

2019 Annual Report

Combined Message from the Chairman and the President

“Embracing Change.”

At DuTrac, we have no other goal than to serve you in the absolute best way possible. This past year, we took a hard, honest look at our organization, and asked and answered some difficult questions, namely, “How do we best serve our members’ future financial needs in three, 10 and even 20 years while simultaneously addressing the constant impact of change.” Imagine doing this same assessment 20 years ago. Who would have imagined by 2020 we would have Star Trek-like communications and personal banking available on our wrist watches?

Technological advances have transformed the financial services industry. Innovations move at the speed of light, requiring swift and highly informed decisions on cutting-edge topics and seamless first-time fulfillment on the delivery of new services – in a cost effective and affordable manner. Likewise, these advances alter members’ expectations, demands and indeed, change the very way we interact with one another.

Lengthy discussions at all levels of the DuTrac organization have identified tangible ways we can, and undeniably need, to change and evolve to better serve the membership. Our approach, based on input and the expertise of industry leaders, is all-encompassing; we will continue to assess and address ongoing current and immediate short-term needs while keeping our eyes fixed on an extended future. Three imminent initiatives already underway include:

• **Branding.** What is DuTrac today; what will DuTrac be to you in the future?

• **Member Experience.** How does DuTrac maximize the efficiency of the member experience – fast, safe and easy – while ensuring you are fully knowledgeable of the relationship and services rendered AND using secure, safe and tested technologies protecting you from fraud?

• **Growth.** How will DuTrac grow its assets and revenues in a global, highly competitive and commoditized marketplace?

Change provides opportunity. Embracing change ensures survival.

The changes DuTrac makes will pave the way for seamless conversions, technological and market advances both today, and for years down the road. However, our most important focus has been, and will always be, on you – your expectations of DuTrac, your experiences with our organization and its committed team. With re-freshed enthusiasm from our professionals and volunteers, expect constant dedication to the stewardship of members’ financial needs, emphasis on exceeding member expectations and revitalized community engagement to our most vulnerable of residents... hallmarks that DuTrac has proudly provided for nearly 75 years.

Our expert staff will continue to put forth their finest efforts in offering personalized recommendations, finding opportunities to lower member’s borrowing costs while seeking methods and resources to increase deposit rates while minimizing service fees. DuTrac’s leadership, advisors, and staff are dedicated and talented individuals committed to your complete satisfaction. They will be equipped to provide knowledgeable answers – and suggestions – to any questions that may arise during the course of our relationship. Count on DuTrac to ask for more of your business and offer more to earn it along while guaranteeing 100% trust and confidence in our relationship.

As you will read in the following Board reports, DuTrac, while on the cusp of exciting and invigorating changes, remains an institution with immense financial strength and security, and with a team driven by its reputation for integrity and service. Most importantly, you have a team dedicated, invested and committed to your financial well-being and our future together as we embrace the winds of change upon us – and thrive.

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

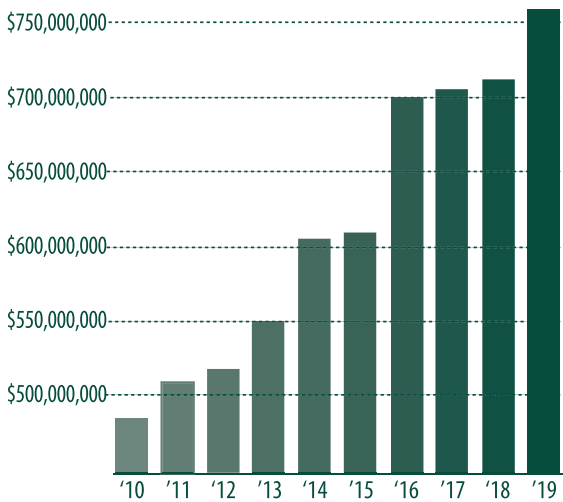


Scott Neyens
Chairman

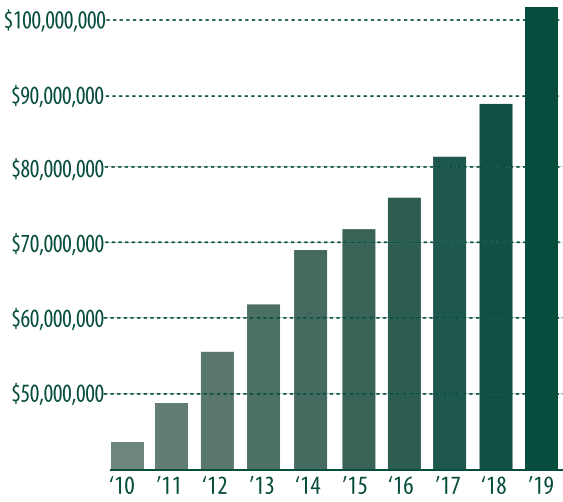


Andrew Hawkinson
President and CEO

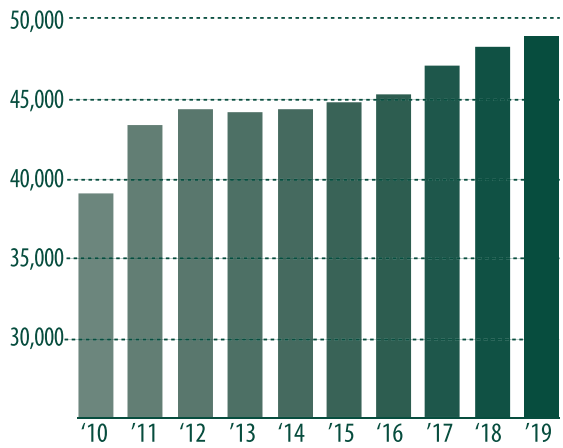
Total Assets



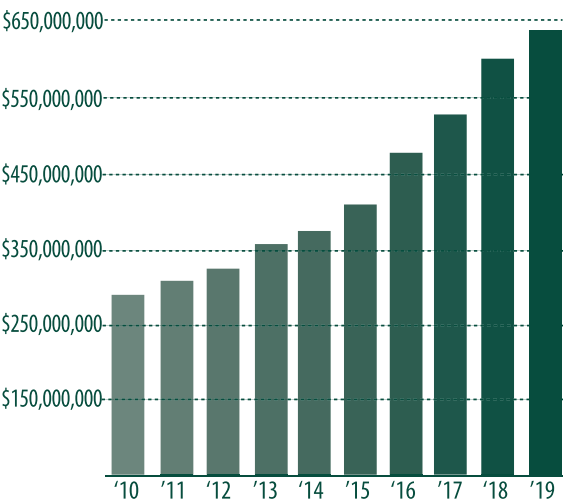
Total Equity



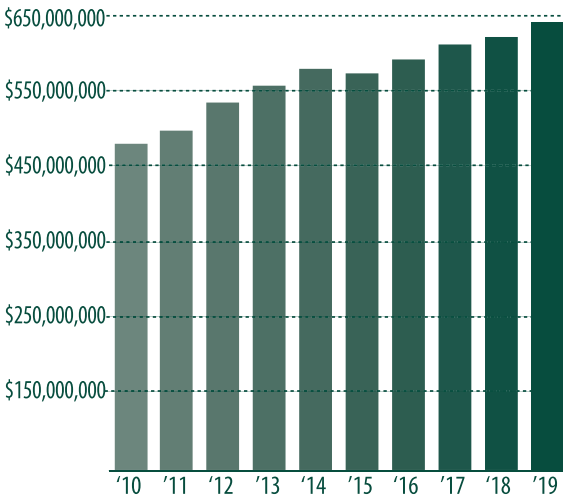
Total Members



Total Loans



Total Deposits



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



Financial Status			
ASSETS:	2019	2018	% Change
Loans	\$626,896,089	\$590,955,351	6.08%
Allowance for Loan Loss	-2,260,780	-2,080,077	8.69%
Cash & Receivables	9,942,914	8,878,786	11.99%
Investments	90,548,811	84,786,636	6.80%
Other Assets	30,860,491	27,088,365	13.93%
TOTAL ASSETS:	\$755,987,525	\$709,629,061	6.53%
LIABILITIES & EQUITY:	2019	2018	% Change
Shares & Deposits	\$647,110,473	\$615,896,235	5.07%
Accounts Payable	4,414,015	2,577,748	71.24%
Accrued Expenses	2,366,434	2,225,152	6.35%
Reserves & Undivided Earnings (Equity)	102,096,603	88,929,926	14.81%
TOTAL LIABILITIES & EQUITY:	\$755,987,525	\$709,629,061	6.53%
INCOME & EXPENSES:	2019	2018	% Change
Income from Loans	\$26,568,467	\$23,509,082	13.01%
Investment Income	2,155,239	2,283,025	-5.60%
Total Interest Income	\$28,723,706	\$25,792,107	11.37%
Total Cost of Funds	-6,962,182	-5,637,618	23.50%
Net Interest Income	\$21,761,524	\$20,154,489	7.97%
Other Operating Income	12,898,999	7,193,031	79.33%
NET INCOME BEFORE OPERATING EXPENSES:	\$34,660,523	\$27,347,520	26.74%
OPERATING EXPENSES:	2019	2018	% Change
Compensation & Employee Benefits	\$10,123,392	\$10,205,108	-.80%
Association Dues	59,282	61,860	-4.17%
Office Operations & Occupancy	4,972,149	4,210,672	18.08%
Advertising & Promotion	1,291,289	1,239,050	4.22%
Loan Servicing	2,436,732	2,119,775	14.95%
Professional & Outside Services	1,487,483	1,338,045	11.17%
Provision for Loan Losses	1,070,000	901,900	18.64%
Miscellaneous Expenses	2,629,767	593,816	342.86%
TOTAL OPERATING EXPENSES:	\$24,070,095	\$20,670,226	16.45%
NET INCOME FROM OPERATIONS:	\$10,590,428	\$6,677,294	58.60%
Non-Operating Income & Expense	696,864	1,115,276	-37.52%
NET INCOME:	\$11,287,292	\$7,792,570	44.85%
ASSETS:	Fair Market Value	Book Value	
Cash or Short Term Investments	\$9,942,914	\$9,942,914	
Investments, Securities & CDs	90,286,295	90,548,811	
Member Loans	612,497,375	626,896,089	
LIABILITIES:	Fair Market Value	Book Value	
Share Accounts, Checking	\$627,269,644	\$647,110,473	

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, 2019.

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.

Your Board of Directors



Scott Neyens
Chairman



David Eggers
Vice Chairman



Daniel Deutmeyer
CFO/Treasurer



John Vail
Secretary



Susan Kern



Kevin Mueller



Harlan Pedretti



Michael Ready



Nicholas Specht

A Message from the CFO/Treasurer

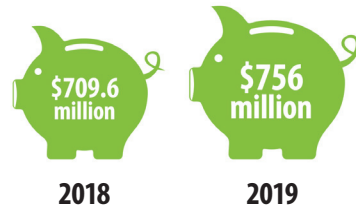
Respectfully submitted by

Daniel Deutmeyer (Chief Financial Officer and Treasurer)

Financial highlights as of December 31:

DuTrac recognized increases in both earnings and assets during fiscal year 2019. With the support of its members, total assets grew to \$756 million, an increase of \$46.4 million or 6.53 percent, from total assets of \$709.6 million as of December 31, 2018. Driven largely by the \$5.8 million gain of the sale of VISA - Class B Stock and increased lending activity during the year, DuTrac's net income increased by \$3.5 million or 44.87 percent to \$11.3 million during 2019 up from net income recognized during fiscal year 2018 of \$7.8 million and an increase of \$6.1 million or 53.98 percent from \$5.2 million recognized in net income during fiscal year 2017. 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 47,685 as of December 31, 2019 up from 47,166 as of December 31, 2018 or an increase of 519* members.

*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 2019, DuTrac purged 4,246 inactive accounts making actual member growth 4,765.

DuTrac employees are always looking for ways to maximize a member's money. Seeking methods to either reduce operating expenses or mitigate operational costs by allowable increases in associated revenues are ways the DuTrac team serves the overall needs of the membership. During 2019, DuTrac had the opportunity to sell 33,649 shares of VISA - Class B Stock earning \$5.8 million from the sale. Revenue received from the sale of this stock was used to: create a donor advised philanthropic fund of \$1.3 million administratively with the Iowa Credit Union Foundation to assist various vulnerable communities of Iowans; purchase or update \$371 thousand in data processing software, equipment or to buyout existing data processing contracts; as well as offset expenses used to remodel and update branch facilities.

Operating Costs



Total Net Worth



DuTrac is proud to report net worth, as of December 31, 2019, was 13.49 percent or \$102 million, compared to 12.91 percent or \$91.7 million as of December 31, 2018 and is considered "well capitalized" by the National Credit Union Administration, DuTrac's federal regulator. As of December 31, 2019, DuTrac was in excess of the regulatory minimum of 7 percent by an additional 6.49 percent. 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, I would like to extend our gratitude to DuTrac's loyal members. It is our valued members that has made DuTrac's long tenure of financial strength possible. You have my sincere gratitude for partnering with, and trusting in, DuTrac for honest, affordable, and competitive financial products and services. It is our pleasure to work with you to help you achieve your financial and personal goals.

A Message from the Nominating Committee

Respectfully submitted by

Susan Kern, Chair; Scott Neyens, Nicholas Specht, Crenna Brumwell (Associate Board Member), and Michael Ready (Associate Director Liaison)

David Eggers, Susan Kern and John Vail were elected to serve three-year terms as well as Harlan Pedretti, to serve a one-year term, on the DuTrac Community Credit Union Board of Directors during the 2019 Annual Meeting held on April 28, 2019. The annual Board of Directors reorganization meeting had the following officers elected to a one-year term: Scott Neyens, chair; David Eggers, vice chair; Daniel Deutmeyer, chief financial officer and treasurer; and, John Vail, secretary.

Board members appointed to the nominating, credit and audit committees may be found in the headers of each committees' annual report contained in this document.

Members interested in serving on the Board of Directors were notified in the Winter '20 *Update* to submit their applications along with biographical information by January 31, 2020 to the Nominating Committee chair. Because of this notice, nominations will not be accepted from the floor at the 2020 Annual Meeting. Directors having terms expiring in conjunction with the 2020 Annual Meeting are Kevin Mueller, Harlan Pedretti and Michael Ready. In turn, after applications were reviewed and received,

the following people were vetted by the Nominating Committee to stand for election by the membership to the DuTrac Board of Directors: Kevin Mueller, Harlan Pedretti and Michael Ready. No additional applications were received. Bios of each nominee have been available on DuTrac.org since February 3, 2020 and are available at the Annual Meeting. Mr. Mueller, Pedretti and Ready are each running for one of three open, three-year term Board seats.

DuTrac's Election Committee appointments will be announced at the 2020 Annual Meeting. Accordingly, the Election Committee chair will announce the results of the 2020 Annual Meeting elections.

Sincerely,

Susan Kern
Scott Neyens
Nicholas Specht
Crenna Brumwell
Michael Ready

A Message from the Audit Committee

Respectfully submitted by

Nicholas Specht, Chair; Susan Kern, Michael Ready, and Crenna Brumwell (Associate Board Member)

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 supports management's commitment to strong internal controls and accurate financial reporting.

An external financial audit for the Credit Union has not yet been completed for fiscal year 2019; however, examiners from the Iowa Division of Credit Unions did conduct their 2018

annual examination of the Credit Union. DuTrac's 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 examinations indicated that the Credit Union continues to be financially sound. DuTrac's next regulatory examination will occur during the summer of 2020.

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

If the Committee can be of assistance to you, we encourage you to contact us. We would like to 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,

Nicholas Specht
Susan Kern
Michael Ready
Crenna Brumwell

A Message from the Credit Committee

Respectfully submitted by

Harlan Pedretti, Chair; Daniel Deutmeyer, David Eggers, Kevin Mueller, John Vail, and Ronald Kinsella (Sr. VP of Lending)

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.

DuTrac enjoyed a successful year of serving members' credit needs as gross loans increased \$35.9 million or 6.08 percent to \$626.9 million as of December 31, 2019 from a balance of \$591 million as of December 31, 2018. Increases in fixed-rate mortgages and commercial real estate lending as well as the broadening of overall credit terms driving the uptick in overall gross loan volume during the year. As the overall domestic economy continued its growth for another consecutive year, members felt more confident in borrowing funds to make purchases. Increased borrowings following in the steps of a national wave of economic optimism resulting from both real and perceived increased personal wealth encouraged in part by rising home values and wages, gains in the stock market, low inflation and low borrowing rates. Moreover, after experiencing so many consecutive years of economic growth, members increased their borrowings upon hearing sporadic near-term recessionary concerns. Possible recessionary conditions motivating borrowers to take on more debt in the near term during known economic conditions versus later and incur the risks associated with an economic slowdown or downturn.

Biggest loan volume gains came as a result of fixed-rate loan mortgage lending whereby, with near record low mortgage rates, members were eager to lock-in low, fixed rates on their mortgages. As a result, DuTrac recognized \$213.1 million in fixed-rate mortgages as of December 31, 2019, an increase of \$21.8 million from a fixed-rate mortgage balance of \$191.3 million as of December 31, 2018, for an increase of 11.4 percent.

Increases in mortgage lending were very closely followed by the \$20.4 million increase in business real estate lending where, like those members wanting to lock-in some of the lowest fixed rates seen in many years, DuTrac's commercial members took advantage of offered rates to push the fixed-rate business real estate loan balance to \$81.8 million as of December 31, 2019 up from a balance of \$60.9 million as of December 31, 2018. The overall business friendly and business expansion market, improved business regulatory environment along with a strong, expanding regional economy were factors fueling the investments being made by area commercial members.

After years of increased volume, in both new and used vehicles, vehicle lending recognized a decrease in volume declining \$1.1 million or .46 percent, from a total new and used vehicle loan balance of \$239.2 million as of December 31, 2018 to \$238.1 million as of December 31, 2019. Consumer pay downs on outstanding vehicle loan balances, a market saturated with past strong vehicle lending and an uptick in vehicle lending rates during the past fiscal year ultimately led to a reduction in the number of vehicles needing to be purchased and a reduction in vehicle loan balances overall.

Consumer confidence associated with a willingness to take on more debt was emphasized throughout the 2019 calendar year as consumers were leveraging equity held in their homes to make additional purchases. Ending home equity balances increased to \$27.9 million as of December 31, 2019 from \$26.1 million as of December 31, 2018. The resulting increase of \$1.8 million, or 6.9 percent, was one of the largest increases recognized in home equity balances in a few years.

The exuberance associated with an expanding economy may have led some borrowers to take on more debt than could be properly managed. This exuberance, in addition to the impact upon some borrowers of downturns in select regional industries, resulted in DuTrac increasing its provision for loan losses by \$168 thousand or 18.64 percent from \$902 thousand for the year ended December 31, 2018 to \$1.1 million for the year ended December 31, 2019. The provision for loan losses as well as the complementary allowance for loan losses with balances of \$2.3 million and \$2.1 million, respectively, as of December 31, 2019 and 2018, respectively, are some of the lowest loan loss balances as a percentage of gross loans in the region and reflect DuTrac's commitment to engaging in as well as managing risk within its loan portfolio.

Writing this report, with significant drops in the stock market being recognized due to fears of the spreading coronavirus, there appear to be significant headwinds blowing against what was appearing to be another year of strong economic performance. Regardless of the economic reality or the forecasted outlook, members may have confidence that DuTrac will continue to have the credit products available to serve members' needs.

On behalf of DuTrac's Credit Committee, we would like to 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,

Harlan Pedretti
Daniel Deutmeyer
David Eggers
Kevin Mueller
John Vail
Ronald Kinsella

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