

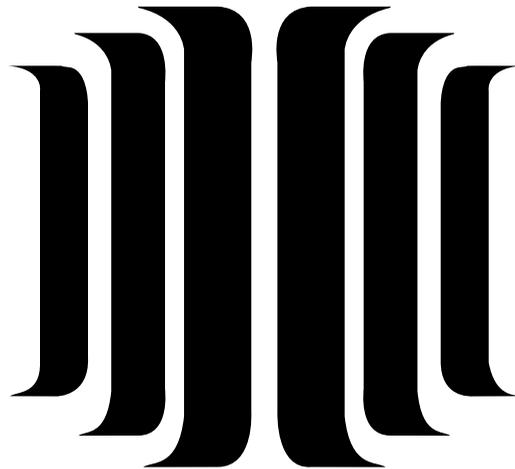
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**TWO THOUSAND THREE**

***ANNUAL  
REPORT***

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**HUTCHINSON CREDIT UNION**



*Where people are worth more than money.*<sup>TM</sup>



23rd & Severance in Hutchinson, Kansas 67502

# Agenda

## Annual Meeting / March 23, 2004

- Call to Order
  - Determination of a Quorum ..... LeRoy Broxterman
  - Approval of Minutes and Agenda ..... LeRoy Broxterman
  - Report of Chair ..... LeRoy 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 ..... LeRoy Broxterman
- Unfinished Business
- New Business
- Adjournment

HUTCHINSON  
 CREDIT  
 UNION  
 MISSION  
 STATEMENT



- *Delivering Solutions*
- *Earning Trust*
- *Building Relationships*

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# Board of Directors



**LeRoy Broxterman**  
Chairman  
*Hutchinson Comm. College*



**Mark Woleslagel**  
Vice Chairman  
*Woleslagel Ins.*



**Ed Switzer**  
Secretary-Treas.  
*Retired-USD 308*



**James E. Woods**  
*Retired-USD 308*



**Kendal Pulliam**  
*Farm Credit Services*



**Loretta Fletchall**  
Chair  
*Hutchinson Hospital*



**John McCannon**  
*Kansas Corp. Commission*

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# Credit Committee



**Leila Emack**  
*Retired - Dillons*



**Mike Souba**  
*Hutchinson Hospital*



**Bruce Trapp**  
*Mid-Kansas Coop Haven*



**Richard Carlisle**  
*Farm Credit Services*



**Patsy Stoecker**  
*Hutchinson Hospital*



**Pat Falter**  
*Novus Windshield Repair*

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# Supervisory Committee



**Ann Wagner**  
*Farm Credit Services*



**Lee Spence**  
*Underground Vaults*



**Ed Howard**  
*USD 308*



**Kendall Griggs**  
*Hutchinson Comm. College - Retired*



**Marvin Schmucker**  
*Schmucker Training & Consulting*

# Minutes of the Annual Meeting

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The 55th Annual Meeting of the Hutchinson Credit Union was held February 25, 2003, at the Hutchinson Credit Union office.

Chair Loretta Fletchall called the meeting to order. Twenty-six members attended.

Jim Woods moved to accept the minutes of the 2002 Annual as presented. Seconded by John McCannon. Motion carried.

Chair Fletchall referred to the printed report stating the Credit Union had successfully completed its 55 th year of operation and continues to be an active participant in the ever-changing financial services arena.. Some of the important changes embraced by the credit union in 2002 include: the completed Avenue A branch opened for business on January 31st , 2002; a significant new service to our members is our mortgage-servicing product, giving HCU over \$30 million member mortgage loans; and a new data processing system to more efficiently serve our members. Another noteworthy item is our basic service fees have remain unchanged for the 10th consecutive year. On-going success requires support from the members, guidance from the volunteers and best efforts from staff. By working together, we have made a difference.

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. Vic Deaver continues to do 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. Two members of the Committee attended a National Supervisory Committee Conference. Mark Woleslagel made the motion to accept. Seconded by John McCannon. 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 \$75,000,000. The asset growth for 2002 was 12.74%, loan growth was .21%, capital growth of 9.74% and 13.01% in savings growth. The Credit Union continues to have a solid balance sheet. Jim Woods made the motion to accept. Seconded by Marvin Schmucker. Motion carried.

Richard Carlisle, Credit Committee, stated they meet to review new loans, delinquencies, charge-offs and randomly review loan files to insure compliance. Highlights of the past year include: significant activity in the mortgage loan department producing \$30 million in loans to service; introduction of a new GAP product on vehicle financing to protect both the credit union and member from loss; completion of the credit union's first participation loan; a new loan product tailored to RV owning members; and charged off loans were at a record low. Some projects for the upcoming year include a rewrite of the loan and collection policy, determining new methodology for funding the Allowance for Loss accounts and remodeling the lending work low in the new Symitar data system. Pat Stoecker made the motion to accept. Seconded by Roy Broxterman. Motion carried.

Garth Strand, President, reflected on some advice given to him, as he headed off to college some time ago, by his Mother, "Remember who you are." To keep in mind the mottos we follow: "Not for profit, not for charity, but for service" and "People helping People." To continue to seek out the opportunities that good and true cooperation make possible.

Strand reported on the elections stating that there was a contested election conducted due to four nominees for three positions to be filled. Pierce-Faris & Company, our CPA firm, completed the ballot count and the following were elected: Loretta Fletchall, Kendal Pulliam and Mark Woleslagel - Board of Directors; Ed Howard and Marvin Schmucker were uncontested for the two open seats on the Supervisory Committee.

No unfinished business.

New Business: Membership Vote Concerning the merger of HPCU into HCU. Hutchinson Postal Credit Union held their membership meeting to vote on merging with HCU. The Buy/Sell Agreement between HPCU and HCU needed to pass by a margin of 75%. It missed by two votes. So at least for now, there will not be a merger. A motion was made by Jim Woods to approve the Buy/Sell Agreement that our Board passed and have that on record should a future merger with HPCU come up for vote. Seconded by Mark Woleslagel. Motion carried.

# Report of the Chair

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I am pleased to report that our credit union has successfully completed its 56th 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 initiatives embraced by our credit union during 2003:

- Conducted a strategic planning session from which 29 short to medium term goals were produced
- Reached agreement with Credit Union of America to proceed with a jointly owned mortgage CUSO.
- Began preparations to open a full service branch in Newton and upgrade the Haven branch.
- Upgraded the 23rd street drive-thru equipment that was over 20 years old.
- Reviewed and updated 11 different operating policies.
- Joined the CO-OP atm network to give HCU members surcharge free access to over 18,000 atm's around the country.
- Brought the VISA processing in-house for complete account integration.
- Basic service fees remained unchanged for the 11th consecutive year.
- Our election process has just been completed, demonstrating that the very core of the cooperative principles, democratic control, is alive and well at our credit union.

**"... our credit union has successfully completed its 56th year of operation and continues to be an active participant in the ever-changing financial services arena."**



The initiatives mentioned above 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.

- LeRoy Broxterman  
*Chair*

# Report of the Supervisory Committee

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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 8-31-03. 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.

Secondly, the committee cooperates fully with regulatory examinations by the Kansas Department of Credit Unions and the National Credit Union Administration. Any records of actions 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, 2003. The closing document of resolution listed 4 items that should be given attention. All 4 deal with the updating of existing policies and procedures.

The Supervisory committee continues to contract 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 2003, an additional 3rd party audit was conducted to review physical security issues.

Lastly, the Supervisory Committee relies on its own activities and findings. The Committee met 5 times during 2003 to conduct reviews of various policies, procedures, accounts and reports. The Committee also participated in the annual planning session. A committee member attended most Board of Directors meetings. One member of the committee attended a National Supervisory Committee conference.

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

<b>Asset Growth</b>	<b>5.19%</b>	<b>Loan Growth</b>	<b>3.13%</b>
<b>Savings Growth</b>	<b>3.97%</b>	<b>Capital Growth</b>	<b>14.37%</b>

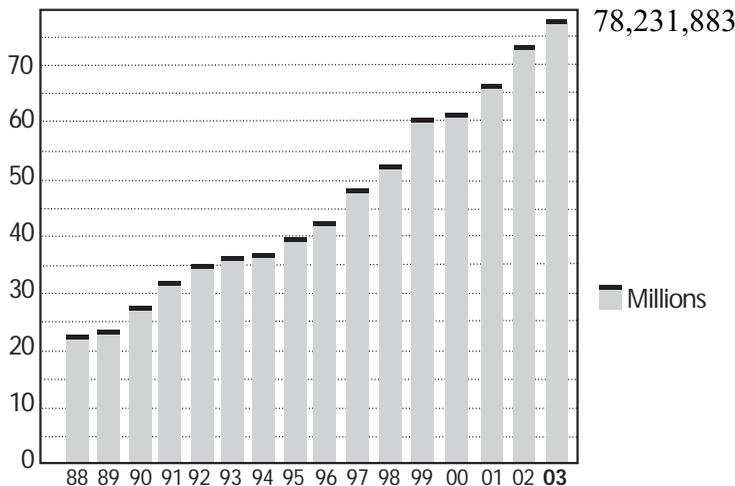
A direct return to the members of \$1,135,915 was made in the form of share and certificate dividends. Our net income of \$1,218,171 was placed in reserves and undivided earnings. This is necessary to meet state and federal regulations and to meet long term capital goals established by the Board of Directors. 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*

## Assets



# Balance Sheet

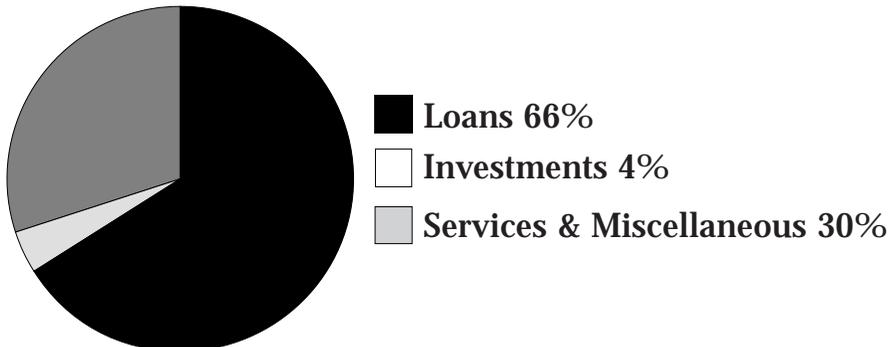
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## Year End Closings

<b>Assets</b>	<b><u>12-31-02</u></b>	<b><u>12-31-03</u></b>
Cash Accounts .....	\$858,878 .....	\$1,146,333
Real Estate Loans .....	25,238,102 .....	26,329,252
Business/ Agricultural Loans .....	6,869,226 .....	8,898,942
Consumer Loans .....	24,214,816 .....	22,855,747
Loan Loss Allowance .....	(633,807) .....	(617,333)
Investments .....	13,736,131 .....	15,278,723
Building and Land (Net) .....	2,086,522 .....	2,018,401
Furniture and Fixtures (Net) .....	947,333 .....	781,886
Prepaid Expenses .....	117,282 .....	102,045
Accrued Income .....	235,989 .....	242,038
NCUSIF Deposit .....	613,259 .....	672,874
Other Assets .....	90,227 .....	522,975
<b>Total Assets .....</b>	<b><u>\$74,373,958</u></b> .....	<b><u>\$78,231,883</u></b>
<b>Liabilities</b>		
Miscellaneous .....	\$482,994 .....	(499,585)
Share Deposits .....	66,162,026 .....	68,785,189
Reserves and Undivided Earnings .....	7,728,938 .....	8,947,109
<b>Total Liabilities, and Equity .....</b>	<b><u>\$74,373,958</u></b> .....	<b><u>\$78,231,883</u></b>

## Income Sources

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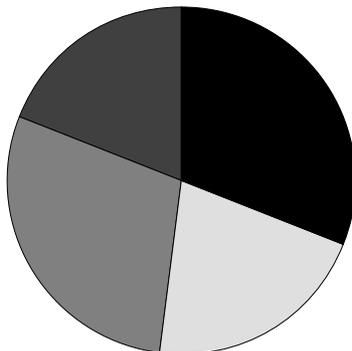


# Income Statement

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<b>Income</b>	<b><u>2002</u></b>	<b><u>2003</u></b>
Income on Loans .....	\$4,042,570	\$3,846,980
Income on Investments .....	345,153	230,273
Other Income .....	1,229,546	1,758,642
<b>Total Operating Income</b>	<b><u>\$5,617,269</u></b>	<b><u>\$5,835,895</u></b>
<b>Operating Expenses</b>		
Compensation .....	1,335,600	1,480,676
Employee Benefits .....	275,306	305,541
Travel and Conference Expense .....	59,981	76,668
Association Dues .....	23,169	23,889
Office Occupancy and Operations .....	981,365	1,110,850
Education and Promotion .....	99,624	126,015
Loan Servicing .....	64,605	99,597
Professional Expense .....	207,445	32,994
Provision for Loan Losses .....	87,993	144,227
Member Insurance .....	34,785	24,214
Regulatory Expense .....	22,090	23,405
Interest on Borrowed Money .....	-0-	-0-
Member Relations .....	8,014	6,849
Miscellaneous Expense .....	18,924	18,378
<b>Total Expenses</b>	<b><u>\$3,218,901</u></b>	<b><u>\$3,473,303</u></b>
Operating Income .....	\$5,617,269	\$5,835,895
Less Operating Expenses .....	(3,218,901)	(3,473,303)
Non-Operating Income/Expense .....	(2,835)	(8,506)
<b>Net Income Before Dividends</b>	<b><u>\$2,395,533</u></b>	<b><u>\$2,354,086</u></b>
Less Dividends .....	(1,681,078)	1,135,915
<b>Balance to Reserves</b>	<b><u>\$714,455</u></b>	<b><u>\$1,218,171</u></b>

## Income Distribution



- Human Resources 31%**
- Reserves 21%**
- Operations 29%**
- Dividends 19%**

# Report of the Credit Committee

	<u>2002</u>	<u>2003</u>
Total Number of Loans Made .....	10,976 .....	14,901
Total Dollar Volume of Loans Made .....	\$50,063,659 .....	\$54,266,274
Number of Loans Made Since April 1, 1948 .....	187,373 .....	202,274
Total Dollar Volume of Loans Since April 1, 1948 .....	\$428,837,803 .....	\$483,104,077
Loans Charged-off Since April 1, 1948 .....	\$1,636,698 .....	\$1,813,392
Recoveries From Charged-off Loans .....	\$91,826 .....	\$107,820

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

The credit committee is responsible for insuring 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.

**CREDIT COMMITTEE**  
**PURPOSE: To**  
**represent the**  
**membership by**  
**maintaining a safe,**  
**sound, fair and**  
**responsive credit**  
**system.**



Notable information during the year includes:

- > With the continuing combination of low interest rates and the HCU mortgage-servicing product, members very actively pursued various types of mortgage loans. Mortgage lending provided over \$600,000 in revenues for the credit union.
- > Completion of the second full year of the mortgage servicing product left us servicing over 600 member mortgage loans for a total over \$41 million. As of year-end, this was generating approximately \$9,000 per month in servicing income.
- > Addition of a full time staff position to service member business loans and to continue development of business products and services.
- > As required by our regulators, establishment of a new method for funding the Allowance for Loan Loss account.
- > Updating of the Loan Charge Off policy.
- > Charged off loans continued at a low level, with a net of \$160,700 or .28% being written off in losses.
- > Delinquency at year-end was 1.1% decreasing from 1.4% at the beginning of the year.
- > With many members refinancing their mortgages and including other debt, our total loans grew just over 3.0%.
- > Approximately 85% of member shares are currently reinvested in member loans.

A few important projects for the upcoming year will be a major rewrite of the loan policy including carving out a separate business lending policy, remodeling the lending work flow as part of the Symitar data system which will include automated loan approval through the web branch and moving the mortgage servicing activity into a jointly owned CUSO, Members Mortgage Services.

- Richard Carlisle  
*Chairman*

# From the President

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What is your core business? A common question from expert business consultants as they force their clients to focus on the most important elements of their business. So what is the core business of a credit union...of our credit union? Is it taking in deposits? Making loans? Processing transactions? Financial counseling? Or should we just say “financial services”?

Discerning the core business or mission of any organization is crucial to long-term success. If one truly understands what credit unions are all about, then “What is your core business?” is a simple question to answer. Our core business is people. Our business is built around the philosophy that in fact, people are more important than money. This philosophy is supported by the basic values of the cooperative movement: mutual self-help, representation and participation, honesty, equal worth, mutual respect and trust. Yes, we offer financial products and services but the core, the essence of what we’re all about, is people.



So our core business is people. What do we do with that information? It should be top of mind in all decision making. How will this decision affect our members? Will it meet their need? Is this policy about what’s good for the member or is it only about what’s good for the credit union? How should a member’s character and integrity be defined and valued? All seemingly difficult questions but if we really understand what our core business is, the answers in fact become simpler. For in understanding the simple, we can understand the complex.

*“A credit union is not an ordinary financial concern, seeking to enrich its members at the expense of the general public. Neither is it a loan company, seeking to make a profit at the expense of the unfortunates. The credit union is nothing of the kind; it is the expression in the field of economics of a high social ideal.”*

- Alphonse Desjardins, Canadian credit union pioneer

Our core business is people. Our renewed mission statement is, “**Delivering solutions, earning trust, building relationships.**” We have great members, outstanding volunteers and staff. I believe we’re positioned for continued success!

- Garth Strand  
*President*

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## Management Team

**Todd Brunner**  
V.P. Lending

**Garth Strand**  
President

**Casey A. Swarts**  
V.P. Marketing/Technology

**Michelle Waln**  
Human Resources Director

**Dave Hawthorne**  
Business Development Director

# Our Catalog of Services

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## • SHARE SAVINGS, PLUS... •

Certificates  
Money Market Account  
Investment Shares Account  
Christmas Club Account  
IRA Accounts  
Scottie Savers Youth Club  
Gateway Account  
Special Use Savings Accounts  
Market Index Certificates

## • SELF-DIRECTED IRA's •

### • FAVORABLE LOANS •

Loans by Mail  
Pre-approved Loans  
First Mortgage Loans  
Second Mortgage Loans  
Home Equity Line of Credit  
Car Loans  
Personal Loans  
EXPRESS Personal Line of Credit  
Student Loans

### • CHECKING •

Dividend Paying Accounts  
Overdraft Protection  
Visa Check & ATM Card  
Gateway Account  
Plus Account

### • BUSINESS SERVICES •

Loans  
Checking  
IRA  
Web Branch  
Merchant VISA Services

## • VISA •

### • HUTCH•LINE TELEPHONE TELLER •

### • WEB BRANCH •

### • US SAVINGS BONDS •

Issue & Redeem

### • CONVENIENCE SERVICES •

Direct Deposit  
Payroll Deduction  
Automatic Transfers  
Travelers Checks  
Money Orders  
Western Union Transfers  
Wire Transfers  
Free Notary Service  
Signature Guarantee

### • MemberSource, Inc. •

A Financial Planning Service

### • MEMBER INFORMATION CENTER •

### • AT HUTCHINSON ONLY •

Safe Deposit Boxes  
Drive-up Facilities

Your savings federally insured to \$100,000

# NCUA

National Credit Union Administration  
a U.S. Government Agency

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