

ANNUAL REPORT 2016

MILL  CITY[®]

CREDIT UNION



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WELCOME TO THE “83RD” ANNUAL MEETING OF YOUR CREDIT UNION!

Two thousand sixteen was another strong year for our organization. Changes were made to adapt to the needs of a community based organization while continuing to exceptionally serve our existing membership base. We continue to be challenged with narrow interest margins and the high cost of compliance relating to increased regulatory oversight of our industry. We have worked diligently to grow within our business model (organic growth) while also looking for opportunities outside of that model.

We closed the year with strong financial results despite many present challenges. Gross Loan growth more than doubled Deposit Product growth which is good for our Balance Sheet and Income Statement. We continue to look for slow and steady growth while dealing with the economic realities of the present. We once again produced strong bottom line results with an ROA of .47%. Our Net Worth to Total Asset Ratio now stands at a very respectable 11.04%. Board and management are committed to maintaining a balanced and fiscally strong organization.

Highlights of the year include but are not limited to:

- ▶ Nurture and deepen GMI relationship
Leveraged value proposition; completed strategic visits; developed key relationships; and provided enhanced financial education.
- ▶ Developed strategic growth plan for expanded field of membership
Executed enhanced outreach plan; increased brand awareness through Greater Good give back program; implemented Business Accounts; and increased adoption of mobile services.
- ▶ Grow Loan Portfolio
Added participation loans to our portfolio; pursued all credit score borrowers; targeted millennials for first mortgages; and utilized marketing channels to drive growth.

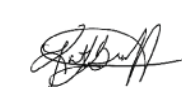
- ▶ Identify and pursue merger partner (s)
Identified potential list; communicated intent with regulators; nurtured relationships with potential partners; and completed due diligence/ negotiated applicable agreements.
- ▶ Enhanced Courtesy Pay program
- ▶ Added a Skip-a-Pay program
- ▶ Adopted a Debit Card activation and engagement program
- ▶ Completed a strong year for recovery of charged-off loans
- ▶ Developed strategic alliance with ALM First – led to growing mortgage portfolio balances

Recognitions include but are not limited to:

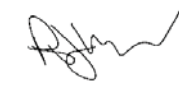
- ▶ Named one of the “200 Healthiest Credit Unions” in the country
- ▶ Received strong internal and external audit reports
- ▶ Given exceptional rating following regulatory examination process

Finally, we would like to thank the staff for their dedication and hard work. We would like to thank the board and committee members for providing strong business direction and advice. Most importantly, we would like to thank our members for their ongoing support. We realize that without you our organization does not exist. Our primary goal is to provide each member/owner with a strong, safe, and efficient financial alternative.

Respectfully,



Kent Greff



Peter McDonald

2016 FINANCIALS

BALANCE SHEET

ASSETS	2014	2015	2016
Net Loans Outstanding	\$ 173,762,466	\$ 181,272,891	\$ 196,836,463
Cash and Equivalents	18,438,594	18,521,556	19,540,260
Investments	97,886,602	106,862,621	100,869,097
Land, Building & Improvements	2,980,794	2,843,704	2,609,035
Other Fixed Assets	518,389	417,203	287,134
All Other Assets	7,188,398	6,018,728	6,533,920
Total Assets	\$ 300,775,243	\$ 315,936,703	\$ 326,675,909
LIABILITIES & EQUITY			
Accounts Payable/other Liabilities	1,638,445	2,304,113	1,861,046
Dividends Payable	-	-	-
Notes Payable	-	-	-
Member Shares and Deposits	265,782,445	279,144,530	288,920,892
Equity			
Reserves	4,031,025	4,031,025	4,031,025
Undivided Earnings	27,357,411	29,123,275	30,539,755
Unrealized Gains/Losses AFS Invest	200,053	(82,720)	(172,320)
YTD Earnings	1,765,864	1,416,480	1,495,511
Total Liabilities & Equity	\$ 300,775,243	\$ 315,936,703	\$ 326,675,909

INCOME STATEMENT

INTEREST INCOME & EXPENSE	2014	2015	2016
Interest On Loans	\$ 7,539,335	\$ 7,777,531	\$ 8,056,707
Interest On Investments	1,150,190	1,345,489	1,622,672
Total Interest Income	8,689,525	9,123,020	9,679,379
Interest & Dividends	926,943	933,698	1,012,475
Net Interest Income	7,762,582	8,189,322	8,666,904
Provision for Loan Loss	(77,877)	(21,810)	174,215
Net Interest Income after PLL	7,840,459	8,211,132	8,492,689
NON-INTEREST INCOME	\$ 2,687,065	\$ 2,592,862	\$ 2,942,413
NON-INTEREST EXPENSES			
Compensation & Benefits	4,361,492	4,779,892	4,816,293
Office Operations	2,448,551	2,535,153	2,819,960
Loan Expense	367,666	371,549	395,017
Other Expense	1,583,951	1,700,920	1,908,322
Total Non-Interest Expenses	8,761,660	9,387,514	9,939,592
NET INCOME	\$ 1,765,864	\$ 1,416,480	\$ 1,495,510

In accordance with the Federal Credit Union Act, the Supervisory Committee is appointed by the Mill City Credit Union Board of Directors and is given the responsibility to assure that the financial operations of the credit union are carried out in accordance with the Act and regulations of the Minnesota Department of Commerce and the National Credit Union Administration (NCUA).

The committee meets regularly with staff to monitor and evaluate internal controls, and utilized the services of CliftonLarsonAllen for monitoring an Internal Control Review Program and conducting related ongoing internal auditing procedures.

The Supervisory Committee also retained the CPA firm of CliftonLarsonAllen to perform the 2016 Financial Statement Annual Audit in accordance with auditing standards generally accepted in the United States of America. Their report concluded that the financial statements were fairly stated in conformity with accounting principles generally accepted in the United States of America.

It is the opinion of the Supervisory Committee that the financial affairs of Mill City Credit Union have been conducted properly and in accordance with policies, bylaws and regulations for the year ending December 31, 2016.

The committee thanks the entire staff for their cooperation in making 2016 a successful year.

Respectfully,



Joe Piegras
Supervisory Committee Chair



BOARD OF DIRECTORS

Peter McDonald, *Chair*
Bob Kirk, *Vice-Chair*
Cam Hoang, *Secretary*
Earl Robertson, *Director*
Martha Gschneidner, *Director*
Chad Kerlin, *Director*
Geoff Johnson, *Director*
Rebekah Ferguson, *Director*
Paul Boyer, *Director*

SUPERVISORY COMMITTEE

Joe Piegras
Tara Sheridan
Andrew Deising

MANAGEMENT TEAM

Kent Greff, *President*
Chief Executive Officer

Shirley Neukom,
Senior Vice President
Chief Financial Officer

Mitch Myre, *Vice President*
Chief Operations Officer

Missy Mound, *Vice President*
Chief Marketing Officer

Robin Downing, *Vice President*
Human Resources



TWIN CITIES

MINNETONKA
10653 Wayzata Boulevard
Minnetonka MN 55305

DRIVE UP
1 General Mills Boulevard
Golden Valley MN 55426

CHAMPIONS CENTER *
1 General Mills Boulevard
Golden Valley MN 55426

JFB TECHNICAL CENTER *
9000 Plymouth Ave N
Golden Valley MN 55427

ADMIN
9999 Wayzata Boulevard
Minnetonka MN 55305

NATIONWIDE

BELVIDERE *
915 East Pleasant Street
Belvidere IL 61008

CEDAR RAPIDS *
4800 Edgewood Road
Cedar Rapids IA 52406

HANNIBAL *
1 Red Devil Road
Hannibal MO 63401

MURFREESBORO *
2532 General Mills Way
Murfreesboro TN 37127

*General Mills Onsite Branches