

## Credit Committee Report

Year 2011 continued to be another year with low interest rates, allowing our membership to obtain housing and personal loans at a much lower interest rate over previous years. The Lending Team processed 3,212 member loans totaling \$28,866,452.21. Overall this past year ended with a share to loan ratio of 47.21%. Total member loan balances outstanding declined over the year 2011 and now stand at \$107,684,521.91. This equates to a \$6,748,963.43 decline in total loan balances or a -5.90% decrease for the year. Our loan to share ratio experienced a decline during the year due to weak member loan demand and economic conditions resulted in the members not borrowing as expected.

During 2011 the credit union introduced an alternative to the standard, predatory pay day loan—the “Better Choice Loan.” The “Better Choice Loan” has a much lower interest rate than those offered by pay day lenders, and the credit union will provide the financial counseling to help resolve issues that so commonly arise from the continuous use of pay day loans. Contact any of our branch locations for details.

With mortgage interest rates continuing to remain low, first mortgage loans were very popular with members this past year. The credit union granted 135 in-house first mortgage loans totaling \$7,945,327.00, nine home equity loans totaling \$278,100.00 and 112 secondary market mortgage loans totaling \$10,594,055.00.

The credit union can pre-approve you even before you seek out your home, automobile or any other type of purchase. Why not know going into the purchase, the opportunities Alpena Alcona Area Credit Union can offer you as a member. If you are contemplating a new home purchase or the refinancing of your current home, consider completing a mortgage application on line at [www.aaacu.com](http://www.aaacu.com) at time that is convenient for you. The credit union will pay you \$50.00 when your mortgage loan closes if you applied online. The credit union also offers \$25.00 for a personal loan of at least \$750.00 obtained via our home banking application once the loan closes.

Ninety-nine (99) members caused the credit union to suffer loan losses in 2011, totaling \$467,898.11, to be charged against our loan loss reserve. Losses were largely due to foreclosures with negative housing values, 28.3% can be attributed to members taking bankruptcy and 8.97% was caused by members who passed away and had no resources available to recover funds. The credit union was, however, able to recover \$62,250.67 on previously charged off loans which equated a net loss of \$405,647.44 in 2011.

The percentage of delinquent loans to total loans at the credit union as of December 31, 2011 was at 1.43% compared to 1.56% at year end 2010. With a supportive collection team we were able to assist many members from losing their homes or automobiles. There is help available if you find that you cannot meet your monthly loan payment. If you find this is the case for you and your family please contact one our collection team members for assistance. The credit union is here for you during your time of need.

The workout committee appointed by the Board of Directors continues to assist members so that they can remain in their homes and avoid foreclosure. The Committee was able to assist five members during 2011 in meeting their mortgage payments, allowing them to retain their home. Funds are also available to qualify members through the State of Michigan’s Hardest Hit program. If you find that you cannot catch up delinquent payments but can resume making your regular mortgage payment, this program may work for you.

It is important to contact your credit union first whenever considering a loan product. Our experienced staff will meet with you and work with you to find a loan that fits your needs. **Placing your trust with a credit union is an important first step before borrowing anywhere.**

Respectfully Yours,  
Dennis Artley, Chairman

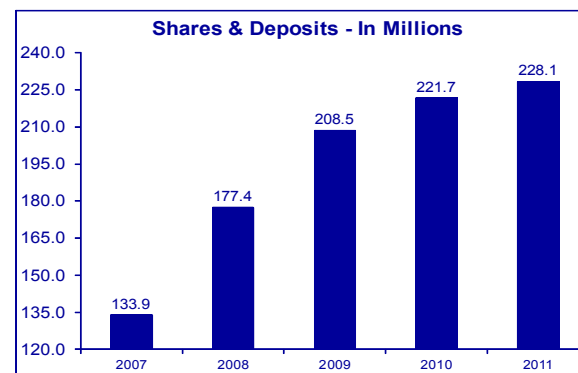
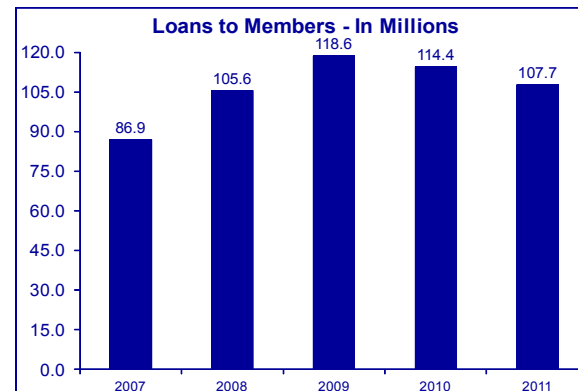
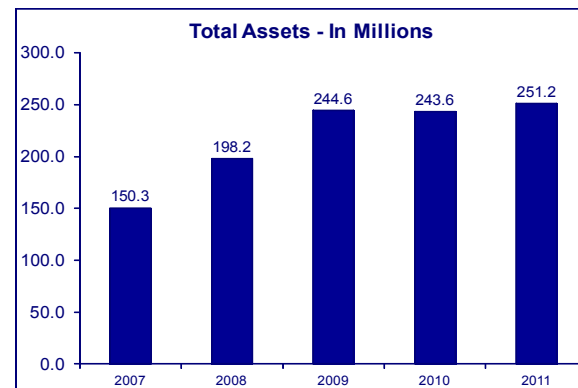
Balance Sheet		
December 31, 2011 and December 31, 2010		
Assets	2011	2010
Loans to Members, Net of Allowance for Loan Losses	\$106,922,183	\$113,730,286
Cash	1,901,267	2,065,056
Investments	133,688,311	119,019,968
Fixed Assets, Land & Bldgs	5,913,714	6,044,849
Furniture & Equipment, Net	597,084	681,491
Other Assets	2,162,226	2,063,498
<b>TOTAL ASSETS</b>	<b>\$251,184,785</b>	<b>\$243,605,147</b>

Liabilities & Equity		
Notes Payable		
Accounts Payable	1,492,221	1,222,926
Dividend / Interest Payable	243,649	321,837
Member Savings	228,105,906	221,696,039
Statutory Reserves	4,522,980	4,522,980
Undivided Earnings	16,820,029	15,841,365
<b>TOTAL LIABILITIES &amp; NET WORTH</b>	<b>\$251,184,785</b>	<b>\$243,605,147</b>

Statement of Income & Expense		
December 31, 2011 and December 31, 2010		
Income:	2011	2010
Interest on Loans	\$6,460,200	\$6,972,529
Investment Income	1,330,921	1,970,210
Other Income	2,126,155	2,074,632
<b>TOTAL INCOME</b>	<b>\$9,917,276</b>	<b>\$11,017,371</b>

Operating Expenses		
Compensation & Benefits	\$3,258,432	\$3,255,825
Travel & Conference	89,893	80,695
Office Occupancy	449,580	441,858
Office Operations	1,106,127	1,058,209
Educational & Promotional	140,546	146,708
Loan Services	386,239	281,200
Professional Outside Svcs.	516,792	501,189
Provisions for Loan Loss	472,839	634,413
Member Insurance	539,136	545,761
Operating Fees	54,832	51,026
Other Expenses	37,869	38,112
<b>TOTAL OPERATING EXPENSES</b>	<b>7,052,285</b>	<b>\$7,034,995</b>

Other Income (Expense):		
Non-Operating Income & Expense	-\$20,727	-\$103,125
<b>Dividend &amp; Interest Expense</b>		
Interest on Borrowed Money	0	12,186
Interest on Deposits	1,372,849	2,144,764
Dividends on Shares	478,950	686,361
<b>TOTAL DIV/INT EXPENSE</b>	<b>\$1,851,799</b>	<b>\$2,843,311</b>
<b>NET INCOME</b>	<b>\$992,465</b>	<b>\$1,035,941</b>



## AAACU 58th Annual Meeting

### Board of Directors

David McNeil, Chairperson . . . Retired, School Superintendent  
Jeffrey Trelfa, Vice Chairperson . . . . . Alpena Public Schools  
Thomas Young, Secretary. . . . . Retired, Montmorency County Tribune

Charlie Negro, Treasurer . . . . .Principal REMS of Oscoda  
Tim Gulden . . . . . Gillard, Bauer, Mazrum, Florip, Smigelski & Gulden

Tom Lanway . . . . . Retired, Superintendent AMA ESD  
Terry Nelkie . . . . . Jefferson Trucking Company  
Sheila Panknin . . . . . Ludlow Enterprises  
Mary Reitler . . . . . Retired, Oscoda High School

### Supervisory Committee

Tony Suszek, Chairperson . . . . . AMA ESD  
Alan Shillair, Secretary . . . . . Alcona Community Schools  
George Falkenhagen . . . . . Huron Shores Campus - ACC  
Alene Liske. . . . . Retired Alpena Public Schools

### Credit Committee

Dennis Artley, Chairperson . . . . . Retired, IRS  
Sharon Kapalla, Secretary . . . . . AAACU Staff  
Tracey Burr . . . . . AAACU Staff  
Lorna Dellar . . . . . AAACU Staff  
Paul Fredenburg . . . . . Retired AAACU Staff  
Debbie Sucharski . . . . . AAACU Staff

### Security Officers

Donald J. Mills . . . . . AAACU Staff  
Mary Gliniecki . . . . . AAACU Staff

### President & CEO

Donald J. Mills

## Mission Statement of Alpena Alcona Area Credit Union

The mission of Alpena Alcona Area Credit Union is to serve our members' financial needs by providing progressive, quality services delivered with integrity and commitment.

## Chairperson's Report

Here we are at the end of another year of operation as a credit union. We certainly have had better years. Ending the year with less members and fewer consumer and mortgage loans, one would think we would be "on the ropes," a totally erroneous assumption. We are well and healthy. This comes from prudent management and continued support by you – our members. The order of the day is controlled and measured growth. We do not set interest rates but are forced to follow a national lead or lose our assets and be in a financial downturn. AAACU will continue to be a leading financial service provider as long as we exhibit careful management and member understanding.

2012 has been designated as the International Year of Cooperatives. We celebrate a different way of doing business, one focused on human need not human greed, where the members, who own and govern the business, collectively enjoy the benefits instead of all profits going to shareholders. This is the concept which makes us different from banks and other "for profit" institutions.

The golden rule applies to business every bit as much as regulating our daily lives. Knowing this, one should think of credit unions before banks. Confidence and trust is our cornerstone. We will always respect you, our member, and never betray your trust in AAACU.

There are a couple of points I would like to bring to your attention.

1. Many of you are experiencing extreme financial difficulty. Please remember, we are always ready to assist you through confidential financial counseling. We have a major stake in you, our member, and do not want to see you fail. Give us a try.
2. Give our upgraded services a good long look. It will do nothing but save you money and time. More people are using these services, but I feel many more members could benefit from utilizing more of our products and services.

This will be the first board function I have missed in several years. I wish you a successful, fun filled evening.

As always, if I can be of service to you or you have suggestions for a better, stronger credit union, please call.

Again, it has been an extreme pleasure to serve as your board chairperson for another year.

Sincerely,

David H. McNeil, Chairperson

## Supervisory Committee Report

The Supervisory Committee is the credit union's audit committee – a kind of "watchdog" for you, the member. Our mission is to ensure your assets are safeguarded and the credit union is soundly managed.

The committee consists of four credit union members who are appointed annually by the Board of Directors. We meet monthly with the Internal Auditor to evaluate the quality of the credit union's finances, operations, and decisions, and at least one representative of the committee attends most board meetings. Our job is to oversee all aspects of the credit union while remaining independent of its operations.

The Supervisory Committee with the assistance of the Internal Audit/Compliance Department of the credit union must determine (1) internal controls are established and effectively maintained to achieve the credit union's financial reporting objectives; (2) the credit union's accounting records and financial reports are promptly prepared and accurately reflect operations and results; (3) plans, policies, and procedures established by the Board of Directors are properly administered; and (4) policies and procedures are sufficient to safeguard against error, conflict of interest, self-dealing, and fraud.

Additionally, the committee must ensure an annual audit of the credit union's financial statements is conducted. The auditing firm of Cindrich, Mahalak & Co., P.C. reviewed the credit union financial records for 2011.

They examined evidence supporting the amounts and disclosures in financial statements and considered the internal control structure of the credit union to render their opinion. Once again, your credit union received an exemplary financial management and performance report. We commend the staff and management for their excellence!

The Supervisory Committee as well as the Internal Audit/Compliance Department has found the credit union's overall procedures and controls to be in good condition. The credit union records have been found to be maintained properly, honestly, and accurately. Policies established by law and by the Board of Directors are followed, and with certainty, members' assets are safeguarded and used according to the purposes of the credit union.

Respectfully submitted,

Anthony (Tony) Suszek, Chairperson

## Treasurer's Report

Alpena Alcona Area Credit Union's Financial Reports for the years ending December 31, 2011 and 2010 are included in your Annual Report. The financial reports illustrate that your credit union has performed very well despite the economic obstacles that were faced by our membership over the course of 2011.

Credit union assets climbed \$7,579,638.43 to \$251,184,785.33 over the course of 2011 which equates to a 3.11 percent asset growth rate. This asset growth rate is substantially lower than in previous years but very necessary to ensure that our credit union maintains a "well capitalized" net worth to total assets ratio. We are once again projecting moderate asset growth in 2012 as our membership places more importance on paying down their consumer related debts to improve their overall personal balance sheet.

The credit union ended the year providing a "helpful and informative" member experience to 26,705 members. We experienced a slight decline in overall membership as a result of a number of inactive accounts being closed over the course of 2011. We are proud of our membership value proposition that strives to provide our members with competitive rates and low service fees. We will continue to promote the benefits of credit union membership especially to young consumers between the ages of 18 and 24 years old. We also have a tremendous opportunity to capture market share from our competition, namely banks, but in order to do so we have to promote the "Credit Union Difference".

Member savings deposits increased 2.89 percent or \$6,309,867.05 in 2011. The recent financial crisis has certainly resulted in a new and growing initiative to "save" and to live within our means. Our most popular savings instruments in 2011 were both the Insured Money Market account and our Regular Share Savings account. We have also had a tremendous response from our membership to the "Save to Win" Program following the presentation of the \$100,000.00 Grand Prize to one of our members in February 2011. The program encourages our members to save money based upon a lottery based savings system. 529 of our members opened a Save to Win CD account and saved over \$429,000.00 in 2011.

We offer a full array of savings account options to meet your needs and you can be assured that your savings deposits are safe and sound knowing that your account is federally insured by the NCUA up to \$250,000.00.

Total credit union gross income declined \$1,100,095.97 or 11.09 percent in 2011. The record low interest rate environment experienced in 2011 resulted in the credit union earning a lower rate of return on both our member lending portfolio and investment portfolio. The Federal Reserve has forecasted that record low interest rates will be around until the year 2014 to support our economic recovery thereby putting further pressure on our gross income in the future.

Low mortgage loan interest rates coupled with affordable housing values resulted in a number of our members being able to make home ownership a reality in the year 2011. The credit union generated a substantial income stream from our member mortgage program comprised of interest income, origination income and servicing income. Our investment in Neighborhood Mortgage Solutions, our mortgage CUSO, also generated income equal to \$69,476.83 in the year 2011. The credit union realized net income equal to \$992,464.58. Our return on average assets operating ratio ended the year 2011 at a healthy 0.40 percent.

Total operating expenses, including the provision for loan losses, increased \$17,289.11 or 0.25% in 2011. The board and management are extremely proud of controlling our operating expenses this past year considering we experienced additional pressure on our credit union due to costs related to the NCUA Corporate Stabilization Program equal to \$534,651.83. In addition, we were required by regulation to allocate \$472,838.74 or 4.77 percent of our gross income to reserve for future loan losses. The NCUA announced a significantly reduced projected expense in 2012 for the NCUA Corporate Stabilization Program which will benefit our membership in the future.

Credit union operating expenses were also impacted by a stream of new compliance and regulatory requirements that resulted in more of our resources in both terms of dollars and human resources going toward meeting the new requirements. We expect this trend to continue into the year 2012 especially with the new Consumer Financial Protection Bureau up and running. The Budget Committee is extremely proud of the budget results that were reviewed and presented to the board of directors on a quarterly basis over the course of 2011.

It was a challenging year in terms of rates being paid on our savings products and for our members who depend upon the interest they earn on their deposits as a source of income. The record low interest rate environment has had an impact upon the nation's entire financial system. The credit union returned \$1,851,799.50 or 18.67 percent of our total gross income back to you, our member-owner, in the form of dividends and interest expense in 2011.

Credit union net worth improved 4.81 percent in 2011. Net worth is comprised of undivided earnings, regular reserves and net income. The credit union allocated \$992,464.58 or 10.01 percent of our gross income into our net worth position in 2011. Our net worth to total assets ratio improved over the year 2011 and stands at a "well-capitalized" ratio of 8.50 percent.

In summary, our credit union performed very well in 2011 considering the challenges the economy has placed upon our credit union membership. Our Board and Management are very proud of the fact that we practiced sound expense control and at the same time continued to be a financial leader in the communities we serve by delivering new and innovative products and services.

We must remember that credit unions are different from banks in that we are not out to make money but rather to help members improve their financial lives. We exist for the benefit of our member-owner and will continue to make progress to ensure we are providing a "member value proposition" that helps you achieve your financial goals and to create convenience in your busy lives.

We are proud of the work the Staff and Management Team have done to meet the wide range of needs of our members. Their hard work, dedication, and service to all of us as members/owners, exemplifies the fact that at Alpena Alcona Area Credit Union, *Everything we do we do for you!*

Respectfully yours,

Charlie Negro, Treasurer



**Alpena Alcona Area  
Credit Union**

# Annual Report 2011



Everything we do,  
we do for you™

