

2018 Annual Report

Combined Message from the Chairman and the President

“Come as you are....”

Whether dressed in athletic wear fresh from your morning walk or jog, work attire as you go to and from your plant or office, campus attire, dress attire for a special event, or simply in casual street clothes and ball cap, DuTrac cordially extends a warm welcome and an invitation to **“come as you are...”** because it is our pleasure, at any time, to serve your financial needs as well as those you care about most.

DuTrac employees reflect the membership we serve. Our varied backgrounds meld together to create what we hope you see as a welcoming, approachable, and professional team; ready, willing, and most importantly, excited about helping you with your financial needs. Be assured, behind every warm smile and sincere greeting there is a well-trained and knowledgeable colleague ready to assist you with a thoughtful, customized recommendation specifically tailored to your needs.

DuTrac’s employees are a part of the 47,000 member/owners of DuTrac Community Credit Union and take a special interest in the ongoing success of our financial cooperative. Further, being a part of a cooperative, makes each member/owner a part of what we fondly call the DuTrac family. That’s why it is easy for us to be supportive, kind, helpful and excited to serve you – and generous to each community called home.

Not only is this annual report, and the annual meeting, a summary of the year’s financial performance, key events and future plans, but it’s a celebration. It is our **thank you**, and statement of gratitude to **you** for making DuTrac the financially strong and safe institution it is... and will be for the distant, foreseeable future. Within the following Board committee reports, please find financial highlights demonstrating DuTrac’s strong financial performance throughout the fiscal year that ended December 31, 2018.

DuTrac’s financial strength was built over many years by dedicated members and leaders. In March, DuTrac lost two dedicated leaders with the passing of Tom Sarvis and Linda MacDonald. Mr. Sarvis served as DuTrac’s president and CEO from 1984 until his retirement in 2007. He will long be remembered for his dedication to the members and commitment to the financial strength of the Credit Union. Ms. MacDonald served 34 years as a volunteer leader on the DuTrac, and a predecessor credit union, Board of Directors.

On behalf of the entire membership, past and present Board members, management teams and staff, we extend our heartfelt appreciation to both Tom and Linda, as well as their families, for being largely unsung heroes in their commitment, dedication and leadership to the extended DuTrac family and the cooperative model.

DuTrac, too, is a largely unsung hero among cooperative financial institutions. Modest, flying under the radar seeking first to serve its members, not the limelight. Some may say our approach is conservative and old-fashioned in an era where many relentlessly pursue “the next great thing.” We believe being understated is simply good business. That being said, we encourage members to share with those “not-yet, future” members your stories of why you chose DuTrac. Why you continue to trust and place your confidence in a financial institution that regards and treats you more like family.

In closing, on behalf of the entire DuTrac Board of Directors, management and staff, we extend our heartfelt gratitude for the opportunity to earn your business this past year and in the future. We enjoy serving you and taking care of your life’s financial details. Until next time, feel free to **“come as you are...” because we are here... for you.**

Sincerely,
Scott Neyens, Chairman
Andy Hawkinson, President and CEO



Scott Neyens
Chairman



Andrew Hawkinson
President and CEO



Financial Status

ASSETS:	2018	2017	% Change
Loans	\$590,955,351	\$536,379,697	10.17%
Allowance for Loan Loss	-2,080,077	-2,107,487	-1.30%
Cash & Receivables	8,878,786	9,336,131	-4.90%
Investments	84,786,636	135,558,714	-37.45%
Other Assets	27,088,365	25,548,184	6.03%
TOTAL ASSETS:	\$709,629,061	\$704,715,239	0.70%
LIABILITIES & EQUITY:	2018	2017	% Change
Shares & Deposits	\$615,896,235	\$614,748,399	0.19%
Accounts Payable	2,577,748	4,860,781	-46.97%
Accrued Expenses	2,225,152	1,944,496	14.43%
Reserves & Undivided Earnings (Equity)	88,929,926	83,161,563	6.94%
TOTAL LIABILITIES & EQUITY:	\$709,629,061	\$704,715,239	0.70%
INCOME & EXPENSES:	2018	2017	% Change
Income from Loans	\$23,509,082	\$19,819,488	18.62%
Investment Income	2,283,025	1,813,484	25.89%
Total Interest Income	\$25,792,107	\$21,632,972	19.23%
Total Cost of Funds	-5,637,618	-3,583,130	57.34%
Net Interest Income	\$20,154,489	\$18,049,842	11.66%
Other Operating Income	7,193,031	6,547,956	9.85%
NET INCOME BEFORE OPERATING EXPENSES:	\$27,347,520	\$24,597,798	11.18%
OPERATING EXPENSES:	2018	2017	% Change
Compensation & Employee Benefits	\$10,205,108	\$9,590,921	6.40%
Association Dues	61,860	65,736	-5.90%
Office Operations & Occupancy	4,210,672	4,028,483	4.52%
Advertising & Promotion	1,239,050	1,173,001	5.63%
Loan Servicing	2,119,775	2,486,966	-14.76%
Professional & Outside Services	1,338,045	1,257,669	6.39%
Provision for Loan Losses	901,900	679,100	32.81%
Miscellaneous Expenses	593,816	603,295	-1.57%
TOTAL OPERATING EXPENSES:	\$20,670,226	\$19,885,171	3.95%
NET INCOME FROM OPERATIONS:	\$6,677,294	\$4,712,627	41.69%
Non-Operating Income & Expense	1,115,276	462,813	140.98%
NET INCOME:	\$7,792,570	\$5,175,440	50.57%
ASSETS:	Fair Market Value	Book Value	
Cash or Short Term Investments	\$8,878,786	\$8,878,786	
Investments, Securities & CDs	83,563,884	84,786,636	
Member Loans	572,083,117	590,955,351	
LIABILITIES:	Fair Market Value	Book Value	
Share Accounts, Checking	\$588,474,551	\$615,896,235	

DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards No. 107, "Disclosures About the Fair Value of Financial Instruments," requires disclosures for fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Credit Union.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

CASH AND SHORT-TERM INVESTMENTS - The carrying amount is a reasonable estimate of fair value.

CERTIFICATES OF DEPOSIT - The fair value of Certificates of Deposit (CDs) held for investment purposes is estimated by discounting the future cash flows using the rates currently offered for certificates with similar remaining maturities. Those with remaining maturities of less than one year are stated at carrying value, which approximates fair value.

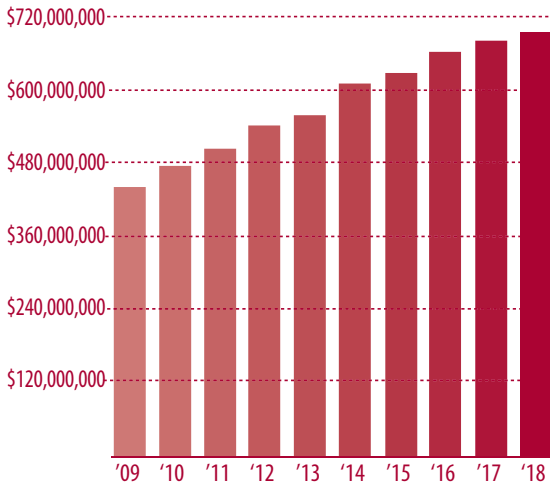
INVESTMENT SECURITIES - The fair value of investment securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

MEMBERS' LOANS - The fair value of each homogeneous type of loan is estimated by discounting the estimated future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

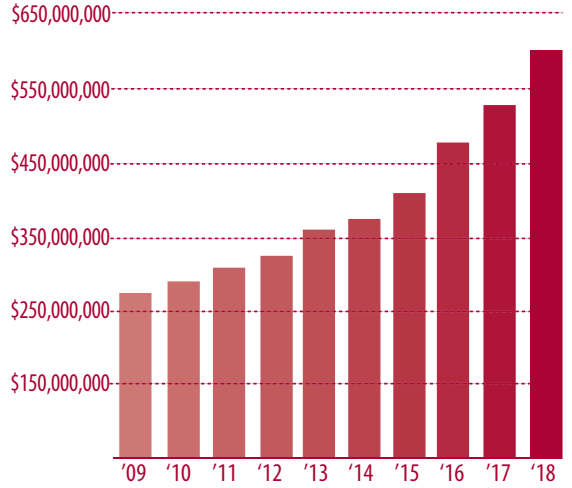
SAVINGS, CHECKING AND NON-CERTIFICATE OF DEPOSIT INDIVIDUAL RETIREMENT ACCOUNTS (Non-CD IRAs) - The fair value of savings accounts, share drafts and non-CD IRAs is the amount payable on demand at Dec. 31, 2018.

MEMBERS' CERTIFICATES OF DEPOSIT AND FIXED MATURITY IRAs - The fair value of fixed maturity Certificates of Deposit and fixed maturity IRAs is estimated using the rate currently offered for deposits of similar remaining maturities.

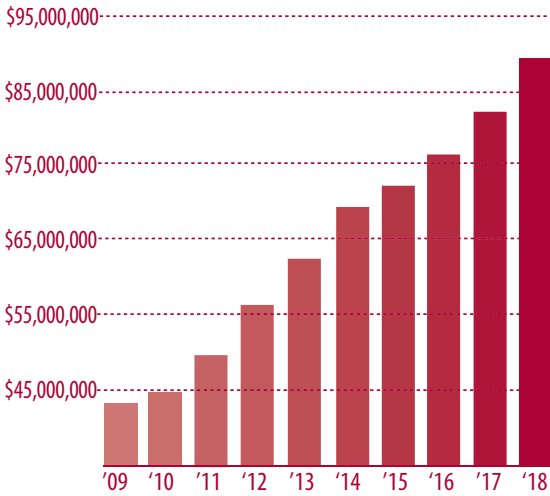
Total Assets



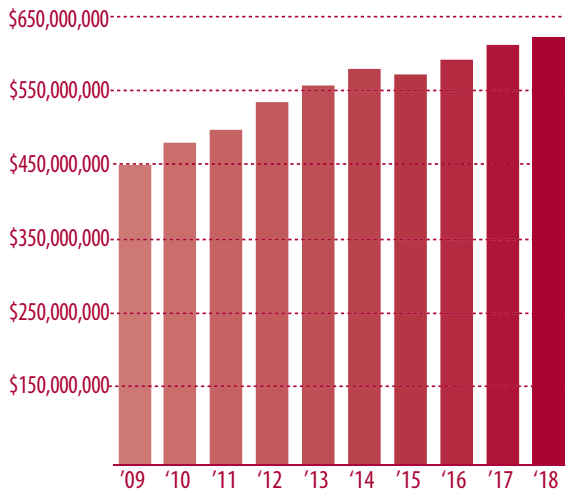
Total Loans



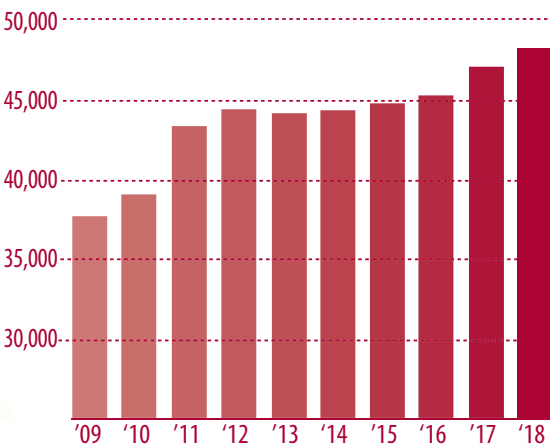
Total Equity



Total Deposits



Total Members



Graphs reflect years ending December 31
(Rounded to nearest thousand)



Your Board of Directors



Scott Neyens
Chairman



Daniel Deutmeyer
Vice Chairman



John Vail
CFO/Treasurer



Kevin Mueller
Secretary



David Eggers



Linda MacDonald



Harlan Pedretti



Michael Ready



Nicholas Specht

A Message from the CFO/Treasurer

Respectfully submitted by

John Vail (Chief Financial Officer and Treasurer)

Financial highlights as of December 31:

DuTrac enjoyed a successful year of asset and revenue growth during fiscal year 2018. With the support of its members, total assets grew to \$709.6 million as of December 31, 2018 from \$704.7 million as of December 31, 2017 – an increase of \$4.9 million or .7%. Driven largely by increased lending activity during the year, DuTrac's net income increased by \$2.6 million or 50.0% to \$7.8 million at the end of December 2018 compared to net income recognized at year-end 2017 of \$5.2 million. Total assets increased primarily due to increases in lending assets as a growing U.S. economy and low inflation boosted consumers' financial confidence and therefore members' willingness to borrow funds.

Total Asset Size



Membership Size



DuTrac offers a broad spectrum of industry available depository, lending, and other financial services. Consumers responded to DuTrac's offerings and membership grew to 47,166 at December 31, 2018; an increase of 986 members from 2017.*

*A member's account, without activity for a given period of time, and without a response from the account holder, may be purged. DuTrac purges inactive accounts annually to reduce the costs associated with maintaining such accounts. During 2018, DuTrac purged 4,103 inactive accounts.

DuTrac employees are always looking for ways to maximize a member's money. Seeking methods to reduce operating costs is another way the DuTrac team serves the overall needs of the membership. With the good news of increased bottom line net income, DuTrac was able to temper increasing operating costs by recognizing a reasonably small 4.0% increase in overall operating expenses during fiscal year 2018. Total operating expenses recognized during 2018 were \$20.7 million compared to \$19.9 million during the previous fiscal period. The increase in operating expenses, comparing 2018 to 2017, primarily came from increases recognized in compensation costs, office occupancy as well as in the provision for loan losses.

Operating Costs



Total Net Worth



DuTrac is proud to report that its net worth as of December 31, 2018 was 12.91%, in excess of the regulatory minimum of 7% by an additional 5.91%. DuTrac's net worth, in conjunction with strong total assets and net income, is indicative of the financial strength and security of your credit union.

On behalf of the board of directors, management and employees, we extend our gratitude to the members of DuTrac for your ongoing loyalty. It is you, our valued member, who has made our long tenure of financial strength possible. Recognizing you have choices in the financial market place, I extend my personal thanks to the membership for partnering and trusting in DuTrac for honest, affordable, and competitive financial products and services that work to help you achieve your financial and personal goals.

Sincerely,
John Vail, Chief Financial Officer and Treasurer

A Message from the Nominating Committee

Respectfully submitted by

Nicholas Specht, Chair; Daniel Deutmeyer, Kevin Mueller and Michael Ready (Associate Director Liaison)

Daniel Deutmeyer, Scott Neyens and Nicholas Specht were elected to serve three-year terms on the DuTrac Community Credit Union Board of Directors during the 2018 Annual Meeting, held on March 11, 2018. The annual Board of Directors reorganizational meeting had the following officers elected to a one-year term: Scott Neyens, chair; Daniel Deutmeyer, vice chair; John Vail, chief financial officer/treasurer and Kevin Mueller, secretary.

Kevin Mueller was re-appointed to serve as Credit Committee chair along with Credit Committee appointees Daniel Deutmeyer, Scott Neyens, Harlan Pedretti, John Vail, Susan Kern (associate board member) and Ron Kinsella, senior vice president of lending. Linda MacDonald was appointed as Audit Committee chair along with David Eggers, Michael Ready and Nicholas Specht. Scott Neyens was re-appointed by his peers to chair the Asset/Liability Committee (ALM) in addition to John Vail. DuTrac employees appointed Andy Hawkinson, president and CEO, Ron Kinsella, senior vice president of lending, Michelle Ariss, senior financial officer and Joyce Bockenstedt, controller, to the ALM Committee.

The death of Linda MacDonald on March 31, 2019 left vacant her board seat. There were no additional vacancies or retirements from elected board members during 2018. Board Member Linda MacDonald, a credit union board member since 1985 and a DuTrac Board member since 2007, declined to run for re-election in early 2019. The Board of Directors, management and employees recognize and honor Ms. MacDonald's 34 years of service to the credit union movement. Her leadership and oversight during these years, and most recently as Audit Committee chair, made DuTrac the strong, safe and inclusive financial institution we know today.

Members interested in serving on the Board of Directors were notified in the Winter '19 *Update* to submit their applications along with biographical information by January 31, 2019 to the Nominating Committee chair. Because of this notice, nominations will not be accepted from the floor at the 2019 Annual Meeting.

Directors with terms expiring in conjunction with the 2019 Annual Meeting are David Eggers, Harlan Pedretti, John Vail and Linda MacDonald. In turn, after applications were reviewed and received, the following individuals were reviewed by the Nominating Committee to stand for election by the membership to the DuTrac Board of Directors: David Eggers, Susan Kern, Harlan Pedretti and John Vail. No additional applications were received. Bios of each nominee are available on your tables. David Eggers, John Vail and Susan Kern are each running for three (3) open three-year terms while Director Pedretti is running for a one-year term. Board terms were voluntarily selected by the nominees in order to ensure future continuity of staggered election terms.

DuTrac's Election Committee appointments will be announced at the 2019 Annual Meeting. Accordingly, the Election Committee chair will announce the results of the 2019 Annual Meeting elections.

Sincerely,
Nicholas Specht, Chair
Daniel Deutmeyer
Kevin Mueller
Michael Ready

A Message from the Audit Committee

Respectfully submitted by

Linda MacDonald, Chair; David Eggers, Michael Ready and Nicholas Specht

The Audit Committee (Committee) is comprised of volunteer members responsible for ensuring the safety and soundness of DuTrac Community Credit Union (Credit Union). The Committee fulfilled its responsibilities through the engagement of an independent audit firm, the supervision of the internal audit function and the review of the most recent examination and related matters conducted by the Iowa Division of Credit Unions and the National Credit Union Administration.

The accounting firm of WIPFLi, LLP performed an independent audit as of December 31, 2018. The report they issued to the DuTrac Board of Directors conclude the financial statements of the Credit Union accurately represent the financial position of DuTrac, and the results of its operations and cash flows and thereby indicate the general ledger, corresponding financial statements and records were found to be in compliance with generally accepted accounting principles (GAAP).

Further, the independent audit report noted there were no compliance violations or materially significant deficiencies in the internal controls of the financial audit and thereby supporting management's commitment to strong internal controls and accurate financial reporting.

An external financial audit for the Credit Union has been completed for the fiscal year 2018; furthermore, examiners from the Iowa Division of Credit Unions conducted their 2018 annual examination of the Credit Union. DuTrac policies, practices and internal controls were found to be in compliance with applicable federal and state regulations and received high levels of satisfaction from the examiners. The results of the examination indicated that the Credit Union continues to be financially sound.

The Committee is pleased to report DuTrac Community Credit Union continues to be well managed and in a strong financial condition.

If the Committee can be of assistance to you, we encourage you to contact us. We express our appreciation to the Board of Directors, management and staff for their dedication and commitment to serving the Credit Union and its members.

Sincerely,
Linda MacDonald, Chair
David Eggers
Michael Ready
Nicholas Specht

A Message from the Credit Committee

Respectfully submitted by

***Kevin Mueller, Chair; Daniel Deutmeyer, Scott Neyens, Harlan Pedretti, John Vail,
Susan Kern (Assoc. Board Member) and Ron Kinsella (Sr. VP of Lending)***

DuTrac enjoyed a successful year of serving member's credit needs as gross loan volume increased \$54.6 million or 10.18% to \$591.0 million as of December 31, 2018 up from \$536.4 million as of December 31, 2017 and up from \$471 million as of December 31, 2016. The increase in loan volume during fiscal 2018 resulted from another record year in indirect "Ask for DuTrac at your dealership. . ." loan volume, an increase in commercial lending volume as well as an increase in real estate loans. Indirect loan volume increased \$5.6 million or 6.4 percent to \$93.1 million as of December 31, 2018, specifically funding 4,002 indirect loans during 2018 compared to 3,642 indirect loans funded with a book value of \$87.5 million as of calendar year-end 2017 and 2,850 indirect loans with a book value of \$66 million at December 31, 2016.

Continuing to build new, as well as strengthening existing relationships in the business community, while leveraging the benefits of a growing economy, resulted in increased commercial loan volume during 2018. Commercial loan volume increased \$14.6 million or 19.89% to \$88.0 million as of December 31, 2018 from \$73.4 million recognized as of December 31, 2017. Moving forward, DuTrac will continue to seek out opportunities to partner and offer customized services to the business and agricultural communities throughout its 21-county charter area. As DuTrac's reputation expands among businesses, so should its commercial loan volume foregoing any adverse changes in the economy.

DuTrac's reputation as the area's lending leader equipped with, a knowledgeable and trusted mortgage team and competitive rates, contributed to increased real estate or mortgage loans during a rather soft 2018 real estate market. Real estate loans increased \$13 million or 6.69% to a total of \$207.4 million as of December 31, 2018 up from \$194.4 million recognized as of December 31, 2017.

With a loan to share ratio hovering around 90 percent throughout 2018, DuTrac was tasked with managing the need to offer competitive market rates on shares while funding the increasing demand for loans - whose funding comes primarily from members' shares or external borrowing. Although DuTrac has

seen a consistent historical softening in lending activity so far during 2019's first quarter, there is an ongoing anticipation and need to balance offering competitive rates on members shares with offering members loans at competitive rates. During this past year, as the cost of funding sources continued to rise, DuTrac felt its effect through increased margin compression – a decrease in the difference between the rate a loan is made to a member and the cost to fund that loan. As such, continued margin compression will affect the overall profitability of lending products and therefore may negatively impact DuTrac's overall net income in the future.

Members of the Credit Committee (Committee) are appointed by the DuTrac Board of Directors. The Committee members are tasked with regularly reviewing and providing oversight to current lending and collection policies as well as procedures to ensure the ongoing safety and soundness of loan underwriting to meet the credit needs of the membership.

Members of the Committee, working in conjunction with the senior management team, strive to provide members with tangible value during the lending process whether in the form of offering some of the region's most competitive rates, finding ways to lower members' monthly loan payments or simply putting more money back in members' pockets – all of these efforts make DuTrac the area's lending leader.

On behalf of DuTrac's Credit Committee, we thank you for allowing DuTrac the opportunity to serve you. Please provide us with any information that may allow us to better serve your credit needs moving forward.

Sincerely,
Kevin Mueller, Chair
Daniel Deutmeyer
Scott Neyens
Harlan Pedretti
John Vail
Susan Kern, Assoc. Board Member
Ron Kinsella, Sr. VP of Lending

In Memory of Dedicated Leadership and Service to the Members of DuTrac Community Credit Union...



**Tom Sarvis
1941 – 2019**



**Linda MacDonald
1945 – 2019**

Follow us on:

