

2016 ANNUAL REPORT



STATEMENT OF FINANCIAL CONDITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Loans to members, less allowance for loan losses	\$142,233,711	\$126,236,423
Investments	68,437,425	102,696,144
Cash and cash equivalents	12,500,982	5,398,854
Share insurance fund	1,867,830	1,995,530
Furniture and equipment less depreciation	1,588,083	1,710,913
Other assets	2,733,892	3,642,776
Total Assets	<u>\$229,361,923</u>	<u>\$241,680,640</u>
Liabilities & Members' Equity		
Shares and other member deposits	\$192,057,989	\$203,840,199
Accounts payable and accrued expenses	1,025,344	805,101
Retained earnings, substantially restricted	36,278,590	37,035,340
Total Liabilities & Members' Equity	<u>\$229,361,923</u>	<u>\$241,680,640</u>

STATEMENT OF INCOME

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Income		
Income from loans	\$6,154,833	\$5,339,963
Investment income	1,878,167	2,711,405
Other income	2,017,413	1,557,786
Total Income	<u>\$10,050,413</u>	<u>\$9,609,154</u>
Operating Expenses		
Compensation and employee benefits	\$4,550,535	\$4,538,043
Office operations	1,496,339	1,232,771
Professional and outside services	1,305,463	1,133,814
Provision for loan losses	978,579	516,105
Other	1,906,418	1,687,579
Total Expenses Before Dividends	<u>\$10,237,334</u>	<u>\$9,108,312</u>
Income from operations before dividends	(\$186,921)	\$500,842
Dividends paid	834,029	957,041
Net Income (Loss)	<u>(\$1,020,950)</u>	<u>(\$456,199)</u>



Focusing on the "Why"

82ND ANNUAL MEETING



Minutes Of The 81st Annual Meeting Of The Atlantic Federal Credit Union

TUESDAY, MAY 17, 2016

Directors Present

F. B. Beckman R. M. Lear
 F.T. Cirone J. P. Spina
 M. Fanelli R. D. Wilder
 R. A. Janish

Supervisory Committee Present

R. W. Hovland
 A. DiLauro
 W. J. Kennedy

- The meeting was held at the Galloping Hill Inn, Union, New Jersey. Mr. Robert Wilder, Chairman, called the meeting to order at 12:15 p.m. Mr. Wilder welcomed everyone to the Annual Meeting. He introduced the members of the Board of Directors and Supervisory Committee and led the group in the Pledge of Allegiance.
- Mr. Wilder called members' attention to the 2015 annual report that contained the 2015 Annual Meeting minutes, the credit union's financial statement, a message from the Chairman and CEO/Treasurer and the Supervisory Committee Report.
- The bylaws of the credit union require a quorum of 15 members at Annual Meetings. Mr. Wilder verified that a quorum was present.
- Mr. Janish, Board Secretary, summarized the minutes of the 2015 Annual Meeting. Ms. Dorothy Kruza moved that they be accepted. Ms. Ann MacArthur seconded the motion and the minutes were approved.
- Mr. Russell Hovland, Supervisory Committee Chairman, presented the Supervisory Committee's Report.
- Mr. Fanelli presented the Treasurer's Report. He said that the Membership Development Plan which was introduced the prior year continues to guide the credit union in its operations and has been endorsed by the Board of Directors. Following the plan's initiatives, \$1.5 million was committed to capital expenditures to improve product and service lines.
- Mr. Fanelli reported that in 2015 consumer loans grew by 35% over the previous year. He attributed the growth largely to the credit union's revamping of its service approach to include dedicated sales representatives.
- To expand the credit union's presence in Essex County, Mr. Fanelli said a lease was signed for a branch in the Essex Green Shopping Center in West Orange. The new branch opened in the spring of 2016.
- Mr. Fanelli said that 2015 fell in line with management's projections for a planned loss as capital expenditures increased operating expenses by 7.7%, which contributed to a net loss of

\$456,000. The net loss had no impact on the net worth ratio which finished the year at 16.4%. Mr. Fanelli reported that \$1.91 of each dollar of available income was returned to members in the form of dividends.

- In presenting his chairman's address, Mr. Wilder noted that the Board and management are optimistic on the future of the credit union. He said that the credit union's vision to be members' primary long-term financial institution of choice continues to be the central focus now just as it was 81 years ago.
- Mr. Wilder said that the Board is developing a strategic plan that will complement the Membership Development Plan. He reported that the credit union currently has \$22.74 million in underutilized capital. He said that the Board and management will pursue an asset growth strategy with the goal of increasing membership and improving net earnings while remaining well-capitalized.
- Mr. Wilder said that in lieu of attendee gifts, the credit union is making a \$1,500 donation to the Community Food Bank of New Jersey.
- Mr. Wilder thanked members for their years of loyal support. He urged them to fully utilize the credit union's products and services and to encourage their family members to do the same.
- Mr. Lear, Chairman of the Nominating Committee, introduced the committee members: Ms. Antoinette Bujega, Ms. Dorothy Kruza and Ms. Ann MacArthur. They submitted the following candidates for vacancies on the Board of Directors, all for three year terms: Frank Cirone, Robert Janish and Joseph Spina.
- Since no other names had been filed with the Secretary prior to the Annual Meeting, Mr. Lear asked Mr. Janish to cast one ballot for the slate, which was done. The motion passed and the nominees were elected.
- There being no further business to conduct, Ms. Dorothy Kruza motioned to adjourn the meeting. This was seconded by Ms. Antoinette Bujega and was passed. The Annual Meeting adjourned at 12:44 p.m.

Respectfully submitted,
 Robert Janish, Secretary

In Memory of Donald Olsen



Atlantic Federal suffered a loss in 2016 with the passing of Donald Olsen on October 24th. Don was a volunteer on the Board of Directors for more than 30 years, including several terms as chairman. His guidance and leadership will be missed but forever remembered and appreciated.

Rest in peace, Don.

A Message from the Chairman of the Board & the CEO/Treasurer

Over the past three years we used this platform to inform you of the strategic initiatives the Board and management developed and were in process implementing in order to ensure the credit union's future success in our very competitive market. The base objective of the initiatives was to position ourselves in such a way that makes us relevant to legacy members and attractive to prospective members with a goal of improving their financial lives. The initiatives constitute a member-centric approach that reflects our stated mission to, "Positively impact the communities we serve and improve our members' financial lives through personal commitment and integrity." It is *Why* we exist!

In those past messages we discussed the details and financial outcomes of the Membership Development Plan (Plan), which was the vehicle by which those initiatives were accomplished. While we will not revisit those specifics in this message, it is important to remind you of the significant amount of capital outlays needed to implement the Plan and the associated financial impact it would have in the short run. In essence, the \$2 million in expenditures associated with the Plan will be spread out over several fiscal years. As such, we planned for net losses over this timeframe to recoup those costs and allow the strategic initiatives to take hold and produce positive results. For the most part 2016's financial results were in line with our estimates. The specifics of the financial results are shown in the financial statements included in this report. It is important to point out that even with the net loss of \$1 million, the credit union remains in a financially strong position with almost 17% capital. (Our regulator considers 7% well-capitalized.) Our strong capital position will allow us to absorb the aforementioned future planned losses with little concern.

While the heavy lifting of the Plan is behind us, it does not mean our work is complete. In fact, it signals the beginning of a new phase in achieving our mission. The Board and management team held a strategic planning meeting. The results of that collaboration produced three strategic initiatives and supporting tactics that will serve as the foundation for the future direction of your credit union. Briefly stated those initiatives include: Long Term Growth; Technology Utilization and Culture Development.

First, the Long Term Growth initiative will produce a more engaged member and promote advocacy thereby leading to a stable and continuous member base. Next, the Technology Utilization initiative will use current and future technology to support the growth tactics in a way that focuses on greater efficiencies and enhanced security of member data. Finally, the Culture Development initiative speaks to the Board's commitment to a governance model that promotes a supportive culture to ensure the success of all stakeholders in pursuit of our mission.

The accomplishments over the past several years brought us to a point where we're confident we can continue to earn your trust and compete for your business now and into the future. It's *Why* we exist.

We thank you for your longstanding support and look forward to furthering your financial relationship in your credit union.

Respectfully submitted,

Robert D. Wilder, *Chairman of the Board of Directors*
Michael Fanelli, *Treasurer/Chief Executive Officer*

Supervisory Committee Report

Your Supervisory Committee, an independent body of volunteers, is mandated by the Federal Credit Union Act and serves as watchdog for the members of Atlantic Federal Credit Union.

In order to meet its responsibilities, the Supervisory Committee, with the approval of the Credit Union's Board, has retained the services of DeLeon & Stang, a CPA firm, to perform a comprehensive yearly audit of Atlantic Federal's financial statements. The results of this audit and the periodic examination of your Credit Union by the National Credit Union Administration together with other supplemental audits and reviews conducted by the Supervisory Committee are reported to the Board as they are completed.

Your Supervisory Committee is pleased to report that these audits and examinations have confirmed the fiscal soundness of the Credit Union. The assets of the Credit Union are properly safeguarded and the books and records are an accurate accounting of its assets, liabilities and capital.

Respectfully Submitted,

Russell Hovland, *Chairman*