

# 2010 ANNUAL REPORT



*RCU is committed to provide friendly, accurate, and prompt financial services to our Members.*

## 47th RCU Annual Meeting Agenda April 26, 2011

.....✓  
Call to Order

.....✓  
Introduction of the  
Board of Directors

.....✓  
Introduction of Special Guests

.....✓  
46th Annual Meeting Minutes

.....✓  
Chairperson's Report

.....✓  
Treasurer's Report

.....✓  
Audit Committee's Report

.....✓  
Election Results

.....✓  
CEO's Report

.....✓  
Unfinished Business

.....✓  
Communications

.....✓  
New Business

.....✓  
Adjournment

## Welcome to the 47th RCU Annual Meeting

RCU has enjoyed another successful financial year in 2010. As we highlight our accomplishments of the past year, we would like to again focus on our vision:

RCU is a competitive financial institution in the markets we serve showing our viability through safety and soundness and managed growth. Members are able to access us at their convenience via multiple delivery channels. New and lasting relationships are built through quality of service and community support. Because of this:

- RCU is the financial institution of choice in the markets we serve.
- RCU creates Members for Life.

We would like to extend a warm welcome to you, and we appreciate any feedback you would like to share with us.

*Doug Olson, Chairperson*

*Charles Grossklaus, CEO*



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## Bright Smiling Faces

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*"I am writing to thank you for the easy transformation from AnchorBank to Royal Credit Union. It was very easy and understandable with all the information you sent out. I notice the girls' new T-shirts and blue shirts as well, and a brighter smile on their faces. I just wanted to thank you for everything, something we seem to be too busy these days to do is to thank our people who go out of the way and do these nice things for their customers."*

This comment from a satisfied RCU Member is one of many we received following the unprecedented AnchorBank acquisition. A defining moment for RCU, the acquisition was just one reason 2010 gave all of us a lot to smile about.

## Growth

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Your Credit Union accomplished a feat that no other credit union in our nation has ever achieved, purchasing 11 bank branches. You might ask yourself, "Why would the Board approve the AnchorBank acquisition?" The answer to that question is simple, it fit perfectly into our strategic plan. Six years ago, in the strategic planning process, the Management Team and Board identified a need for RCU to continue to grow to maintain our strength and stability, and part of the plan included expansion to the west. Through extensive research and due diligence the team identified an opportunity for RCU to meet the financial needs of residents in the St. Croix Valley. And, we knew we could do it because of our track record with six other financial institution mergers in the last 28 years. This acquisition allowed us to acquire offices at or below appraised value, saving the credit union millions of dollars in construction cost. Chip Filson, a prominent national credit union leader was quoted in the *Credit Union Times* as saying, "RCU deserves credit for undertaking such a positive event, which also underscores the role credit unions are playing in becoming a key resource for consumers in local communities as banks step away." On behalf of the Management Team and the Board of Directors, we want to thank all the RCU Employees who were involved in a very successful transition of the AnchorBank Customers to RCU Members.

## Stability

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The Board and our Audit Committee ensure you that we take our responsibilities seriously. You should be confident that we are performing our due diligence to protect your assets in RCU. Last year RCU experienced seven outside examinations of its books, policies and performance. Board and Committee members dedicated hundreds of hours of their time to ensure compliance.

## Chairperson / CEO Report

In 2011, we will continue to manage your credit union in a prudent manner. We will also continue to fulfill our Vision Statement in 2011:

*RCU is a competitive financial institution in the markets we serve, showing our viability through safety and soundness and managed growth. Members are able to access us at their convenience via multiple delivery channels. New and lasting relationships are built through quality of service and community support. Because of this:*

- RCU is the financial institution of choice in the markets we serve.
- RCU creates Members for Life.

**Leaving a Legacy.** Richard Greene retired from the RCU Board of Directors effective November 30, 2010. An RCU Member since 1983, Richard served on the Board of Directors for almost 19 years. He chaired the Building Committee that was instrumental in acquiring and building our beautiful Corporate Center. He served on the Finance Committee and the Compensation/Governance Committee. Richard graduated from UW-Eau Claire with a Bachelor of Science Degree. He is retired from Uniroyal, Inc., and Luther Hospital. Please join us in thanking Richard and his wife Judy for all they have done to support RCU.

As you probably know, Charlie Grossklaus has informed the Board and employees of his plans to retire effective January 2, 2012. He is leaving gratified in the accomplishments of the organization during his 40 years of service. He indicated in several interviews with the media that he loves RCU, his fellow employees, the Board of Directors, and most importantly all the Members that he has worked with for all those years. He was quoted as saying, "It's time for me to relax a little bit. The organization is doing extremely well, and we've got a good leadership team in place." He would like to let you all know that he thanks you, the Member, for all your support of the organization.

**Members for Life.** RCU has grown over the years, but our focus remains the same as it was when we first started. Our Members come first. We greet them with a smile and then get to work to help them accomplish their financial goals. Our number one priority is to help our Members make a better life for themselves and their communities. Their success and loyalty is what sustains us.

Respectfully Submitted,



*D. Olson*

Douglas A. Olson  
Chairperson



*Charlie*

Charles M. Grossklaus  
CEO

## Even More to Smile About

- Grew by 26,392 Members. Now serve 132,986 Members.
- Granted 18,506 loans amounting to \$230 million, a 3.65% growth.
- Made 8,871 home loans amounting to over \$857 million.
- Deposits grew by \$212 million
- Volunteers donated 19,500 hours to non-profit organizations
- Remodeled our downtown Chippewa Falls Office
- CUNA Insurance, who handles our bond coverage, indicated that RCU's training and sales culture is the best they have seen across the country.
- Reduced charge-offs compared to the previous year.
- Opened our twentieth School Sense site, where children learn good savings habits.
- RCU employs 574 employees, infusing not only their wages but thousands of hours of volunteer time in their communities.
- RCU donated over \$120,000 to non-profit organizations in the communities we serve.

## Minutes of the 46th Annual Meeting • April 27, 2010, 4:30 pm

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The 46th Annual Meeting of RCU was called to order by Chairperson Douglas A. Olson.

**Directors Present:** Douglas Olson, Jennifer McDonough, John Sackett, Tom Gillett, Richard Greene, Nancy Beltz, and Bill Blackburn

**Directors Absent:** None

**Guests:** Drew Ryberg - Legal Counsel, RCU's Management Team, and RCU's employees

Chairperson Olson introduced the members of the Board of Directors.

Approximately 53 Members were present.

Minutes of the 45th Annual Meeting were published in the Annual Report. There were no corrections or deletions.

Douglas A. Olson, Chairperson of the Board of Directors, gave the Chairperson's report.

John C. Sackett, Treasurer of the Board of Directors, gave the Treasurer's report.

Nancy M. Beltz, Chairperson of the Audit Committee, gave the report of the Audit Committee, which was published in the Annual Report.

Dr. Lee Hansen, Chairperson of RCU's Nominating Committee, explained the procedures of the election of directors by mail ballot. Ellen Mickelson, representative of the International Association of Administrative Professionals, presented the results of the election to Dr. Lee Hansen who announced the results:

Jennifer McDonough with 4,516 votes

Doug Olson with 4,347 votes

Richard Greene with 3,678 votes

Paul Bammel with 2,830 votes

Debra Johnson with 2,386 votes

Jennifer McDonough, Doug Olson, and Richard Greene were elected to three-year terms.

Motion was made and seconded to destroy 2010 ballots after 30 days of the Annual Meeting.

Motion carried.

Charles Grossklaus, Chief Executive Officer of RCU, gave the Chief Executive Officer's report. Questions were asked of Grossklaus following his report.

- A concern was brought up about the \$900,000 loan that was written up in the Leader Telegram. Charlie indicated that the paper was incorrect as it was a secured loan.

**Unfinished Business:** None

**Communications:** None

**New Business:** None

Motion was made and seconded to adjourn.

Refreshments were served for all those present.

Respectfully submitted,



Jennifer McDonough, Secretary

## Audit Committee Report

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The Board of Directors approves the appointment of two Board Members and three at-large Members to the Audit Committee. In 2010, the committee was comprised of Nancy Beltz, Board Member, as Chairperson; Thomas Gillett, Board Member; at-large Member, David Meier; at-large Member, Dave Olinger; and at-large Member, Dennis Knutson.

The Audit Committee of Royal Credit Union must be an informed and effective overseer of the financial reporting process and the internal controls of the Credit Union. Specifically, this means financial disclosures are accurate and reliable, RCU is in compliance with laws and regulations, and RCU operates in an ethical environment. During 2010 the committee engaged CastleGarde, Inc. to perform an information technology audit and McGladrey & Pullen, LLP to conduct a business lending audit.

Throughout the year, the Audit Committee utilizes a number of resources to fulfill its responsibilities, including an Internal Audit function. The Internal Audit function, which performs operational and compliance audits of RCU activities and tests and reviews of the overall systems of internal control, reports directly to the Audit Committee.

A December 31, 2010, financial statement audit was performed by Moss Adams LLP. The external audit's primary purpose is to certify that the financial statements are free from material misstatements and are in accordance with Generally Accepted Accounting Principles. The external audit's primary purpose is the attestation of the information contained in the financial statements of RCU.

The state regulator for Wisconsin Credit Unions is the Department of Financial Institutions and the federal regulator for federally insured credit unions is the National Credit Union Administration. Examinations were conducted by those offices for the periods ending June 30, 2009 and March 31, 2010 and focused on RCU's safety and soundness.

Results of all examinations, audits, and reviews are presented to Management, the Audit Committee, and/or the Board of Directors of RCU. These reports provide RCU with information to make decisions that benefit our Members. All reports indicate that Royal Credit Union's financial condition remains strong and that the internal control structure is in place to protect the safety of our Members' assets.



### 2010 RCU Board of Directors and CEO

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***Standing L – R:***

William R. Blackburn  
John C. Sackett, Treasurer  
Charles M. Grossklaus, CEO  
Richard M. Greene  
Thomas J. Gillett, Vice Chairperson  
Douglas A. Olson, Chairperson

***Seated L-R:***

Jennifer A. McDonough, Secretary  
Nancy M. Beltz

## Financials

The 2010 financial statements were audited by Moss Adams, LLP and the 2009 financial statements were audited by McGladrey & Pullen, LLP. Both firms expressed an unqualified opinion on those financial statements. Condensed financial information is shown below. A copy of the audited financial statements with associated notes is available upon request.

### Statement of Financial Condition

#### Assets (in thousands of dollars)

	2009	2010
Cash and cash equivalents	\$ 26,788	\$ 46,730
Investments		
Held to maturity	300	418
Other	16,775	36,127
Loans held for sale	2,089	6,832
Loans, net	935,757	1,062,962
Mortgage servicing rights	4,654	7,363
Accrued interest receivable	4,452	4,376
Property and equipment, net	36,395	45,109
NCUA Insurance Fund deposit	8,065	10,344
Goodwill	-	7,189
Intangible assets, net	-	3,917
Foreclosed property	1,409	1,785
Other assets	7,920	13,889
<b>Total Assets</b>	<b>\$ 1,044,603</b>	<b>\$ 1,247,041</b>

#### Total Liabilities & Member Equity (in thousands of dollars)

	2009	2010
Liabilities		
Members' shares	\$ 897,425	\$ 1,109,626
Accrued expenses and other liabilities	15,785	21,896
Borrowed funds	30,400	11,400
Total liabilities	943,610	1,142,922
Commitments & Contingent Liabilities (Notes 8 and 9)		
Member Equity		
Regular reserve	92,020	92,920
Undivided earnings	8,974	11,199
Total Members' Equity	100,994	104,119
<b>Total Liabilities &amp; Member Equity</b>	<b>\$ 1,044,603</b>	<b>\$ 1,247,041</b>

## Statement of Income

Net Income (in thousands of dollars)

	2009	2010
<b>Interest income</b>		
Interest on loans	\$ 52,173	\$ 56,885
Interest on investments & cash equivalents	939	501
<b>Interest expense</b>		
Dividends on Members' shares	(14,918)	(12,340)
Interest on borrowed funds	(1,135)	(321)
<b>Net Interest Income</b>	37,059	44,725
<b>Provision for loan losses</b>	11,520	18,255
<b>Net interest income after provision for loan losses</b>	25,539	26,470
<b>Noninterest income</b>		
Net gains on sales of loans	4,627	4,041
Service charges and other fees	11,755	11,405
Other noninterest income	8,888	9,615
Net gain on fair value of mortgage servicing rights	2,026	2,709
Corporate Credit Union capital impairment	(233)	(71)
<b>Total Noninterest Income</b>	27,063	27,699
<b>Noninterest expenses</b>		
Salaries and benefits	24,634	24,079
Operations	18,159	21,157
Occupancy	2,767	3,361
NCUSIF premium assessment	1,210	2,447
<b>Total Noninterest Expenses</b>	46,770	51,044
<b>Net Income</b>	5,832	3,125

## 2010 Achievements



*We celebrated ribbon cuttings at each of the 11 new RCU offices acquired through AnchorBank.*



*For reaching their year-long transaction goal, School \$ense participants at Robbins Elementary were rewarded with getting to "pie" their mentors.*



*RCU continued efforts with highway clean-up in 2010.*



*RCU employees participate annually in the United Way Day of Caring.*



*Kid's Club mascot Savin' Sammy partook in the Centuria Memory Days parade along with RCU staff.*

- We completed the successful purchase of 11 St. Croix Valley AnchorBank branches. This was the first in the nation of its size completed by a credit union.
- In a down economy, RCU has added 26,392 new Members, of which approximately 20,000 came from AnchorBank.
- We increased Personal Loans by 3%, Real Estate Loans by 25%, and Business Loans by 17.5%.
- We increased penetration of Services Per Member in nearly all of our markets.
- CUNA mutual indicated to us that our sales culture and training program is the best they have ever seen.
- We finished our upgrade of our Downtown Chippewa Falls Office
- We had a significant reduction in consumer delinquency and charge-offs.
- We continued our long standing run of being the #1 Real Estate Lender in Eau Claire and Chippewa Counties.
- We opened a new School \$ense location in the fall of 2010 at Rocky Branch Elementary in River Falls, Wisconsin.

## 2010 Volunteer Activity

- Over 19,500 hours were given to the community by the RCU Volunteer group and RCU employees in 2010.
- Employees were active in community initiatives such as Go Red for Women, United Way Day of Caring, Relay for Life, and the Highway Cleanup program.
- The 2010 RCU Charity Classic had over 900 participants raising \$12,500 for the Free Clinics of Western Wisconsin.



*The RCU Charity Classic was once again a huge success with over 900 participants. To date, RCU has raised over \$89,500 for local charities.*

## Making History in 2010

Looking back at our successful acquisition of 11 AnchorBank branches, we feel grateful that we were able to do something good in each of those communities.

RCU has always been a stable, sound and innovative credit union, and we now have over 132,000 Members with \$1 billion in assets. We have been doing business in Western Wisconsin for 46 years and these new offices in Amery, Balsam Lake, Centuria, Menomonie, Milltown, New Richmond, Osceola, River Falls, Somerset, St. Croix Falls, and Star Prairie have complemented our existing locations and become an important part of the RCU service area.

We are committed to the communities we serve. Many local organizations benefit from our staff, volunteer, and financial donations. RCU staff is encouraged to be involved in their community – and the new staff has stepped up to this challenge by participating in events like community parades and festivals, area trade shows, animal shelters, Junior Achievement, Relay for Life, Rotary Clubs, Booster Clubs, and many more.

We are grateful to be in our new neighborhoods – to help support and strengthen the remarkable quality of life we all value and enjoy.



River Falls Office Ribbon Cutting



Osceola Open Cupboard check presentation



St. Croix Falls Office staff



Star Prairie Lions Club check presentation



Amery Office Ribbon Cutting



Somerset Office Staff

## Wisconsin Office Locations

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### Amery Office

1080 Cornwall Avenue | Amery, WI 54001

### Balsam Lake Office

100 Mill Street | Balsam Lake, WI 54810

### Centuria Office

316 Fourth Street | Centuria, WI 54824

### Chippewa Falls

Downtown Office

215 Bay Street | Chippewa Falls, WI 54729

Woodward Avenue Office

1031 Woodward Ave | Chippewa Falls, WI 54729

### Colby Office

204 West Spence Street | Colby, WI 54421

### Eau Claire

RCU Corporate Center

200 Riverfront Terrace | Eau Claire, WI 54703

Bellinger Street Office

1512 Bellinger Street | Eau Claire, WI 54703

Birch Street Office

419 North Hastings Place | Eau Claire, WI 54703

Golf & 93 Office

4501 Royal Drive | Eau Claire, WI 54701

Moholt Office

2415 Jodi Drive | Eau Claire, WI 54703

Shopko South Office

1049 West Clairemont Ave | Eau Claire, WI 54701

### Menomonie

North Office

2615 Hils Court | Menomonie, WI 54751

East Office

2421 Stout Road | Menomonie, WI 54751

### Milltown Office

21 West Main Street | Milltown, WI 54858

### New Richmond Office

355 South Knowles Ave | New Richmond, WI 54017

### Osceola Office

500 Chieftain Street | Osceola, WI 54020

### Rice Lake Office

1421 South Main Street | Rice Lake, WI 54868

### River Falls Office

1150 North Main Street | River Falls, WI 54022

### Somerset Office

115 Parent Street | Somerset, WI 54025

### St. Croix Falls Office

2071 Glacier Drive | St. Croix Falls, WI 54024

### Star Prairie

100 Main Street | Star Prairie, WI 54026

### Whitehall Office

18567 Scranton Street | Whitehall, WI 54773

## Minnesota Office Locations

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### Coon Rapids Office

11450 Robinson Drive NW | Coon Rapids, MN 55433

### Edina Office

4450 W 76th Street | Edina, MN 55435

### St. Paul Office

325 E Roselawn Avenue | St. Paul, MN 55117

