



2006 Annual Report



Member
Appreciation Day
Free Lunch



HCU Phone Center Staff



Left to Right: Leta, Ginny, Tammy and Teresa

- ▶ **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



**HUTCHINSON
CREDIT UNION**

"Where people are worth more than money"

Agenda -Annual Meeting / March 27th, 2007

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	Ed Howard
Report of Treasurer	Ed Switzer
Report of Credit Committee	Bruce Trapp
Report of the President	Garth Strand
Report of Election	Roy Broxterman

Unfinished Business

New Business

Adjournment

Volunteers

Board of Directors



Roy Broxterman
Chair



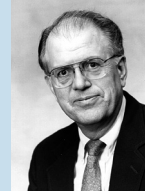
Loretta Fletchall



John McCannon



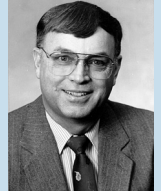
Kendal Pulliam



Ed Switzer
Sec-Treasurer



Mark Woelzel
Vice Chair



James Woods

Credit Committee



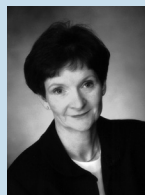
Bruce Trapp
Chair



Richard Carlisle



Pat Falter

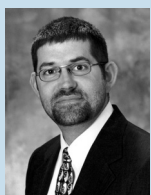


Patsy Stoecker

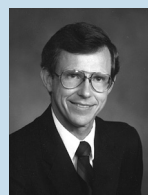


Leila Emack

Supervisory Committee



Ed Howard
Chair



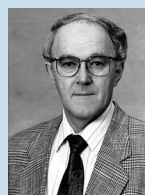
Marvin Schmucker



Lee Spence



Caroline Phelps



Kendall Griggs

Minutes of the Annual Meeting

HUTCHINSON CREDIT UNION ANNUAL MEETING
MARCH 28, 2006

The 58th Annual Meeting of the Hutchinson Credit Union was held March 28, 2006, at the Hutchinson Credit Union office. Chair Roy Broxterman called the meeting to order. Twenty-seven members attended.

Kendall Pulliam moved to accept the minutes of the 2005 Annual Meeting as presented. Seconded by Mark Wolesslagel. Motion carried

Chair Roy Broxterman referred to the printed report stating the Credit Union had successfully completed its 58th year of operation and continues to be an active participant in the ever-changing financial services arena. The following are some of the important happenings at our credit union during 2005: completed construction of the full service Newton branch; purchased and completely renovated a new location for the Haven branch; Opened the "phone branch"; began offering on-line bill payment via the web branch; updated the checking accounts to give members more options; added 3 additional depository/check cashing ATMs; positive bottom line from both HCU owned CUSO – MemberSource and Members Mortgage Services; board members participated in two national credit union meetings; and HCU staff and volunteers attended 7 different legislative functions. We were supportive in the development of a new credit union – Catholics United Credit Union. Roy quoted from a brochure that was sent to some potential members of this particular credit union. The question asked was, "Why is there a need for this credit union?" A credit union forms to serve a group such as a company's employees or an organization. Catholics United Credit Union – CUCU – provides basic financial services such as savings accounts and small loans for low, nominal costs. Thru use of these services, CUCU will have an opportunity to improve their financial management skills to save and borrow money to purchase larger dollar goods and services. Also, from 1998 to December 2005, the Hutch Card has contributed over \$150,000 to improvements at the Hutch Zoo and City parks. The initiatives mentioned above position our Credit Union for continued success in the future.

Marvin Schmucker, Supervisory Committee, gave a summary of the committee's responsibilities. He stated audits were completed by the Certified Public Accounting Firm of Pierce, Faris & Co, Chartered, and Kansas Department of Credit Unions. The Supervisory Committee continues to contract with an independent third party for additional audit work throughout the year. We are currently in the process of engaging RSM McGladrey, Inc. to conduct additional audit and risk management work. 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. Kendal Pulliam made the motion to accept. Seconded by John McCannon. Motion carried.

Ed Switzer, Secretary-Treasurer, presented the treasurer's report. The Credit Union is in good, functioning order. Growth has really been steady in all areas. Our key ratios compare very well to our peers. 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 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. We believe Hutchinson Credit Union is a financially sound, well managed and capable of continuing to fulfill its mission of offering good financial services for everybody. Mark Wolesslagel made the motion to accept. Seconded by Leila Emack. Motion carried.

Richard Carlisle, Credit Committee, is responsible for ensuring the lending policies of the credit union are carried out by the loan officers. We meet to review the reports on new loans, delinquencies, charge-offs and randomly review loan files to insure compliance. Notable information during the year includes: mortgage lending provided over \$1,800,000 in gross revenues for the Credit Union. Members Mortgage Services continues to grow. Good year for delinquencies and charge-offs - less than one percent. Good loan growth – 9.1% over the year. Important projects the upcoming year will be: introduction of automated approval for consumer lending, continued development of MMS and on-going development of member business lending. Ed Switzer made the motion to accept. Seconded by Kendal Pulliam. Motion carried.

Garth Strand, President, thanked everyone for showing up. Showing up and asking questions at meetings when you are suppose to be there is very important. This keeps staffs on their toes, keeps our moral up and provides the right amount of tension to have things function as they should. In his written report Strand quotes "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." Credit Unions are the good guys in the financial world. As we keep our eye on the 'bull', we must prove to the world we are good. We must prove it with actions and with our commitment and passion. In addition, fulfill our Mission to our members 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: Loretta Fletchall and Kendal Pulliam – Board of Directors; Marvin Schmucker and Ed Howard – Supervisory Committee; Richard Carlisle, Pat Falter and Patsy Stoecker will be appointed to the Credit Committee by the Board of Directors.

No unfinished business.

New Business:None

Adjournment:

Marvin Schmucker made the motion to adjourn. Seconded by Caroline Phelps. Motion carried

Report of the Chair

REPORT OF THE CHAIR

I am pleased to report that our credit union has successfully completed its 59th 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 2006:

- A net of 811 new members joined our credit union, representing an increase of 6.3%. Healthy membership growth certainly bodes well for our future! At year-end HCU was serving 13,608 members.
- Members Mortgages Services continues to grow. At year end, MMS was servicing 2,000 mortgage loans totaling \$123 million. There are now 10 credit unions participating in MMS representing over \$800 million in credit union assets. MMS is a CUSO with it's roots right here at HCU and became a joint project with Credit Union of America.
- MemberSource finished in the black for the second straight year. In addition to the bottom line contribution, MemberSource plays a key strategic role in the overall success of HCU by providing insurance & investment services to HCU members. HCU is the sole stockholder of MemberSource.
- Culminating a strategic initiative set at an HCU planning meeting some four years ago, HCU booked its first three SBA guaranteed, member business loans in 2006. Member business loans represent about 16% of HCU's total loan portfolio providing an important diversity to the lending mix.
- The "official" opening of the HCU phone branch was announced to members in October. Look for extended hours coming very soon with continuing development to include 24 x 7 coverage.
- While not in the exciting or cutting-edge category, installation of an automated back-up generator helps to insure continuity of service to HCU members. The generator allows core functions to carry on in the event of power loss. It is tested on a regular basis and yes, it's already had a "real life" test.
- Real Overdraft Protection reached the roll-out stage. This product is far superior to any "Overdraft Privilege" offering in the market. It is member friendly and truly sets us apart from the competition that use Overdraft Privilege products as a veil for increased profits.

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.

LeRoy Broxterman, Chair

Report of the Supervisory Committee



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 8-31-06. 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. All three audits received unqualified opinions.

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 December 31, 2005. The closing document of resolution listed 2 items that needed attention and both have been addressed.

The Supervisory committee has contracted with an independent third party for additional audit work specifically in the area of information technology. Trace Security conducted various forms of testing, both on-site and off-site. A comprehensive report was received by the Supervisory committee. Staff immediately begun the process of implementing recommended changes and will be updating the Supervisory Committee at each meeting.

Lastly, the Supervisory Committee relies on its own activities and findings:

- The Committee met 5 times during 2006 to conduct reviews of various policies, procedures, accounts and reports.
- Staff members from various areas report to us about their operations in their respective departments.
- A confidential staff survey was conducted asking about fair and honest practices within the credit union.
- A committee member attends Board of Directors meetings.
- Two committee members attended a national conference for Supervisory Committees.

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.

Ed Howard, Chair

Report of the Treasurer

Asset Growth 5.7%

Loan Growth 16.2%

Savings Growth 5.5%

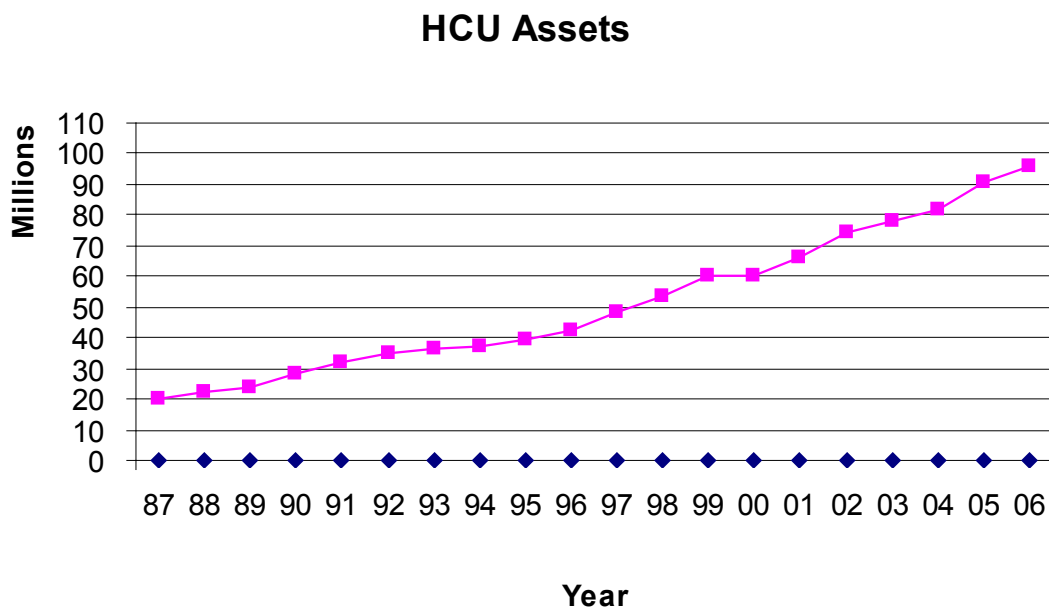
Capital Growth 4.7%

A direct return to the members of \$2,102,659 was made in the form of share and certificate dividends. Our net income of \$472,147 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	0.506%	0.74%
Delinquent loans to total loans	1.092%	0.95%
Net charge-off to average loans	0.108%	0.49%
Net operating expense to avg. assets	3.765%	2.99%
Net worth to total assets	10.864%	11.76%
Loans to shares	87.380%	75.03%



Report of the Credit Committee

	2006	2005
Total Number of Loans Made	14,549	12,956
Total Dollar Volume of Loans Made	\$56,023,387	\$49,127,776
Number of Loans Made Since April 1, 1948	242,184	227,635
Total Dollar Volume of Loans Since April 1, 1948	\$639,895,638	\$583,872,251
Loans Charged-off Since April 1, 1948	\$2,100,345	\$2,012,956
Recoveries From Charged-off Loans	\$150,530	\$138,028

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 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.

Notable information and actions in the lending area during the year include:

- Mortgage lending continues to be a major part of the lending function making up 45% of our loan portfolio. A further breakdown is that 34% is in variable rate mortgages and 11% is in fixed rate. In addition, just over \$13 million in mortgage loans were originated and sold to the secondary market during 2006.
- A stepped up commitment to the Credit Union Direct Lending (CUDL) program was made in 2006. This network of lending automation with area car dealers provides a new channel for HCU loan and membership growth. At year end there were 358 loans totaling \$3.9 million that have come through the CUDL system.
- HCU member business loans have grown to 18% of the total loan portfolio. Based on our current asset size, this amount is as large as it can be by NCUA regulation. 2007 will see HCU originate loan participations to enable us to keep saying yes to our small business members.
- Delinquency at year-end was at 1.09%, increasing slightly from .86% at the beginning of the year.
- Charged off loans for 2006 as a percentage of outstanding loans was .108% compared to .164% from 2005.
- Loans for the year grew a very strong \$10.3 million or 16.3% to a total outstanding loans to members of \$73,955,330.
- At year end, just over 87% of member shares are currently reinvested in member loans, a great sign of a healthy credit program especially with our low rates of delinquency and charge-off.
- The committee reviewed it's own work & looked at what if any renewal might be appropriate.

Important projects for the upcoming year will be:

- A centralized underwriting project will begin to streamline internal processes and improve member service.
- The HCU programmatic response to the surge in payday lending type activities is being formulated.

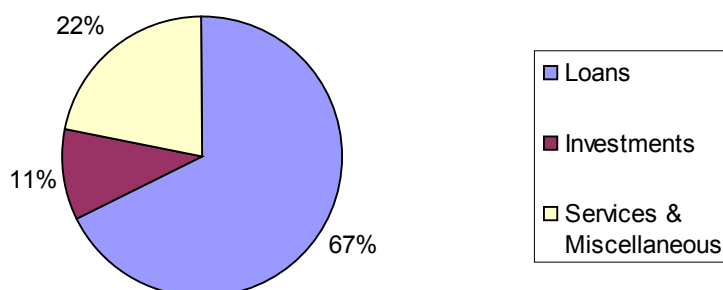
Bruce Trapp, Chair

Balance Sheet

Year End Closings:

Assets	12/31/2005	12/31/2006
Cash Accounts	\$2,218,941	\$3,041,323
Real Estate Loans	31,100,428	32,917,885
Business / Agricultural Loans	10,798,192	13,567,436
Consumer Loans	21,698,604	27,470,010
Loan Loss Allowance	(605,214)	(678,828)
Investments	20,335,733	14,339,099
Building and Land (Net)	3,012,062	3,030,877
Furniture and Fixtures (Net)	873,203	644,082
Prepaid Expenses	148,986	148,151
Accrued Income	289,520	343,891
NCUSIF Deposit	717,371	798,087
Other Assets	136,244	277,816
Total Assets	\$90,724,070	\$95,899,828
Liabilities & Equity		
Miscellaneous	\$652,300	\$885,670
Share Deposits	80,120,187	84,590,428
Reserves and Undivided Earnings	9,951,583	10,423,730
Total Liabilities and Equity	\$90,724,070	\$95,899,828

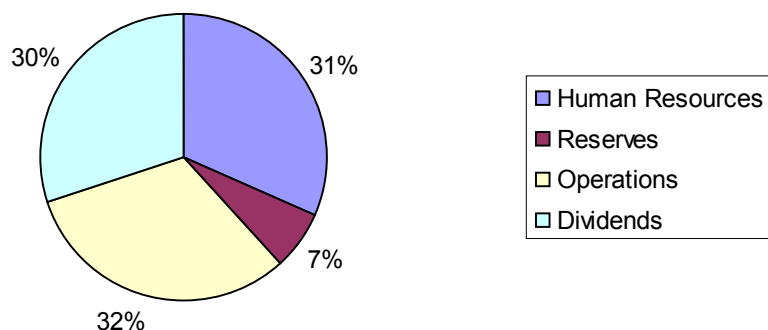
Income Sources



Income Statement

Income	2005	2006
Income on Loans	\$3,704,135	\$4,745,845
Income on Investments	638,996	757,351
Other Income	1,248,946	1,536,990
Total Operating Income	\$5,592,077	\$7,040,186
Operating Expenses		
Compensation	\$1,638,781	\$1,794,103
Employee Benefits	387,186	434,336
Travel and Conference Expense	90,024	85,042
Association Dues	31,031	31,888
Office Occupancy and Operations	1,333,190	1,548,472
Education and Promotion	189,227	191,946
Loan Servicing	133,123	122,271
Professional Expense	48,318	47,943
Provision for Loan Losses	83,500	148,500
Member Insurance	21,272	26,030
Regulatory Expense	23,950	25,689
Interest on Borrowed Money	856	717
Member Relations	11,837	8,829
Miscellaneous Expense	26,707	26,641
Total Expenses	\$4,019,002	\$4,492,407
Operating Income	\$5,592,077	\$7,040,186
Less Operating Expenses	(4,019,002)	(4,492,407)
Non-Operating Income / (Expense)	103,886	27,027
Net Income Before Dividends	\$1,676,961	\$2,574,805
Less Dividends	(1,293,007)	(2,102,659)
Balance to Reserves	\$383,954	\$472,147

Income Distribution



From the President

Delivering solutions, earning trust, building relationships.

(or the head, the heart and growing to \$100 million)

"Delivering solutions, earning trust, building relationships", is the mission statement for Hutchinson Credit Union, adopted in 2003. Let's look at that statement from a little different perspective to see if we can zero in on some of the origins of HCU success.

Delivering solutions...the head. HCU has a long history of delivering solutions through progressive thinking and actions. Progressive thinking takes some good heads and HCU has been blessed over the years with many great ones. Sustained success, acting when others aren't; not acting when others are and sometimes acting right along with everyone else.... it all takes some good strategic thinking at board & committee meetings, staff meetings & planning sessions. Unselfish, logical & creative thinking about what is best for HCU and for HCU members. To successfully deliver solutions requires the head to be fully engaged in a rapidly changing and competitive world.

Earning trust...the heart. Dr. Albert Einstein said, "Not everything that can be counted counts and not everything that counts can be counted." Good financial decisions involving people often times involve things that can't be physically counted or put down on paper. A person's character for example, or their word. The value of the human touch, literally or figuratively, in this faster-better-cheaper, digital, information age. Successful hearts discern the appropriate times and places to put trust on the line

and in return, almost always receive trust back. We all know that trust can be so strong that literally nothing can break it and yet so fragile it can be shattered by a few ill-chosen words or careless actions. Good hearts understand how that works in the credit union business. Again, HCU has been blessed with people who understand and more importantly live out, Dr. Einstein's statement. To be successful requires the heart to be engaged to earn a certain healthy amount of trust.

Building relationships...growing to \$100 million.

In 1948, 14 teachers collectively deposited \$315 to start the Hutchinson Teachers Credit Union (\$22.50 each or about \$250 each in today's dollars). It seems unlikely they could even dream what might happen over the next 59 years. Their credit union would grow to some 13,700 members having almost \$100 million in assets and a multitude of products & services. However, I do believe they recognized both the need and value of building up their credit union. And I believe they knew they must build through relationships because, well... you just can't do much else with \$315! So with both heads & hearts engaged, build they did! By the way, if those 14 teachers would have started a for-profit, stock company, each of those \$22.50 shares would now be worth \$748,648...an 18% compounded rate of return every year. A great example of the power of relationships when heads & hearts are engaged!

Delivering solutions, earning trust, building relationships...our mission statement and much more.

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*

Justin Spradlin, Retail sales manager

Kristi Nuest, Ave "A" branch manager

Elaine Marquez, *Advisor I*

Lisa Rodriguez, *Advisor III*

Marva Terrell, *Advisor IV*

Tommie Redd, *Advisor I*

Julie Caffrey, Haven branch manager

Christie Nienstedt, *Advisor III*

Trudy Littlestar, *Advisor*

Roxana McKee, Newton branch manager

Cassie Roberts, *Concierge*

Linda Smith, *Advisor IV*

Ashley Willson, *Advisor (part-time)*

Dee Lemen, Wichita branch manager

Kristen Harper, *Advisor I*

Sarah Barbeau, *Advisor III*

Zack Clobes, IT manager

Angie Mielke, *DP specialist*

Matt Lansdowne, *Network admn/tech support*

Ryan Sperling, *Programmer*

David Marshall,

VP Finance / Chief Financial Officer

Diane Ryan, *Accounting assistant I*

Sandy Rush, *Accounting assistant II*

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*

Nancy Brewer, *Advisor I*

Wendy Hildebrand, *Floating advisor*

Laura Oneal, *Drive-thru supervisor*

Brenda Knox, *Advisor I*

Judy Miller, *Advisor I*

Monica Roberts, *Advisor I*

Glenda Geiser, *EFT manager*

Deb Stofer,

Records manager/overdrafts coordinator

Carol Kemp, *Back office clerk*

Kathy Thiel, *ATM/Debit card coordinator*

Yvonne Yearout, *Credit card coordinator*

Leta Nachtigal, *Phone center manager*

Ginny Chronister, *Phone center rep.*

Tammy Branin, *Phone center rep.*

Teresa Dover, *Phone center rep.*

Todd Brunner,

VP lending

LeeAnn Marker, *Business advisor*

CC Mayberry, *Special accounts manager*

Connie Busick, *Mortgage officer*

Michael Lizalde, *Mortgage originator*

Travis Holdeman, *Credit analyst*

Pam Beshears, Loan processing & servicing mgr.

Brynn Howard, *loan processor*

Shana Turner, *loan processor*

Shelly Duncan, *loan processor*

Anita Nichols, *shared loan processor*

Donna Miller, Advisor manager

Bambi Smith, *Advisor IV*

Dustin Neuschafer, *Advisor IV*

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

Connie McClellan, *receptionist*

Bob Guthrie,

HCU Investment & Insurance Services

Angie Griffin, *Administrative Assistant*

Jerry Grinstead,

Members Mortgage Services

LaShauna Cooke, *MMS loan consultant*

Marsha Wheeler, *MMS loan consultant*