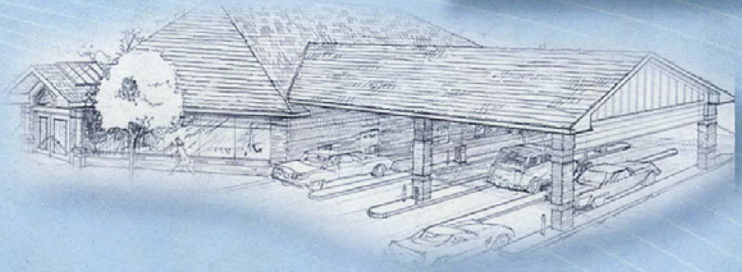
2004 Annual Report

co-op NETWORK®

MSM
MEMBERS MORTGAGE SERVICES



- **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** - 209 S. Kansas Avenue Haven, KS 67543
- **Newton branch office** - 617 North Main 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 29th, 2005

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 56th Annual Meeting of the Hutchinson Credit Union was held March 23, 2004, at the Hutchinson Credit Union office.

Chair Roy Broxterman called the meeting to order. Twenty-eight members attended. Jim Woods moved to accept the minutes of the 2003 Annual Meeting as presented. Seconded by Ed Switzer. Motion carried.

Roy Broxterman introduced special guest, Barry Law, Mayor of Hutchinson. This month our Visa Hutch Card contributions will exceed $100,000 since the program began in 1998. Last year, the contributions exceeded $26,000. Law extended his thanks to the Credit Union for hitting this significant milestone with the Hutch card. The contributions are divided up between the zoo or the park or both. The exact total raised so far is $101,044.03 including the 36 months of amortized corporate profits for the start up of $5,000. Projects funded are the play/sand area by the Salt City Splash - $48,548.63; Prairie Dog statues - $2,000; and last the skate board park is nearing completion. - $29, 809.11. The balance is $15,686.29. There is not a project in the works at this time.

Chair Roy Broxterman referred to the printed report stating the Credit Union had successfully completed its 56th 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 2003 include: conducted a strategic planning session from which 29 short to medium term goals were produced; reached an agreement with Credit Union of America to proceed with a jointly owned mortgage CUSO; upgraded the 23rd street drive-thru equipment that was over 20 years old; reviewed and updated 11 different operating policies; and joined the CO-OP ATM network to give our members surcharge free access to over 18,000 ATM's across the country. We also brought the Visa processing in-house for complete account integration. Another noteworthy item is that our basic service fees have remained unchanged for the 11th consecutive year. The initiatives mentioned position our credit union for continued success in the future.

Lee Spence, Supervisory Committee, stated that 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. In summary, it was reported that all the funds and records are being maintained in a safe, sound and confidential manner. Lee Spence made the motion to accept. Seconded by Jim Woods. 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 $78,231,883. The asset growth for 2003 was 5.19%, loan growth was 3.13%, capital growth was 14.37% and there was 3.97% in savings growth. The Credit Union continues to have a solid balance sheet. Switzer stated we have a G-O-O-D! Management team. Ed Switzer made the motion to accept. Seconded by Jim Woods. Motion carried.

Richard Carlisle, Credit Committee, stated they meet to review new loans, delinquencies, charge-off and randomly review loan files to insure compliance. Highlights of the past year include: number of loans have increased by almost four thousand ; total volume of loans made increased by four million and recoveries from charge-offs have increased from $91,826 to $107,820. Notable information during the year includes: mortgage lending provided over $600,000 in revenues for the Credit Union. Completion of the second full year of MMS left us servicing over 600 member mortgages loans for a total over $41 million. This has generated approximately $9,000 per month in servicing income. We have added a business loan officer. A new method was established for funding the Allowance for Loan Loss account. The Loan Charge Off policy was updated. Some projects for the upcoming year include a rewrite of the loan policy including a separate business loan 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 made the motion to accept. Seconded by Mark Woleslagel. Motion carried.

Garth Strand, President, reiterated on Ed Switzer's statement of things are G-O-O-D! His report focused on the question - What is your core business? Our core business is people. We are a cooperative and an excellent definition of that is to develop innovative approaches to solving pressing problems in times of rapid social, economic and technological change where neither the market nor the state offers satisfactory solutions. Our renewed mission statement is, 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 acclimation: Roy Broxterman, John McCannon – Board of Directors; Bruce Trapp, Caroline Phelps – Supervisory Committee; Pat Falter, Patsy Stoecker will be appointed to the Credit Committee by the Board of Directors.

No unfinished business.

New Business:
Recognition of Ann Wagner on completing her 2nd term on Supervisory Committee. Mark Woleslagel made the motion to adjourn. Seconded by John McCannon. Motion carried.

Report of the Chair

I am pleased to report that our credit union has successfully completed its 57th 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, the following are important initiatives embraced by our credit union during 2004:

- Completed connection to the Co-op ATM network giving members no-surcharge access to over 100 ATM's in Kansas and nearly 20,000 nationwide.

- Installed two 24-hour depository atms to enhance member service. Members can now have immediate access to funds from a deposit on a 24 x 7 basis.

- Funded Members Mortgage Services, a jointly owned mortgage CUSO with Credit Union of America. MMS was profitable in the first year of operation. The first associate member credit union was signed on by year-end with 2 others pending.

- Dirt work for the construction of a full-service branch in Newton began December 20th. Opening is slated for August 1st.

- 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.

- The Board of Directors completed a self-assessment exercise to evaluate their own strengths and identify areas for improvement.

- Sent 3 volunteers and 2 staff members to Washington D.C. as important participants in the political work of protecting the credit union option for members and potential members. HCU staff also lead the way in sponsoring a well-attended Reno County legislative forum prior to elections.

- Participated along with other Kansas credit unions in the first MoneySmart Camp, a joint project with the State Treasurer's office. The camp is designed to promote financial literacy at the middle school level.

- Basic service fees remained unchanged for the 12th consecutive year.

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.

- 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 8-31-04. 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 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 Supervisory committee continued 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 2004 , two 3rd party audits were conducted looking at various areas including cash inventory, general ledger accounts, employee accounts and loan policy compliance.

Lastly, the Supervisory Committee relies on its own activities and findings. The Committee met 5 times during 2004 to conduct reviews of various policies, procedures, accounts and reports. A confidential staff survey was conducted which asked about fair and honest practices within the credit union. The Committee also participated in the annual planning session. A committee member attended Board of Directors meetings.

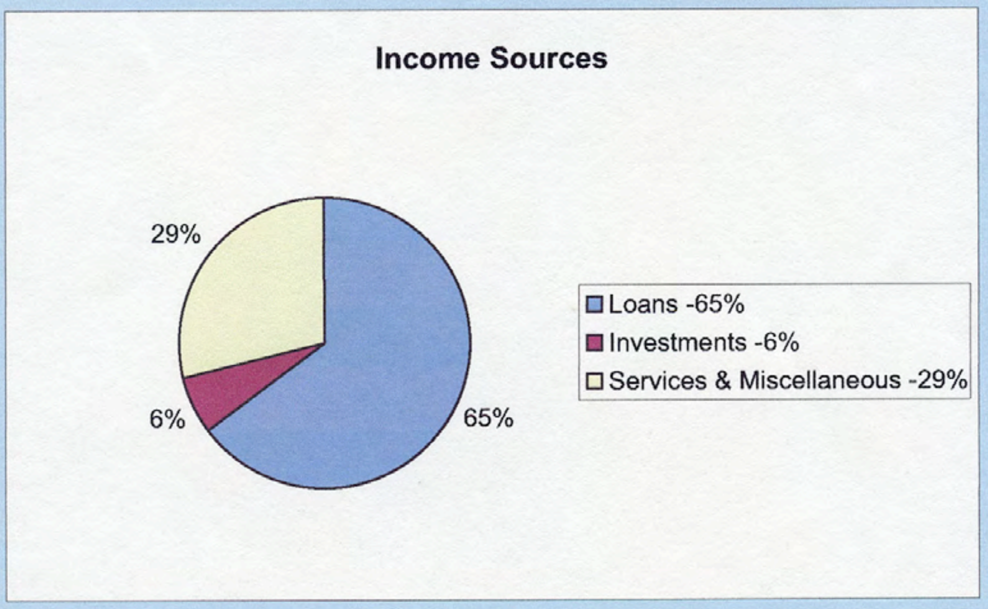
In summary, the Supervisory Committee is glad to report to members that your funds and records are being maintained in a safe, sound and confidential manner.

- Marvin Schmucker, Chair

Balance Sheet

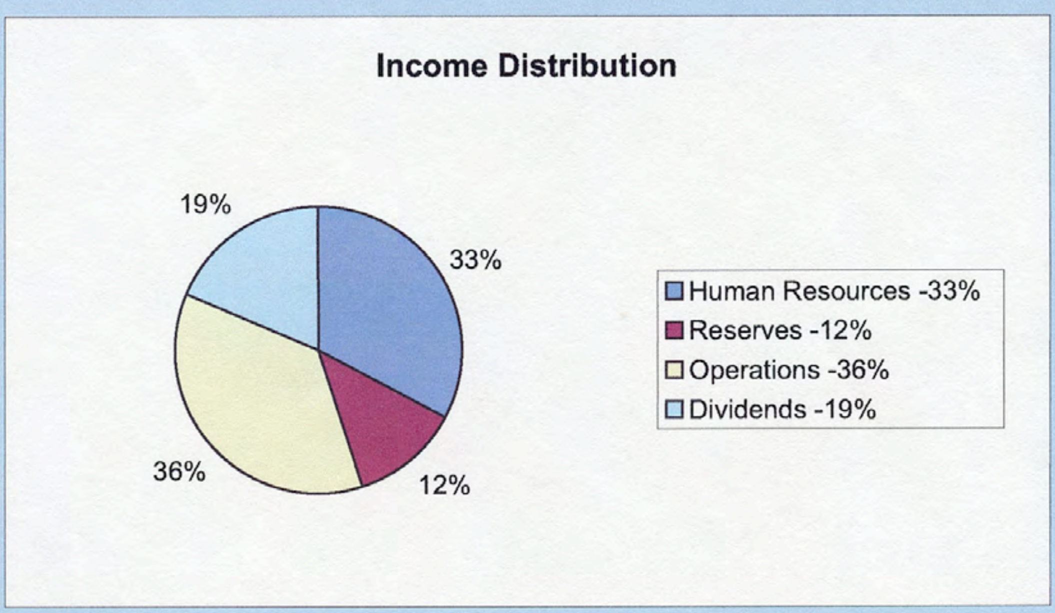
Year End Closings:

Assets	12/31/03	12/31/04
Cash Accounts	$1,146,333	$1,944,509
Real Estate Loans	26,329,252	27,701,742
Business / Agricultural Loans	8,898,942	9,499,102
Consumer Loans	22,855,747	21,080,214
Loan Loss Allowance	(617,333)	(622,788)
Investments	15,278,723	18,010,320
Building and Land (Net)	2,018,401	2,111,904
Furniture and Fixtures (Net)	781,886	767,943
Prepaid Expenses	102,045	153,539
Accrued Income	242,038	218,696
NCUSIF Deposit	672,874	680,999
Other Assets	522,975	518,175
Total Assets	**$78,231,883**	**$82,064,355**
Liabilities & Equity		
Miscellaneous	$499,585	$378,158
Share Deposits	68,785,189	71,871,136
Reserves and Undivided Earnings	8,947,109	9,815,061
Total Liabilities and Equity	**$78,231,883**	**$82,064,355**



Income Statement

Income	**2003**	**2004**
Income on Loans	$3,846,980	$3,564,116
Income on Investments	230,273	344,369
Other Income	1,758,642	1,598,357
Total Operating Income	$5,835,895	$5,506,842
Operating Expenses		
Compensation	$1,480,676	$1,474,939
Employee Benefits	305,541	335,083
Travel and Conference Expense	76,668	81,075
Association Dues	23,889	28,510
Office Occupancy and Operations	1,110,850	1,243,461
Education and Promotion	126,015	162,357
Loan Servicing	99,597	269,211
Professional Expense	32,994	68,093
Provision for Loan Losses	144,227	73,737
Member Insurance	24,214	21,352
Regulatory Expense	23,405	23,566
Interest on Borrowed Money	0	0
Member Relations	6,849	7,476
Miscellaneous Expense	18,378	27,625
Total Expenses	$3,473,303	$3,816,485
Operating Income	$5,835,895	$5,506,842
Less Operating Expenses	(3,473,303)	(3,816,485)
Non-Operating Income / (Expense)	(8,506)	291
Net Income Before Dividends	**$2,354,086**	**$1,690,648**
Less Dividends	(1,135,915)	(1,021,532)
Balance to Reserves	**$1,218,171**	**$669,116**



Report of the Credit Committee

	2004	2003
Total Number of Loans Made	12,405	14,901
Total Dollar Volume of Loans Made	$51,640,398	$54,266,274
Number of Loans Made Since April 1, 1948	214,679	202,274
Total Dollar Volume of Loans Since April 1, 1948	$534,744,475	$483,104,077
Loans Charged-off Since April 1, 1948	$1,887,814	$1,813,392
Recoveries From Charged-off Loans	$113,960	$107,820

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 actions in the lending area during the year included:

- First mortgages continued to be a major part of the lending function providing over $1,000,000 in revenues for the credit union.

- Movement of the mortgage servicing function to Members Mortgage Services, a jointly owned CUSO (credit union service organization) with Credit Union of America.

- 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.

- Charged off loans continued at a low level, with a net of $74,422 or .12% being written off in losses.

- Delinquency at year-end was 1.02% decreasing from 1.1% at the beginning of the year.

- With many members refinancing their mortgages and including other debt, our total loans grew less than 1%.

- Approximately 82% of member shares have been reinvested in member loans.

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.

- Richard Carlisle, Chair

From the President

Delivering solutions, earning trust, building relationships. That's our mission statement, adopted in August of 2003. I believe our mission is right on track to allow HCU continued success.

Delivering solutions. HCU has a long history of progressive thinking and action. By continuing to address the changing needs of our members, our members in turn have continued to support their credit union…that's the way its supposed to work! Often times members participate in the design of products and how services are offered. We've recently made some major additions to the list of solutions available to members…access to 20,000 surcharge-free atms, 24-hour "check-cashing atms", enhanced access via the web branch, local servicing of member mortgage loans, an integrated data system and with the implementation of a new phone system, the first steps toward an extended-hours telephone branch. Will we ever have all the solutions…of course not. Just think of what solutions were needed in 1948 vs. member needs in 2005! We must continue to deliver solutions.

Earning trust. Hutchinson Credit Union, along with the entire credit union industry has established a high level of trust with consumers. For the 20th year in a row, according to the American Banker survey, more credit union members say they are "very satisfied" with the service they receive than do other customers at their financial institution. More by fifteen percentage points and, in 2004, credit unions received the highest rating ever. However, we cannot rest on our history. "Trust" consists of both what we have done and what we are currently doing. We must continue to earn trust.

Building relationships. Delivering solutions to those who trust you is certainly a great way to build relationships. Our number one source of new members is from other satisfied members that we have a relationship with. It is very, very common to look at current HCU members and see three generations of relationships, family after family. I believe those are human connections that will always be important. However, it appears "relationship" is taking on some broader meaning in this new global, technological world. There's a growing comfort in doing business with a "web site". Another way "relationship" is changing is the growing desire and need for anytime, anywhere convenience. More customization is not only desired but we are starting to expect it…customization down to the individual consumer level. We must continue to define and build relationships.

To continue our success, I challenge us all during the coming year to ask ourselves these questions about all that we do: Are we delivering solutions? Are we earning trust? Are we building relationships?

-Garth Strand, President

Management Team

Garth Strand, President

Casey Swarts, VP Marketing and Technology

Todd Brunner, VP Lending

Michelle Waln, VP HR and Transaction Services

Dave Hawthorne, VP of Business Development

David Marshall, VP Finance