

77TH ANNUAL REPORT



IT'S A
TREAT TO
SERVE YOU.

TUESDAY,
FEBRUARY 28, 2017



In Memory of

Today's annual meeting is in memory of John Broden. John's father was a founding director of Citizens Community Credit Union. John served as Chairman of the Board and long time board member. His son, Curtis, served many years on the credit committee as well.



Citizens Community Credit Union

77th Annual Meeting

February 28, 2017

KC Hall-Devils Lake
5:30 pm Social
6:15 pm Supper
7:00 pm Meeting
Followed by
Election of Officers

- Call to Order
- Ascertainment of Quorum
- Reading and Approval of Minutes of Last Meeting
- Report of the Board of Directors
- Report of the President
- Report of the Credit Committee
- Auditors Report
- Old Business
- New Business
- Election of Officers
 - Report of Nominating Committee
 - Board of Directors (Two Positions)
 - Credit Committee (One Position)
- Entertainment – Terry A Fleck, “The Attitude Doctor”
- Door Prize Drawings
- Adjournment

Statement of Changes In Undivided Earnings and Reserve Accounts Period Ending December 31, 2016

BALANCES BEFORE TRANSFER

Regular Reserve.....	\$2,359,666
Undivided Earnings.....	18,140,340
Net Income (Loss).....	460,185
Allowance for Loan Loss.....	2,222,004
TOTAL.....	\$23,182,195

BALANCES AFTER TRANSFER

Regular Reserve.....	\$2,359,666
Undivided Earnings.....	18,600,525
Net Income (Loss).....	0
Allowance for Loan Loss.....	2,222,004
TOTAL.....	\$23,182,195

Comparative Balance Sheet Years Ending 2015 and 2016

ASSETS **2015** **2016**

Loans and Contracts	\$164,511,701	\$170,553,454
LESS: Participation Sold	(5,082,304)	(6,817,442)
LESS: Allowances for Loan Losses.....	(1,860,940)	(2,222,004)
NET LOANS	\$157,568,457	\$161,514,008
Cash and Equivalents.....	1,156,685	1,567,873
Investments.....	19,628,144	24,239,752
Prepaid & Deferred Expenses.....	787,748	813,432
Accrued Income.....	1,725,583	1,723,865
Buildings and Land.....	5,107,353	4,944,491
Furniture and Equipment.....	863,426	761,651
NCUSIF Deposit.....	1,356,522	1,495,383
Other Assets.....	104,736	105,030
TOTAL ASSETS.....	\$188,298,654	\$197,185,485

LIABILITIES

Notes Payable.....	\$6,000,000	\$10,000,000
Accounts Payable.....	372,557	520,265
Dividends Payable.....	400,406	579,418
Taxes Payable.....	4,041	4,436
Other Liabilities.....	824,804	694,609
TOTAL LIABILITIES.....	\$7,601,810	\$11,798,728

Deposits/Capital/Equity

Shares.....	\$79,011,372	\$74,960,274
Share Certificates.....	81,185,464	89,466,292
Regular Reserves.....	2,359,666	2,359,666
Undivided Earnings.....	18,140,339	18,600,525
TOTAL Deposits.....	\$160,196,836	\$164,426,566
TOTAL Equity.....	\$20,500,005	\$20,960,191
TOTAL LIABILITIES & EQUITY.....	\$188,298,654	\$197,185,485

Comparative Statement of Income and Expenses

<u>OPERATING INCOME</u>	<u>2015</u>	<u>2016</u>
Interest on Loans.....	\$7,783,072	\$7,854,436
Income from Investments.....	159,943	150,628
Other Income.....	2,246,241	2,263,746
TOTAL INCOME.....	\$10,189,257	\$10,268,810

OPERATING EXPENSES

Employee Compensation.....	\$2,608,267	\$2,744,870
Employee Benefits.....	681,559	469,535
Travel and Conference.....	71,130	45,726
Association Dues.....	33,802	37,195
Office Occupancy.....	463,203	449,156
Office Operations.....	1,631,620	1,701,337
Education and Promotion.....	429,613	448,409
Loan Servicing.....	144,096	213,175
Professional and Outside Services.....	623,812	777,331
Provision for Loan Losses.....	540,000	550,300
Examination/Audit Expenses.....	91,036	82,041
Cash (Over) Short.....	103,512	3,905
Interest on Borrowed Money.....	40,352	60,104
Miscellaneous.....	26,499	939,599
TOTAL OPERATING EXPENSES..	\$7,488,507	\$8,522,683
NON-OPERATING (INCOME) EXPENSE.....	4,105	1,651
DIVIDEND/INTEREST EXPENSE.....	\$1,027,240	\$1,284,291
NET INCOME.....	\$1,669,403	\$460,185

Report of the Board of Directors

The Board of Directors meets on a monthly basis with special meetings when needed. The board is charged with the responsibility to oversee operations and give general direction to management. Each meeting brings information that we use to predict long-term success and develop a base of knowledge for the future decisions we will make.

The credit union has again grown in many areas. The board is pleased with the overall direction and results of 2016 and commends

the president and staff for the quality of service they provide for our membership. They put in many hours and much effort to improve the service provided on a daily basis. Once again in 2016, service was improved in many ways and resulted in excellent growth of the credit union.

Constantly in a state of change, the rules and regulations that come from auditors and regulators are indeed challenging. We realize they are meant to provide safety for your investments and soundness of operations and do all we can to ensure they are followed.

Due to the increasing complex nature of the operations of the credit union, a professional accounting firm has been engaged to assist us in our responsibilities. They provide us with monthly reports along with an annual audit. Once again, as of September 2016, the annual audit was completed by Brady Martz and Associates. We are pleased to report that this comprehensive review resulted in their opinion that the financial records are in good order and found them to be an accurate and fair reflection of the credit union's financial condition.

The board would like to offer each of you our thanks for being part of the success of your credit union. As we enter the new fiscal year, your continued support and use of the credit union products and services will determine how we grow and serve the members.

Report of the Credit Committee

The Credit Committee provides insight and advice to credit union management and loan officers as part of its responsibilities. The committee meets on a monthly basis. We review, as part of our meeting, actions taken by loan officers and the internal loan committee. For 2016, the credit union loaned over \$97 million to our membership.

We review loan applications for compliance with policy set by the board of directors. Part of the criteria in evaluating an application is the ability to repay the requested funds, credit history, collateral and other defined variables. While these are important aspects of lending, individual character may be an even bigger part of the evaluation.

Our primary focus is to offer assistance to the lending staff to ensure this part of the process is not forgotten. Following the credit unions philosophy of "People Helping People" we continue to do all that we can to fulfill our obligation to the membership without taking undue risk.

Report of the President

After years of exceptional growth and performance, results of the past year did not measure up on a comparative basis. Growth in most areas did not keep pace with prior years. The charts below reflect the level of growth over several years in key operational areas:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Loan Growth	12.0%	17.9%	9.5%	3.91%
Asset Growth	7.8%	13.6%	14.47%	4.7%
Deposit Growth	10.4%	3.7%	7.9%	1.4%
Equity Growth	26.0%	11.45%	10.88%	2.24%
Membership Growth	3.1%	8.1%	6.8%	.09%

The credit union has realized exceptional growth over the past few years; however the past year was a relatively stagnant year in terms of growth. Despite results not meeting expectations, some areas actually exceeded national peer group growth rates and others only slightly underperformed.

Financial performance was not as strong as it had been in previous years. As can be seen by the chart below there are two contributing factors-increasing operating expenses and loan performance:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Return on Assets	1.49%	1.09%	.95%	.24%
Return on Avg. Loans	5.35%	5.22%	5.15%	4.90%
Net Interest Margin	3.90%	3.79%	3.84%	3.41%
Net Charge-offs/Avg Assets	.07%	.03%	.07%	.12%
Loan Delinquency	.29%	.32%	.82%	6.18%
Operating Exp/Avg Assets	3.73%	3.89%	3.92%	4.10%

Loan delinquency has resulted in a large volume of non-performing loans which has led to a reduced yield on loans and ultimately lower interest margins. Historically, loan charge-offs have remained well below the peer average of .50% of average assets. A very small but acceptable increase occurred in 2016. It is expected that charge-offs and loan loss expenses will increase in 2017. As individual loan issues become resolved and loan yields improve profitability will improve as well.

Of just as great a concern is the rate of increasing operating expenses. As can be seen above, our operating expense ratio has increased substantially over each of the past four years. Much of this increase can be attributed to the financial burden of implementing, monitoring and complying with the tremendous amount of regulations that have been placed upon financial institutions today. It is becoming increasingly difficult to maintain a profitable level of net income without strong loan volume. Low yields on alternative investments will not support the level of operating costs and balance sheet growth necessary to sustain the future of a financial institution in the current environment.

With more than a third of our loan portfolio being related to agriculture and this sector going thru difficult times, we can expect to have some issues to work thru. I am proud to say that in 2016 we were able to provide support for every one of our farm families. It was not easy and a lot of work, thought and planning went into renewals and new credit applications. I appreciate the efforts of the lenders that worked very hard to help those members. It is our desire to be able to do the same in 2017.

Development of new and existing products and services has always been a high priority for us. By increasing the already high rate and balance of our Kasasa checking, we have seen increased usage and balances. Our debit cards are now being issued with EMV protection on them for stronger protection. From offering educational seminars to supporting community projects, events and organizations, Citizens Community Credit Union and its staff continue to contribute money and time. Recognition for these efforts is evident as we continue to earn awards for both adult and youth financial education programs as well as the Dora Maxwell Award for social responsibility efforts, the Louise Herring award for putting credit union philosophy to action.

Several new products and services will be rolled out in 2017 including instant Issue debit cards which will allow credit union staff the ability to create your debit card on site. We continue to enhance and improve our website, social media messaging and communication, electronic delivery channels, and member communication. New features and modules have been added to our core processing system that will improve member experience, delivery efficiency and improve internal processes by integrating and streamlining processes and procedures. We are strengthening our mortgage and home equity lending platforms to improve efficiency of delivery and market share.

Along with our local economy, your credit union has experienced a difficult year. While I do not expect improvement in the very short term, actions being taken now will serve to support future growth and success. I would like to thank the board of directors for their dedication and concern for our credit union. Their dedication and support to management and staff while representing the membership is the reason we have come as far as we have.

I would like to also commend our dedicated staff for their efforts over the past year. As we move thru this period of change, I know we can count on their support. I know how hard they have worked, how many hours have been committed and the level of creativity it takes to succeed today. It is the power of our people that will ultimately move our credit union to the next level.

I want to pledge to you that we all will do everything we can to continue delivering the best products and services we can for the most value possible. There are many examples of this commitment throughout our credit union. From continuing to pay our members nearly double what our peer credit unions pay their members in interest to the number of service staff per member; we are proving daily our commitment to the high level of service and benefit we provide to you.

I very much appreciate the opportunity to serve you and our credit union this past year and look forward to serving you in the coming year. As always, I encourage you to use your credit union for all its worth!

Citizens Community Credit Union Officials

President

Darwin Brokke

Board of Directors

Leroy Rice Scott Anderson

Daryn Zinke George Zenk

Mark Motis

Credit Committee

Curtis Broden Garland Sagen

Leo Saylor

Devils Lake/Ft Totten Staff

Phil Langerud Catherine Barta

Marilyn LaMotte Brad Fitch

Tammy Fischer Rod Braun

Liz McGarvey Dan Haugen

Rick Schaff Jamie Orness

Loren Severson Ashley Carlson

April Halle Jo Barta

Sara Plemel Carlye Hanson

Patricia Bennett Dee Rector

Tracy Bertsch Alan Bye

Jessica Sogge Kristi Sten

Tatiana Ciornea Charity Erickson

Felaria Falcon Holli Pruit-Rodriguez

Mary Marchand-Helland Jay Larson

Lakota Staff

Raynette Zespy

Larimore Staff

Paul Zundel Michelle Kollar

Christine Lautner

Bisbee Staff

Arlene Swenson

Northwood Staff

Amanda Hall Michael Schmell

Grand Forks 42nd Staff

Blair Brattvet Mike Kjelshus

Aaron Armentrout Lisa Rosinski

Ashly Lambert Mardy Berlinger

Shawn Larson Ashley Yozamp

Grand Forks Hugo's Staff

Noel Schanilec Kara Wilwand

Grand Forks 32nd Staff

Brady McCrae Tyson Zeltinger

Whitley Fedt Brock Callina

Stacy Hurt Rebekah McCrae

Matt Klockmann Kennedy Fenster

Kaitlin Langerud Dena Hegg

Nicole Oas Austin Smith

Drew Thompson Kristel Wurzbacher

East Grand Forks Staff

Douglas Nielsen Daniel Bryant

Rochelle Welin Sage Doehler

Craig Ventzke

St John Staff

Amy Bradley Stephanie Wagenman

Vernie Krick Tamra Counts

Melanie Madrid

Member Services..

Membership Share

Daily Savings

Money Market Savings

Kasasa Rewards Checking & Savings Accts

Overdraft Protection

Mastercard Debit Cards

Prewards cash back savings

Free Debit card round up to savings

ATM Service: Devils Lake, Ft Totten,

Larimore, Northwood, St. John, East Grand

Forks, Grand Forks 42nd & 32nd offices;

Thousands of Surcharge Free ATM's nationwide

*All CCCU, Money Pass, & CU24 ATM's

Safe Deposit Boxes (DL, Larimore, East

Grand Forks, Grand Forks 42nd)

Direct Deposit

Certificates of Deposit

Individual Retirement Accounts (IRA's)

Traditional/Roth/SEP

Coverdell Education Savings Account

Health Savings Accounts

Business Services

Business Checking

Commercial High Yield Savings

ACH Origination

Commercial Real Estate Loans

Commercial Line of Credit

Merchant Card Program

Payroll Deposit

SBA Approved Lender

Loans for Most Purposes including:

Ag-Loans for all Purposes

FSA Guaranteed Lender

Mortgage - Residential

HELOC

Personal secured and unsecured

Credit Life / Disability Insurance

Vehicle Warranties & GAP protection

Cashiers Checks, Money Orders

VISA Credit Card/Travel Card/Gift Card

Wire Transfers

Free Notary Service & Signature Guarantee

Classroom Presentations

Voice Response Acct Access

Free Express Money Transfer

Online Banking Account Access

Bill Pay

Mobile Banking App

The Vault /E-Statements

Blue Cross Group Health Insurance Rates

Member Rewards Program

Christmas & Vacation Savings Club

Pee Wee Penguin & TLT Young Savers Club

Night Deposit, Drive-Up Window