

2005 Annual Report



- ▶ 23rd & Severance office - 900 E. 23rd Avenue, Hutchinson, KS 67502
- ▶ Avenue A & Adams branch office - 129 W. Avenue A, Hutchinson, KS 67501
- ▶ Haven branch office - 103 S. Kansas Avenue Haven, KS 67543
- ▶ Newton branch office - 2201 S. Kansas Avenue Newton, KS 67114
- ▶ Wichita branch office - 245 North Waco Wichita, KS 67202

669-0177 or 1 800 428-8472
www.hcu.coop



"Where people are worth more than money"

Agenda -Annual Meeting / March 28th, 2006

Call to Order

Determination of a Quorum	Roy Broxterman
Approval of Minutes and Agenda	Roy Broxterman
Report of Chair	Roy Broxterman
Report of Supervisory Committee	Marvin Schmucker
Report of Treasurer	Ed Switzer
Report of Credit Committee	Richard Carlisle
Report of the President	Garth Strand
Report of Election	Roy Broxterman

Unfinished Business

New Business

Adjournment

Volunteers

Board of Directors



Roy Broxterman
Chair



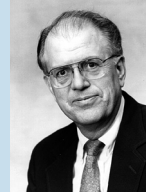
Loretta Fletchall



John McCannon



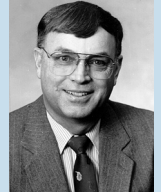
Kendal Pulliam



Ed Switzer
Sec-Treasurer



Mark Woleslagel
Vice Chair



James Woods

Credit Committee



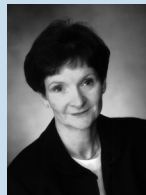
Richard Carlisle
Chair



Bruce Trapp



Pat Falter

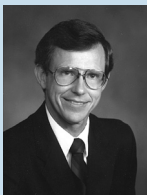


Patsy Stoecker



Leila Emack

Supervisory Committee



Marvin Schmucker
Chair



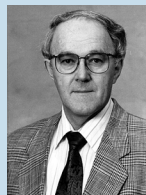
Ed Howard



Lee Spence



Caroline Phelps



Kendall Griggs

Minutes of the Annual Meeting

The 57th Annual Meeting of the Hutchinson Credit Union was held March 29, 2005, at the Hutchinson Credit Union office.

Chair Roy Broxterman called the meeting to order. Twenty-five members attended.

Mark Wolesslagel moved to accept the minutes of the 2004 Annual Meeting as presented. Seconded by Jim Woods. Motion carried.

Chair Roy Broxterman referred to the printed report stating the Credit Union had successfully completed its 57th year of operation and continues to be an active participant in the ever-changing financial services arena. Some of the important initiatives embraced by the credit union in 2004 include: Completed connection to the Co-op ATM network giving members no-surcharge to over 100 ATMs in Kansas and nearly 20,000 nationwide. Installed two 24-hour depository ATMs to enhance member service. Funded Members Mortgage Services, a jointly owned mortgage CUSO with Credit Union of America. Dirt work for the construction of a full service branch in Newton. Upgraded to a new phone system that integrates all branches and paves the way for the new, extended hours "Solution Center" telephone branch. Reviewed and updated 9 different operating policies. Participated along with other Kansas Credit Unions in the first MoneySmart Camp, a joint project with the State Treasurer's office. Another noteworthy item is our basic service fees have remained unchanged for the 12th consecutive year. The initiatives mentioned position our credit union for continued success in the future.

Marvin Schmucker, Supervisory Committee, stated audits were completed by the Certified Public Accounting Firm of Pierce, Faris & Company, Chartered, and State Department of Credit Unions. The Supervisory Committee continues to contract with an independent third party for additional audit work throughout the year. The Committee continues to review procedures, policies, accounts, attend Board Meetings, conduct a staff survey and look at reports. In summary, it was reported that the all the funds and records are being maintained in a safe, sound and confidential manner. Kendall Pulliam made the motion to accept. Seconded by Ed Switzer. Motion carried.

Ed Switzer, Secretary-Treasurer, presented the treasurer's report. He referred to the graph in the Annual Report showing assets had grown to \$82,064,355. The consumer loans were down but were balanced by the increase in real estate and business loans. Provision for loan losses is cut almost in half and that speaks to the good quality

of members that we have. Credit Unions more than ever have a place in America. The Credit Union continues to have a solid balance sheet. Switzer stated we are poised for success in 2005. Ed Switzer made the motion to accept. Seconded by Kendall Pulliam. Motion carried.

Richard Carlisle, Credit Committee, stated they meet to review new loans, delinquencies, charge-off and randomly review loan files to insure compliance. Notable information during the year includes: mortgage lending provided over \$1,000,000 in revenues for the Credit Union. A new business lending policy was written and approved. The policy for maintaining the Allowance for Loan Loss account was updated. The Consumer Loan policy was updated which included new consumer loan pricing guidelines. Important projects for the upcoming year will be the introduction of automated consumer lending via the web branch, fully electronic consumer loan documents and continued development of the mortgage servicing CUSO.

Garth Strand, President, reports - What is a Credit Union? What are we doing? Where is our place in our economy? What are we suppose to be doing for our members? The definition of a credit union is a not-for-profit financial cooperative owned and operated by the members. Another meaningful definition is a quote from Alphonse Desjardins, who is one of our founding fathers of the credit union industry. He said that a Credit Union is the expression in the field of economics of a high social ideal. As Roy mentioned earlier in his report we are a friendly and ethical place. That is what our members feel. That we do have higher ideals more than just making money. We are motivated by service not profit. We will continue to carry out our renewed mission statement of delivering solutions, earning trust, building relationships." We have great members, outstanding volunteers and staff. We are positioned for continued success!

Garth Strand reported on the elections stating that there was no election conducted by ballot because there was only one nominee for each position to be filled. The following were elected by acclamation: Jim Woods and Ed Switzer – Board of Directors; Lee Spence – Supervisory Committee; Bruce Trapp and Leila Emack will be appointed to the Credit Committee by the Board of Directors.

No unfinished business.

New Business:

Mark Wolesslagel made the motion to adjourn. Seconded by Marvin Schmucker. Motion carried.

Report of the Chair

I am pleased to report that our credit union has successfully completed its 58th year of operation and continues to be an active participant in the ever-changing financial services arena. Along with the highlights of the committee reports, following are important happenings at our credit union during 2005:

- Completed construction of the full service Newton branch bringing the number of HCU physical locations to 5.
- Purchased & completely renovated a new location for the Haven branch.
- Opened the HCU “phone branch”. This “branch” is currently located in the basement of the main office and has a staff of 3. While currently in the formation stages, this “branch” holds great potential as another channel for enhanced member service.
- Began offering on-line bill payment via the HCU web branch.
- Updating of HCU checking account offerings began in the last quarter and will continue through the second quarter of 2006 giving members additional options.
- Added 3 additional depository / check-cashing atm’s for added member convenience. HCU now has a total of 10 atm’s, 5 of which perform depository / check-cashing functions.
- Enjoyed positive bottom line contributions from both HCU-owned CUSOs. MemberSource added \$21,701 while Members Mortgage Services added \$102,635.
- Board members participated in two national credit union meetings.
- HCU staff and volunteers attended 7 different legislative functions throughout the year, demonstrating the importance of being active in the political process.

The initiatives mentioned above are consistent with our mission of “Delivering solutions, earning trust, building relationships” and position our credit union for continued success in the future. That success also requires support from the members, steady and unselfish guidance from volunteers and best efforts from the staff. That’s cooperation and that’s what we are, a not-for-profit cooperative of people helping people.

- Roy Broxterman, Chair

Report of the Supervisory Committee

The Supervisory Committee's responsibilities can be summarized into the following categories:

- **Review Policies and Procedures**
- **Safeguard the Members' Assets**
- **Evaluate and Review the Credit Union's Financial Condition**
- **Interact with Credit Union Management**
- **Cooperate with Regulatory Agencies**
- **Review the activities of the Board of Directors and other committees**
- **Determine Compliance with Consumer Credit Regulations**

To fulfill the above responsibilities and provide an objective view of the financial strengths and weaknesses of your Credit Union, the Supervisory Committee relies on and uses a variety of resources.

First, the Certified Public Accounting Firm of Pierce, Faris & Co., Chartered, was employed to conduct the Annual Audit as of 8-31-05. Their report concluded that our financial statements represent fairly and accurately the financial position of your Credit Union and conform with generally accepted accounting principles. Pierce, Faris & Co. also audits the records of both CUSO's that Hutchinson Credit Union has an ownership stake in; MemberSource and Members Mortgage Services. The records of both CUSO's were found to conform with generally accepted accounting principles and to be in good order.

Secondly, the committee cooperates fully with regulatory examinations by the Kansas Department of Credit Unions and the National Credit Union Administration. Any record of action made by these agencies are followed up by the Supervisory Committee. The most recent exam covered transactions up to the close of business on September 30, 2004. The closing document of resolution listed 2 items that needed attention and both have been addressed. The next exam is in process now covering the period through 12-31-2005. A final report is not expected until next month.

In past years the Supervisory committee has contracted with an independent third party for additional audit work. This work is similar in nature to that done by an internal auditor and is done to supplement the C.P.A. audit and exam work. The internal auditor's report is received directly by the Supervisory committee. In 2005, the committee reviewed other third parties to conduct this work. We are currently in the process of engaging RSM McGladrey, Inc. to conduct additional audit and risk management work.

Lastly, the Supervisory Committee relies on it's own activities and findings:

- **The Committee met 6 times during 2005 to conduct reviews of various policies, procedures, accounts and reports.**
- **Staff members from various areas report to us about operations in their respective departments.**
- **A confidential staff survey was conducted asking about fair and honest practices within the credit union.**
- **The Committee completed a self-assessment to identify areas of potential incremental improvement.**
- **The Committee participated in the annual planning session.**
- **A committee member attends Board of Directors meetings.**

In summary, the Supervisory Committee is glad to report to members that your funds and records are being maintained in a safe, sound and confidential manner.

- Marvin Schmucker, Chair

Report of the Treasurer

Asset Growth 10.89%

Loan Growth 9.12%

Savings Growth 11.16%

Capital Growth 4.01%

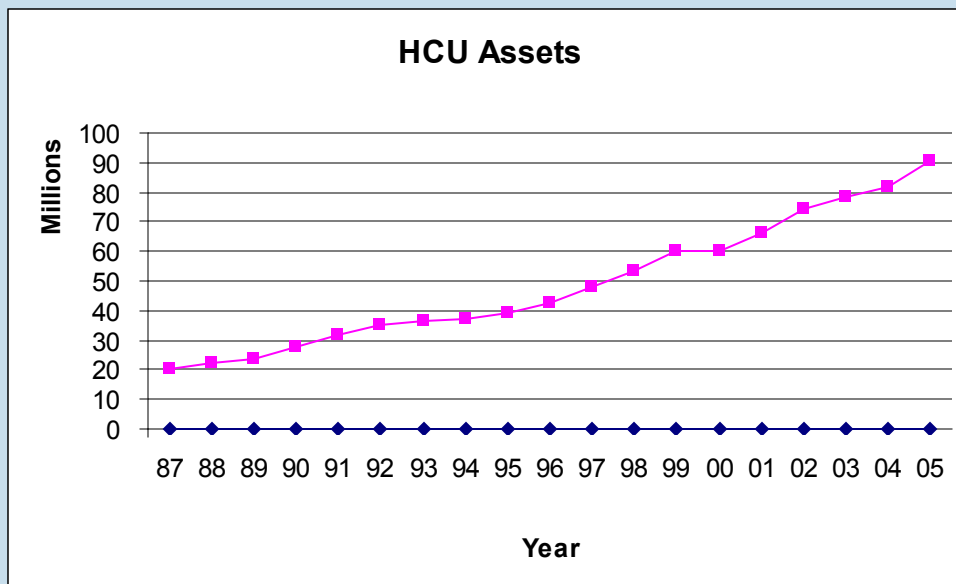
A direct return to the members of \$1,293,279 was made in the form of share and certificate dividends. Our net income of \$383,954 was placed in reserves and undivided earning. This is necessary to meet state and federal regulations and to meet long term capital goals established by the Board of Directors. Reserves and undivided earnings are the “savings account” of the credit union and help to insure its future viability.

The Board of Directors believes your credit union is financially sound, well managed and capable of continuing to fulfill its mission of offering financial services in a safe and sound manner.

As member-owners, your continued support is vital to the sustained success of your credit union.

Ed Switzer
Secretary- Treasurer

Key Ratios	HCU	NCUA PEER
Return on assets	0.445%	0.74%
Delinquent loans to total loans	0.862%	0.95%
Net charge-off to average loans	0.164%	0.49%
Net operating expense to avg. assets	3.746%	2.99%
Net worth to total assets	10.964%	11.76%
Loans to shares	80.090%	75.03%



Report of the Credit Committee

	2005	2004
Total Number of Loans Made	12,956	12,405
Total Dollar Volume of Loans Made	\$49,127,776	\$51,640,398
Number of Loans Made Since April 1, 1948	227,635	214,679
Total Dollar Volume of Loans Since April 1, 1948	\$583,872,251	\$534,744,475
Loans Charged-off Since April 1, 1948	\$2,012,956	\$1,887,814
Recoveries From Charged-off Loans	\$138,028	\$113,960

Purpose of the Credit Committee:

To represent the membership by maintaining a safe, sound, fair and responsive credit system.

The credit committee is responsible for ensuring lending policies of the credit union, as established by the Board of Directors, are carried out by the loan officers. The committee meets to review the reports of new loans, delinquencies, charge-offs and randomly review loan files to insure compliance. Types of loans, portfolio changes, the overall loan pricing structure as well as new products and services are also reviewed.

Notable actions in the lending area during the year included:

- Mortgage lending continues to be a major part of the lending function providing over \$1.8 million in gross revenues for the credit union.
- Members Mortgage Services, a jointly owned CUSO (credit union service organization) with Credit Union of America continues to grow. At year-end there were 7 credit unions participating representing over \$650 million in credit union assets. The MMS servicing portfolio now stands at over \$90 million with approximately \$70 million of that representing loans sold to FNMA.
- Just over 2 years ago, HCU made a commitment to member business lending, hiring a full-time staff person. Since that time, member business loans have increased just over \$3 million and now total approximately \$12 million on the HCU balance sheet.
- SBA loan policy and procedures were approved and subsequently HCU received certification as an approved SBA lender.
- The home equity loan policy was updated increasing the maximum loan to value.
- To develop a new channel for both loan and member growth, an indirect lending policy was approved.
- Delinquency at year-end was a very low .86% decreasing from 1.0% at the beginning of the year.
- Loans for the year grew \$5.3 million or 9.1% to a total outstanding loans to members of \$63,597,224.
- Just over 80% of member shares are currently reinvested in member loans.

Important projects for the upcoming year will be:

- Introduction of automated approval for consumer lending
- Continued development of MMS including movement of the MMS staff to the soon to be remodeled basement of the Avenue A branch
- On-going development of member business lending including a formalized participation process as HCU nears it's regulatory business lending cap.

- Richard Carlisle, Chair

Balance Sheet

Year End Closings:

Assets

	12/31/04	12/31/05
Cash Accounts	\$1,944,509	\$2,218,941
Real Estate Loans	27,701,742	31,100,428
Business / Agricultural Loans	9,499,102	10,798,192
Consumer Loans	21,080,214	21,698,604
Loan Loss Allowance	(622,788)	(605,214)
Investments	18,010,320	20,335,733
Building and Land (Net)	2,111,904	3,012,062
Furniture and Fixtures (Net)	767,943	873,203
Prepaid Expenses	153,539	148,986
Accrued Income	218,696	289,520
NCUSIF Deposit	680,999	717,371
Other Assets	518,175	136,244

Total Assets

\$82,064,355

\$90,724,070

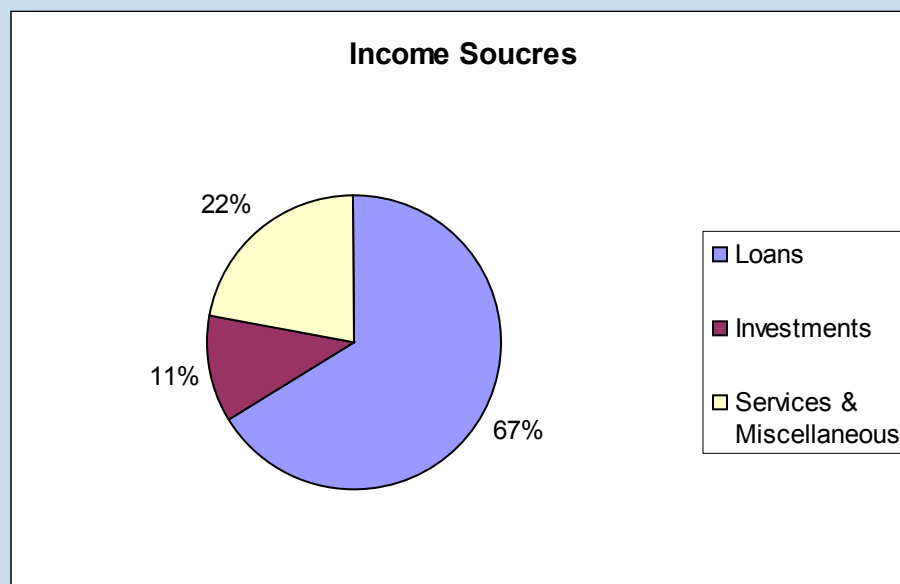
Liabilities & Equity

Miscellaneous	\$378,158	\$652,300
Share Deposits	71,871,136	80,120,187
Reserves and Undivided Earnings	9,815,061	9,951,583

Total Liabilities and Equity

\$82,064,355

\$90,724,070



Income Statement

Income

	2004	2005
Income on Loans	\$3,564,116	\$3,704,135
Income on Investments	344,369	638,996
Other Income	1,598,357	1,248,946
Total Operating Income	\$5,506,842	\$5,592,077

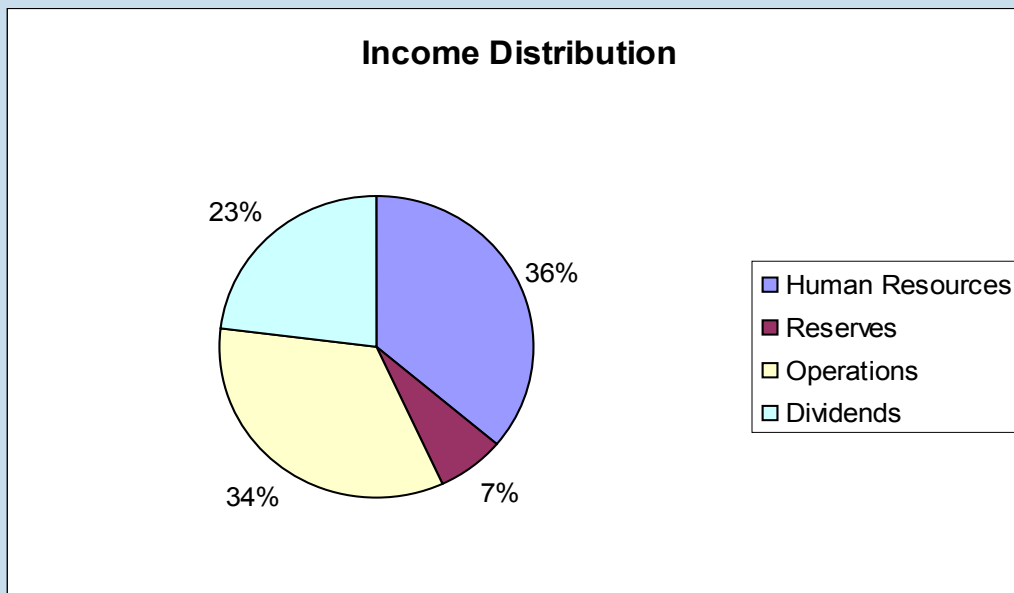
Operating Expenses

Compensation	\$1,474,939	\$1,638,781
Employee Benefits	335,083	387,186
Travel and Conference Expense	81,075	90,024
Association Dues	28,510	31,031
Office Occupancy and Operations	1,243,461	1,333,190
Education and Promotion	162,357	189,227
Loan Servicing	269,211	133,123
Professional Expense	68,093	48,318
Provision for Loan Losses	73,737	83,500
Member Insurance	21,352	21,272
Regulatory Expense	23,566	23,950
Interest on Borrowed Money	0	856
Member Relations	7,476	11,837
Miscellaneous Expense	27,625	26,707

Total Expenses	\$3,816,485	\$4,019,002
Operating Income	\$5,506,842	\$5,592,077
Less Operating Expenses	(3,816,485)	(4,019,002)
Non-Operating Income / (Expense)	291	103,886

Net Income Before Dividends

Less Dividends	(1,021,532)	(1,293,007)
Balance to Reserves	\$669,116	\$383,954



From the President



“Expecting the world to treat you fairly because you are a good person is a little like expecting the bull not to charge you because you’re a vegetarian.”

In recent past, “quotes” seem to have become more popular. It probably has something to do with the increasing speed of communication [the internet]. It may also be related to our “high-speed” culture as we humans struggle to keep up by capsulizing everything we can...our food, our health care, our entertainment, our time and yes, even our wisdom.

I came across the above capsule of wisdom sometime ago. It immediately resonated with me. I generally think of myself as a good person and yes, I do have an ultimate expectation of fairness. Conversely, the wisdom acquired from my early days on the farm tell me that in fact, the bull is at best unpredictable and at worst, deadly. So what in the capsulized world does this have to do with credit unions?

Well, credit unions are the good guys in the financial world. We win by wide margins every consumer satisfaction survey, even those conducted by our competition. We’re not-for-profit. We’re the people-helping-people. Without a doubt, we’re the ones with the white hats! It’s hard, if not impossible, for anyone to make a case otherwise. So why shouldn’t we expect the world to treat us fairly? And what about that bull?

As above, I believe we can legitimately hold an ultimate expectation of fairness. At the same time however, it is

incumbent upon us to work, and work hard, to make it so. We must prove to the world we are good. We must prove it over and over, in a variety of ways. We must prove it not just with words, not just with meetings, reports, or by throwing money at it. We must prove it with actions...consistently and confidently. We must prove it with commitment and passion. It is absolutely up to us to take a leadership position. For indeed, just to “expect” fairness, well...that bull is always waiting.

So what about that bull? [interpretation: bull = regulators, legislators, the marketplace and especially for credit unions... the banking industry] First and foremost, acknowledging and respecting the bull is critical. We must be ever mindful that any of the above “bulls” are capable of severely handicapping if not killing us. Think about the recently passed Membership Access Act and the limitations that put upon us...membership growth limitations and a business lending cap for starters. Think of the internet banks overtly using us as “outlets” for serving their customers. Think of Wal Mart, frothing to get a bank charter. Most visually, think of the banking lobby stomping, snorting and shaking their heads about the credit union tax exemption. Yes, there are many bulls that we must keep an eye on while at the same time, working hard as described above, to build strong fences for both containment and protection.

All of that in addition to fulfilling the HCU mission to our members of "[Delivering solutions, earning trust, building relationships](#)." Sound like a daunting task? Indeed, but remember we are the good guys and that’s no bull !

Management Team



Garth Strand, President

Casey Swarts, VP Marketing and Technology

Todd Brunner, VP Lending

Michelle Waln, VP HR and Transaction Services

David Marshall, VP Finance

Staff Organizational Chart

Garth Strand- President

Casey Swarts-

VP technology/marketing & special projects

Ellen Dugan, *Marketing/sales coordinator*

Zack Clobes, *IT manager*

Angie Mielke, *DP Specialist*

Matt Lansdowne, *Network admin/tech support*

Ryan Sperling, *Programmer*

David Marshall,

VP Finance / Chief Financial Officer

Sandy Rush, *Accounting assistant*

Michelle Waln,

VP of HR and Transaction Services

Jeanette Madden, *HR Assistant*

Debbie Ridpath, *Cash Service Manager*

Chris Cook, *Advisor I*

Deann Seems, *Advisor I*

Lisa Rodriguez, *Advisor I*

Nancy Brewer, *Advisor I*

Laura Oneal, *Drive-thru supervisor*

Brenda Knox, *Advisor I*

Judy Miller, *Advisor I*

Teresa Dover, *Advisor I*

Glenda Geiser, *EFT Manager*

Deb Stofer,

Records manager/overdrafts coordinator

Katie Hawks, *Debit card coordinator*

Tara Lujan, *Encoder*

Yvonne Yearout, *Credit card coordinator*

Leta Nachtigal, *solutions center manager*

Ginny Chronister, *solutions center rep.*

Tammy Branin, *solutions center rep.*

Todd Brunner,

VP lending

LeeAnn Marker, *Business Advisor*

CC Mayberry, *Special accounts manager*

Connie Busick, *Mortgage officer*

Michael Lizalde, *Mortgage originator*

Pam Beshears, *Loan processing & servicing mgr.*

Anita Nichols, *shared loan processor*

Brandi Caywood, *loan processor*

Dustin Neuschafer, *loan processor*

Shelly Duncan, *loan processor*

Donna Miller, *Advisor Manager*

Bambi Smith, *Advisor IV*

Karla Dill, *Advisor IV* (on indefinite military leave)

Martin Harrell, *Advisor IV*

Carol Kemp, *receptionist*

Kristi Nuest, *Ave "A" branch manager*

Brynn Howard, *Advisor III*

Elaine Marquez, *Advisor I*

Shana Turner, *Advisor IV*

Tommie Redd, *Advisor I*

Julie Caffrey, *Haven branch manager*

Christie Nienstedt, *Advisor III*

Kathy Trapp, *Advisor*

Andrea Rostetter, *Newton branch manager*

Roxana McKee, *Newton assistant manager*

Travis Holdeman, *mortgage originator*

Cassie Roberts, *Concierge*

Kristen Yarrow, *Advisor*

Tami Veer, *Advisor*

Linda Smith, *part-time Advisor*

Dee Lemen, *Wichita branch manager*

Char Bigger, *Advisor I*

Sarah Barbeau, *Advisor III*

Bob Guthrie,

HCU Investment & Insurance Services

Ann Pardue, *Assistant*

Jerry Grinstead, *Members Mortgage Services*

LaShauna Cooke, *MMS loan processor*