, Jr., President/CEO; Denise Zuehlke, Human Resource Specialist; Al Hammock, SVP of Marketing; Anice Prosser, SVP Human Resources; Amber Maxwell, Human Resource Associate; Jeremy Schaffer, Financial Service Officer; Brenda Hatcher, Teacher; Hollie Maddox, VP Financial Services and Becky Kouba, SVP, Financial Services.

Petree named Volunteer of the Year by NAFCU

Pen Air Federal Credit Union is proud to announce that board member, **Betty M. Petree**, has been named as the National Association of Federal Credit Union's Volunteer of the Year for her willingness to volunteer and encourage growth and development in the credit union movement.



Betty M. Petree

Betty Petree is the former General Manager of Pen Air Federal Credit Union. She retired after 36 years and has been serving as a volunteer board member for the past six years. Her experience has allowed her to be a driving force and a team player with the Board, management and staff of the credit union.

She has won numerous awards including the Credit Women International's “Boss of the Year” award in 1979, the Pensacola Business of Professional Women's “Woman of the Year” award in 1983, and she is also a past recipient of NAFCU's Professional of the Year Award in 1992.

She is the first person to be awarded with both distinctions from NAFCU. Upon receiving the award, Betty Petree commented, “I am overwhelmed with appreciation to NAFCU for being selected as Volunteer of the Year for Credit Union.”

Performance management—past, present and future



Liz Russell

Performance management programs have long been an important topic in the workplace. While there are many great managers who have an informal approach to managing people that's worked well for years, translating that into a formal, written system can baffle even the most seasoned supervisors. Organizations have an increasing need to become more strategic in terms of defining culture, developing organizational structure and formulating supporting plans. While good performance management systems can help further these objectives, many times they fail to do so. HR managers and supervisors have been charged with developing a more effective approach.

Let's start by taking a look at the evolution of performance management systems. Back in the 1940s and 50s, psychological study focused on behaviors that could be seen and measured. This set the precedent for other fields of human study and so the research and development of performance management also focused on specific behaviors. Forms that described particular actions coupled with a ranking system became popular. The advent of technology and related software made it easier than ever to "cut and paste" standardized observations into the pre-determined employee evaluation. With the increase of discriminatory claims and other lawsuits, the objective value of this approach was preached by employment attorneys and HR managers alike. Many organizations use standardized forms to assess performance and with good reason: the more unbiased the evaluation, the less chance of a lawsuit or claim being lost.

However, there were some negative aspects to this trend. It's natural for some managers to be reluctant to confront performance issues and put off corrective feedback until the yearly evaluation, resulting in some very surprised employees. The unwillingness to share bad news even

caused some supervisors to forego putting any negative comments at all into the forms and then wanting to terminate an employee "for cause" even with a glowing performance review in the personnel file. Another problem was that the personal touch often became lost in the process and it became just another yearly chore for a manager...a way of documenting performance rather than providing motivation and feedback.

In the 1980s there was some interesting research focused on thought processes as related to performance. However, this did not translate well into the real world of work and organizations began to add their own ad hoc ideas to existing concepts. It became important to include skills such as teamwork, innovation, initiative and other personal talents that are more difficult to measure and that rely on a more intuitive assessment. Some systems began to incorporate these aspects of the job into performance evaluation while struggling to keep the objectivity that is so important in a diverse workplace. Different techniques were developed, including the 360° review, employee self-evaluation, management by objectives and other systems too numerous to list.

So that's where we are today. Various systems are available, each with both positive and negative aspects. Credit unions wrestle with the choices, picking out the ones that work well with their particular culture and management style. Since culture and management teams change more frequently than before, for some credit unions this process can turn out to be the WWE of wrestling matches.

Next month, we will explore some of the performance management systems that are available today.

UBIT

— continued from page 5

In lieu of going to the Tax Court, you may pay the disputed tax and then file suit in your local United States District Court or in the United States Court of Federal Claims in Washington, DC.

Please note: tax litigation, like all litigation, can be very complicated. A discussion of the procedures that would apply in a lawsuit, and the factors that you should consider in deciding whether to bring a lawsuit, are beyond the scope of this document.

ACCRUAL OF INTEREST

Interest on the tax the IRS claims your CU should have paid will accrue until you pay the tax or the case is resolved in your favor. Interest is generally figured from the date a return (990-T) should have been filed to the date of final payment.

The calculation of interest is complicated. The interest rate applied is variable (and is tied to the rates on federal government bonds) and compounded daily. To figure interest, an historical chart of interest rates produced by the IRS must be consulted. Since the interest rate is variable and is adjusted quarterly, a composite of several rates must be applied to the principal amount of the tax over the course of the applicable time period, as described above. There are also computer programs available to calculate tax interest.

Tax attorneys consulted by CUNA Mutual believe it is unlikely the IRS will assess penalties against credit unions that have failed to pay UBIT because the law is unsettled as to whether it is actually owed.

If you decide to pay the tax, you will likely be able to do so under protest and later sue for a refund, as discussed above. Whether you should pay the tax or not is a complicated decision that will depend on the circumstances of your case. If, after consulting with tax professionals, you decide it is in your CUs best interest to pay the tax, there may be additional complexities involving accounting and other issues.

— continued on next page

UBIT

IMPORTANT GUIDANCE AND RECOMMENDATIONS

Once the Notice of Proposed Adjustment (or similar correspondence from the IRS) begins the post-examination process described above, it is crucial that you seek assistance from the resources dedicated to opposing the IRS's UBIT efforts. There are many decisions to be made throughout this process, many of which could jeopardize your credit union's rights if not properly made.

At all stages of this process, it is recommended CUs take the position that all sources of insurance and financial services-related income are substantially related to their exempt purposes and therefore are not subject to unrelated business income tax.

This argument is particularly strong with respect to products that are closely associated with savings and lending transactions, such as credit life and disability insurance and interchange fees derived from credit card and debit card programs.

Remember it is in your credit union's best interest not to follow UBIT-related advice or guidance provided by IRS agents without first tapping into the state and national resources available for consultation on UBIT. Notify your league if you receive a notice of proposed adjustment or any other correspondence from the IRS, and make no decision regarding a response before you have coordinated with your league.

Equipment available:

Phone system/equipment available – from First Choice Credit Union – for the asking. System is a Merlin Legend System from Avaya with a call center wallboard. Runs off a Unix PC and has approximately 40 phones. If interested, contact Lyn Gills at First Choice Credit Union at 561-641-0100 ext. 150.

Is it creditworthy?

potentially good member business borrowers simply because of cost issues, it's beneficial for CUs to have a way to do their own reality check on financial statement quality.

Devine outlined nine principles credit unions should consider when deciding whether a business is using a process of tracking its financial activity that will actually generate reports useful to a credit decision:

1. The dual aspect concept. In the standard system of accounting, every time data is entered into the ledger, it is entered twice. This dual entry—based on the idea that the accounts must balance each other—ensures consistency and makes sure transactions aren't being lost. "It helps you make sure all the parts and pieces (of a business' financial history) are being accounted for," Devine said. Missing parts can make a business look far more profitable than it really is.

2. The money measurement concept. To be useful in creating good financial statements, transaction detail must be

recorded in dollars and cents, not in "units" of sale.

3. The entity concept. The financial transactions of the whole organization must be considered, not just those of certain individuals.

4. The going concern concept. Credit unions will want to make sure they are working with a business that is a "going concern"—that is, it will be around tomorrow and have the necessary cash flow to pay back the loan.

5. The cost concept. In accurate record keeping, a transaction is recorded at the actual cost at the time it happens—not at fair market value.

6. The conservatism concept. Statements must not exaggerate revenues or expenses, but be conservative in their depiction of financial activity.

7. The materiality concept. If a business buys 700 paper clips, each clip isn't recorded into inventory. Rather such small items are grouped into more significant—or material—accounts, such as "office supplies."

8. The realization concept. This dictates that revenue is recorded when goods or services are actually delivered. Expenses are recognized when they're actually incurred. Predictions of when events will happen don't count.

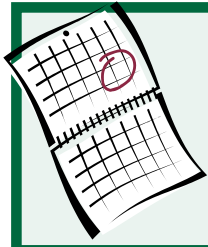
9. The matching concept. This concept makes sure that for each expenditure recorded in the business' ledger there is a "matching" entry for revenue and vice versa.

"We're trying to measure economic reality," Devine said. Well-done financial statements that can be useful to credit decisions comprise "a report card that's arm's-length-designed (objective) so there's a standardization. It's not arbitrary, so when you sit down to look at these documents, there's an expectation for format and content that's consistent."

Find more information on CUES' School of Business Lending by visiting www.cues.org and use the Executive Education pull-down menu at the top of the page.

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FCUL Calendar of Events

September 2003

Date	Event
10	Hike the Hill Washington D.C.
16-18	Supervisory & Mgmt. Academy Hollywood - Fee: \$229 session/ \$399 both sessions
23-25	Supervisory & Mgmt. Academy Tampa - Fee: \$229 session/ \$399 both sessions
25	Front Line Sales & Service Training Quick Bites - Fee: \$79
29- Oct. 2	CUNA Symposium & Annual Meeting Reno, NV - Fee: TBD

October 2003

Date	Event
7-9	Collections & Bankruptcy Conference Tampa - Fee: \$479
14-20	Credit Union Week
22-24	CU Leadership Conf. & Dinner Cruise St. Pete Beach - Fee: \$629
23	NCUA Compliance Issues Quick Bites - Fee: \$79
29-30	Achieving Full Service Workshop Tampa - Fee: \$249

CHAPTER MEETINGS

For further information, please refer to the League website

www.fcul.org

Broward Chapter

September 18 • October 16

Central Florida Chapter

September 11 • October 16

Escambia Chapter

September 18 • October 16

Northeast Florida Chapter

September 15 • October 16

October 9 Chapter Golf Tournament

Pinellas Chapter

September TBD • October 19

Sara-Mana Chapter

October 16

Tallahassee Chapter

September 10 • October 16

Tampa Chapter

September 16 • October 9

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