

*Locally Owned,  
Locally Focused*



Midwest Corporate  
Federal Credit Union

*2005 Annual Report*

# MIDWEST CORPORATE FCU

## *Board of Directors*

Debra Gallagher, Chair, District 3 (Missouri Valley) (2008) ..... Capital CU  
Darwin Brokke, Vice Chair, District 4 (North Central) (2006) ..... Citizens Community CU  
Duane Lund, Secretary/Treasurer, District 7 (Red River) (2008) ..... N.D. Air National Guard CU  
Mindee Kohlman, Director, District 2 (Souris Valley) (2008) ..... Prairie Federal CU  
Cheryl Malm, Director, District 6 (Maurie C. Byrne) (2006) ..... Med Park CU  
Eric Musland, Director, District 5 (James Valley) (2007) ..... LaMoure CU  
Denton Zubke, Director, District 1 (Roughrider) (2007) ..... Dakota West CU

## *Asset-Liability Committee*

Debra Gallagher, Chair ..... Capital Credit Union  
Darwin Brokke ..... Citizens Community Credit Union  
Mindee Kohlman ..... Prairie Federal Credit Union  
Douglas Wolf ..... President/CEO  
Denton Zubke ..... Dakota West Credit Union

## *Credit Committee*

Paul Brucker, Chair ..... Railway Credit Union  
Debra Gallagher ..... Capital Credit Union  
Ron Schulz ..... New Salem Credit Union

## *Supervisory Committee*

Mindee Kohlman, Chair ..... Prairie Federal Credit Union  
Pamela Katin-Vetter ..... Railway Credit Union  
Doreen Ottemoeller ..... Capital Credit Union

## *Staff*

Douglas Wolf ..... President/CEO  
Trudy Wise ..... Vice President of Operations  
Jody Braunberger ..... Senior Service Consultant  
Shawn Marie Brummer ..... Service Consultant  
Kelli Neigum ..... Service Consultant  
Cindy Weigel ..... Accountant

# Report of the Chairman and the President

The year 2005 was a year of refocusing for Midwest Corporate. Your Board and management team took a hard look at our future and what we needed to do to ensure that Midwest Corporate would continue to provide value to its members. We are seeing corporate credit unions announce mergers in a marketplace that punishes those with inefficient operations and those



Deb Gallagher, Chair

that chose business models that were not sustainable in the current economic rate environment. We noted that our approach of a small infrastructure that allows us to control costs and respond quickly to member needs has been the right approach. Midwest Corporate continues to offer competitive rates and needed services. Our approach of partnering with other organizations, including other corporate credit unions, has allowed us to bring needed services to our members at competitive prices without expending a great deal of resources.

Our desire has been, and continues to be, to provide our member credit unions with the deposit and correspondent services they need at competitive prices. To help ensure that we are doing this, we engaged a research firm to conduct an independent member survey to better understand what is important to our members and if we could change things to better serve our members' needs.

While the results of this survey are still being studied, the preliminary results show that we are on the right track as members continue to express high satisfaction with our services and pricing.

During our 2005 planning session, we discussed how to balance service to our core membership with efforts to grow our membership. Our conclusion was that we needed to keep focused on service to our current members, first and foremost. This meant finding ways to ensure that we are aware of evolving needs from our members, keeping in touch with services being developed elsewhere, and being sure we are able to remain competitive while preserving the financial strength of Midwest Corporate. As part of this effort, we have been increasing the frequency of our member contacts, and we continue to regularly review our services for improvements.

We continue to operate a safe and sound financial institution as Midwest Corporate had the seventh best yearend 2005 equity reserve ratio among all corporate credit unions. Likewise, operating expenses to average assets was fifth best at yearend 2005. Our balance sheet has been managed to meet our member's liquidity demands and to minimize interest rate risks. This helped as we saw member overnight deposits bottom out at a multi-year low of \$38.2 million in July 2005. However, continued rising interest rates coupled with low member deposit levels (due to their own strong loan demands) caused a strain on our net income like most corporate credit unions, although we were still able to grow reserves by 2.72%.



Doug Wolf, President/CEO

As always, our success is dependent on our management team and staff. They are focused on our members, and their efforts bring value to our members. We all thank them deeply.

The year 2006 looks to bring similar challenges as did 2005 in regard to liquidity and earnings. Rates will continue to rise and member liquidity will likely remain lower than in past years. However, our efficient operations, our outstanding services, and our superior member service will ensure another successful year.

As we move forward, we hope that you will see our theme for 2006 and beyond, *Locally Owned, Locally Focused*, in all that we do. On behalf of the entire Board, management, and staff, we thank you for your continued support and your business.

Respectfully Submitted,

*Debra Gallagher*  
Chairman

*Douglas C. Wolf*  
President/CEO

## *Treasurer's Report*



I am pleased to report that Midwest Corporate continues to perform very well financially. Our equity reserves ended 2005 at \$6.9 million, with capital increasing 2.72% for the year.

The 2005 rate environment of continual short-term rate hikes, in conjunction with low member liquidity levels, caused a squeeze on Midwest Corporate's margins resulting in lower levels of net income. Net income for the year ended at \$185,108.

We continue to return to our members most of our income in the form of dividends. In 2005, we returned 83.5% of our interest income and 79.4% of our gross income to our members.

Duane Lund, Treasurer

Operating expenses in 2005 came in at \$639,888 which was only \$12,868 over the 2004 level, or 2.1% higher, but was under our budget forecast by \$31,857, or 4.7% lower. The overall operating expenses compared to our gross income was only 11.5%, and when calculated as a percentage of our 12-month Daily Average Net Assets (DANA), our operating expenses came in at 0.38% in 2005, which is the same as in 2004. When compared to other corporate credit unions, Midwest Corporate continues to be among the most efficiently run corporate credit unions in the country with our operating expenses to DANA being the fifth best.

Our DANA ended the year 2005 at \$167.1 million, up from \$163.5 million the year before, an increase of 2.2%. This modest increase, in conjunction with our increased equity, brought our total capital to DANA ratio to 7.73% for the year ended December 31, 2005, up 4 basis points from one year earlier. Midwest Corporate's equity reserves to DANA at 4.15% ranks us tenth among all corporate credit unions.

In addition to strong capital, we continue to maintain a low risk balance sheet, and our net economic value (NEV) analysis throughout 2005 remained well within regulatory and policy limits.

Liquidity became an issue in 2005 as member credit unions found themselves with lower liquid assets causing a need to borrow. Midwest Corporate's sound management of the balance sheet enabled us to easily meet this demand and fulfill our role as a liquidity provider for our members.

Overall, Midwest Corporate remains financially sound. Regulatory and policy capital levels are being exceeded and balance sheet risk levels are being kept to a minimum. In 2006, we expect to experience continued tight liquidity for our members and tight margins. These pressures should prove to be challenging for Midwest Corporate, but our commitment to controlling costs and actively managing the balance sheet should result in positive financial results.

Respectfully Submitted,

*Duane Lund*

Treasurer

# Midwest Corporate Federal Credit Union

## Statement of Financial Condition

(unaudited)

<i>Assets</i>	12/31/05	12/31/04
Cash & Cash Equivalents	\$ 362,277	\$ 2,015,574
Loans to Members	18,443,461	14,503,803
Investments	127,430,070	138,249,603
Securities Purchased Under Agreements to Resell	- 0 -	- 0 -
Investments in Corporate CUSOs	289,980	299,980
NCUSIF Deposit	49,545	54,250
Interest Receivable	860,888	434,540
Future Dated ACH	11,744,473	12,170,920
Other Assets	<u>94,737</u>	<u>93,843</u>
Total Assets	<u>\$159,275,431</u>	<u>\$167,822,514</u>
 <i>Liabilities &amp; Equity</i>		
<i>Liabilities</i>		
Notes Payable	\$ 8,300,000	\$ 6,800,000
Securities Sold Under Agreements to Repurchase	- 0 -	- 0 -
Interest Payable	384,374	133,455
Future Dated ACH	11,744,473	12,170,920
Other Liabilities	<u>46,733</u>	<u>52,383</u>
Total Liabilities	<u>\$ 20,475,580</u>	<u>\$ 19,156,757</u>
 <i>Shares</i>		
Share Accounts	\$ 71,219,441	\$ 79,548,482
Certificates of Deposit	54,663,000	56,547,000
Member Capital Shares	<u>5,985,331</u>	<u>5,821,918</u>
Total Shares	<u>\$131,867,772</u>	<u>\$141,917,400</u>
 <i>Equity</i>		
Regular Reserve	\$ 3,087,718	\$ 3,087,718
Other Reserves	- 0 -	- 0 -
Unrealized Gain(Loss) on AFS Investments	(801)	585
Undivided Earnings	3,660,054	3,373,426
Net Income	<u>185,108</u>	<u>286,628</u>
Total Primary Equity	<u>\$ 6,932,079</u>	<u>\$ 6,748,357</u>
Total Liab. & Equity	<u>\$159,275,431</u>	<u>\$167,822,514</u>
 <i>12-month Average</i>		
Daily Net Assets	<u>\$167,100,779</u>	<u>\$163,532,055</u>

*NOTE—Audited Statements are available upon request*

# Midwest Corporate Federal Credit Union

## Statement of Income

(unaudited)

<i>Year-to-Date</i>	12/05	12/04
<i>Interest Income</i>		
Interest on Loans	\$ 606,034	\$ 309,328
Interest on Investments	<u>4,677,902</u>	<u>2,723,858</u>
Total Interest Income	<u>\$5,283,936</u>	<u>\$3,033,186</u>
 <i>Interest Expense</i>		
Interest on Deposits	\$4,413,867	\$2,172,879
Interest on Borrowed Funds	<u>315,382</u>	<u>230,068</u>
Total Interest Expense	<u>\$4,729,249</u>	<u>\$2,402,947</u>
Net Interest Income	\$ 554,687	\$ 630,239
Fee Income	273,707	279,235
Operating Expenses	<u>639,887</u>	<u>627,020</u>
Net Income from Operations	\$ 188,507	\$ 282,454
Non-Operating Gains(Losses)	<u>(3,399)</u>	<u>4,174</u>
Net Income	<u>\$ 185,108</u>	<u>\$ 286,628</u>

<i>Ratios</i>	12/05	12/04
Primary Capital to DANA	4.15%	4.13%
Total Capital to DANA	7.73%	7.69%
Dividends to Gross Income	79.42%	65.60%
Operating Expenses to Gross Income	11.51%	18.93%
Net Interest Income to DANA	.332%	.384%
Operating Expenses to DANA	.382%	.383%
Net Income from Operations to DANA	.113%	.172%
Return on Equity	2.79%	4.37%

DANA = 12-month Daily Average Net Assets  
Total Capital = Primary Capital + Member Capital Shares

Ratios are annualized.

*NOTE—Audited Statements are available upon request*

## Operating Level & NEV Analysis:

Part 704 Operating Level: Base Level

Percent change in NEV for instantaneous changes in Interest Rates

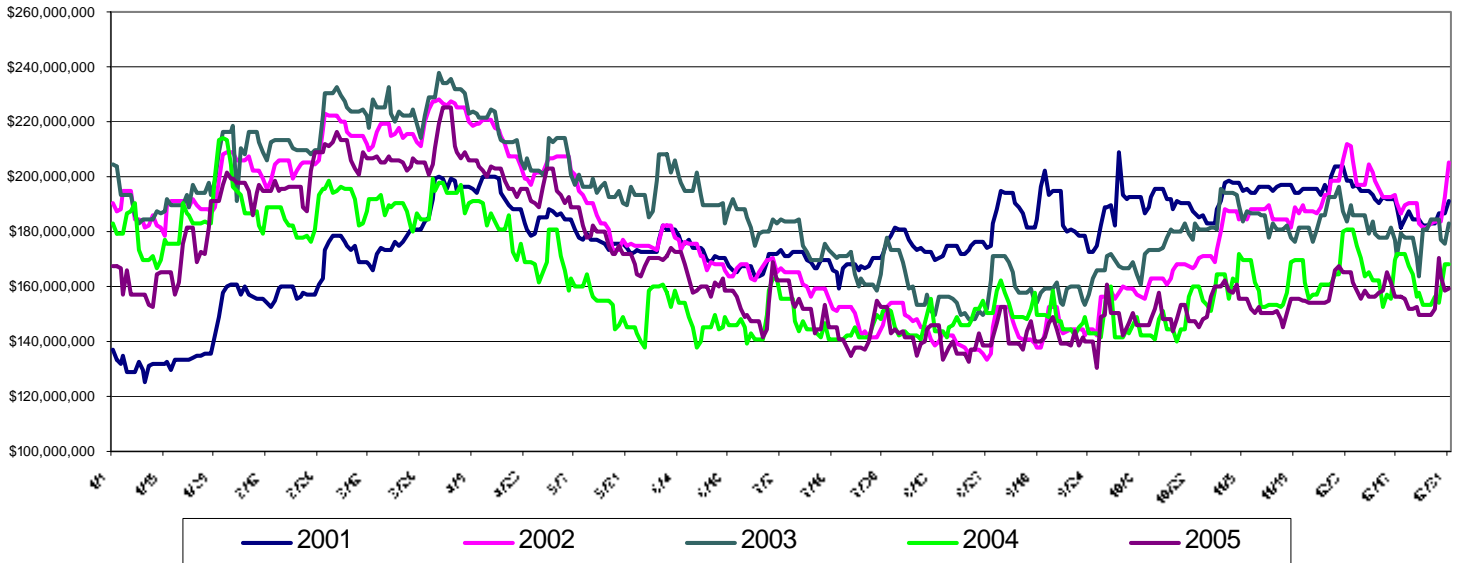
	<u>12/05</u>	<u>12/04</u>	<u>12/03</u>
+3.00%	-3.13%	-4.67%	-4.54%
Base Ratio	7.59%	7.59%	6.54%
-1.00%	+1.09%	+1.59%	+1.53%
-2.00% *	+2.19%	+3.28%	N/A
-3.00% *	+3.37%	N/A	N/A

\* Shocks for a 2.00% or 3.00% downward movement in rates was not done for 12/03 due to the then low rate environment. Shock for a 3.00% downward movement was not done for 12/04 due to the then low rate environment.

*Net Economic Value (NEV)* is the difference between the present value of our assets and our liabilities, divided by the present value of our assets. The percent change in different rate scenarios (i.e. +/- 300 basis points) indicates the interest rate sensitivity we currently maintain. For Base Level Operating Authority, NCUA Regulation Part 704 permits a percent change in a corporate credit union's NEV up to 15.00% and requires that the NEV ratio is maintained at a minimum of 2.00% during rate shock tests.

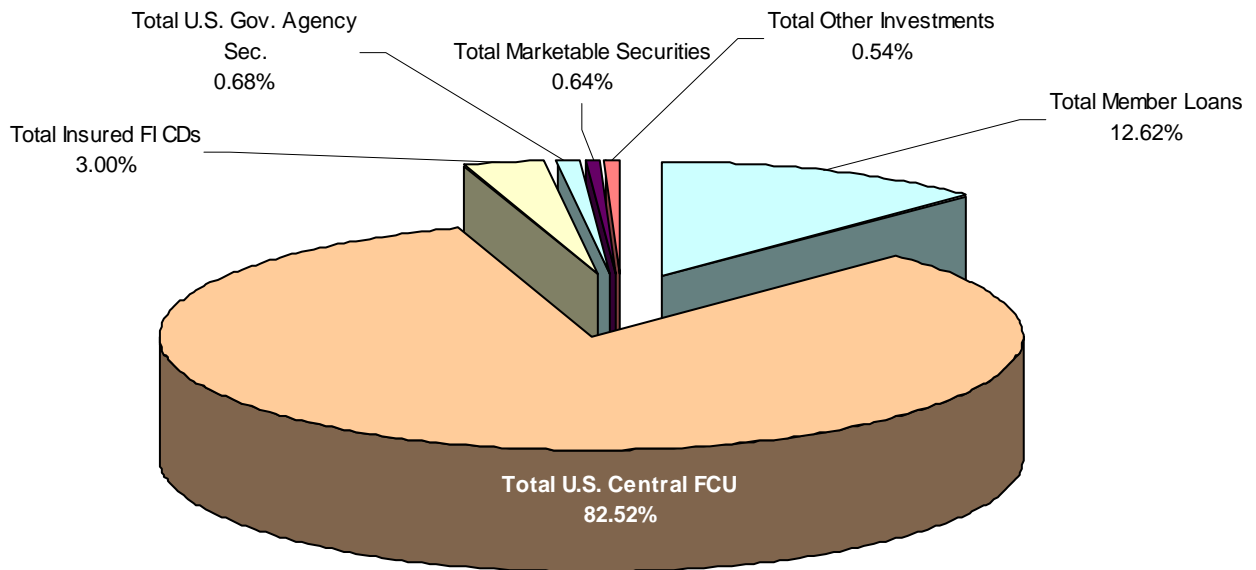


### MCFCU Net Assets - Year over Year

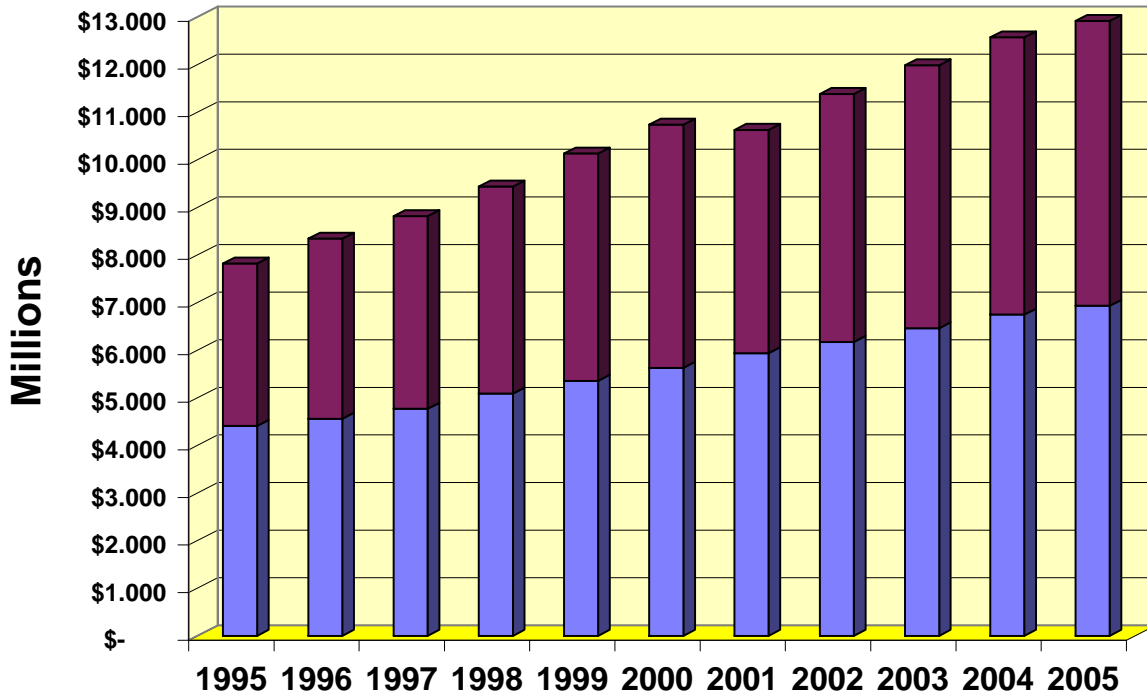


### Midwest Corporate FCU

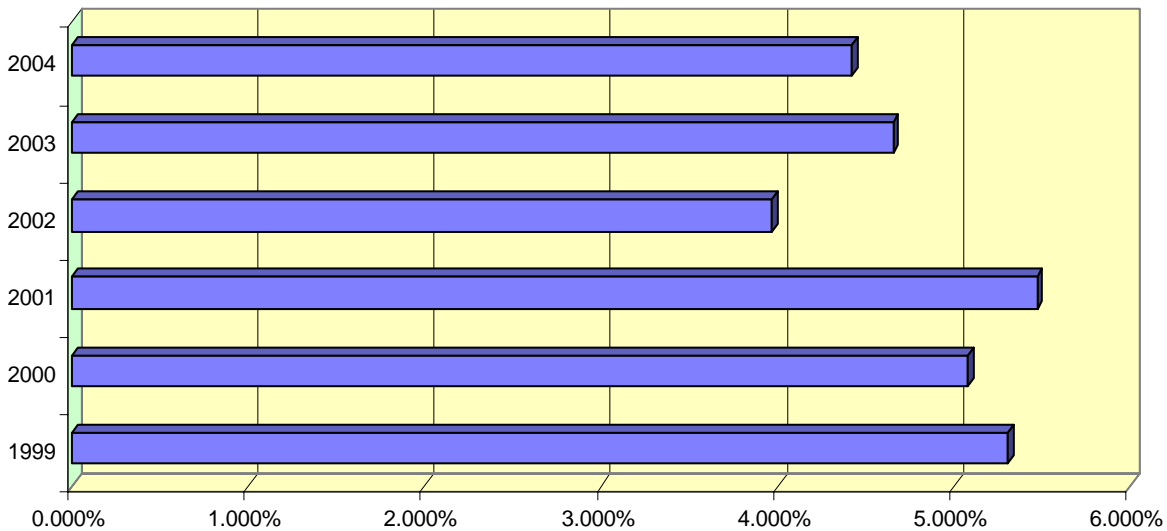
#### Total Investments by Category as of 12/31/05



# Capital Trends



# Annual Equity Growth



	1999	2000	2001	2002	2003	2004
Equity Growth	5.310%	5.080%	5.470%	3.970%	4.655%	4.420%

## *Supervisory Committee Report*

The Supervisory Committee continued to engage Brady, Martz & Associates, P.C., to conduct the 2005 annual audit which resulted in an unqualified opinion being issued with no findings or adjustments (copies of the audited financial statements are available upon request by calling 800/852-2677, or on our website at [www.midwestcorporatetcu.org](http://www.midwestcorporatetcu.org)). In addition, Brady, Martz & Associates, P.C., was again engaged to perform various agreed upon procedures quarterly to supplement the internal control audit work done by the staff accountant and the Committee. The reports from these agreed upon procedures were all positive.

Throughout the year, the Committee members performed various reviews monthly. The results from these reviews were all positive.

The Committee is pleased to report that the internal control systems in place at Midwest Corporate are appropriate and functioning as intended.

The Committee wishes to thank the management and staff of Midwest Corporate for their cooperation and dedicated service.

Respectfully Submitted,

*Mindee Kohlman*

Prairie Federal Credit Union

*Doreen Ottemoeller*

Capital Credit Union

*Pamela Katin-Vetter*

Railway Credit Union

## *Credit Committee Report*

The Credit Committee meets on an as needed basis to review lines of credit changes, unusual items, and loan requests that are outside the authority of the loan officers.

Loan reviews include an analysis of financial condition, local economic conditions, checking the files for proper documentation, etc. Information used for the reviews is supplied by the member-borrower, as well as outside sources.

As of December 31, 2005, 51 members had approved advised lines of credit, with limits totaling \$144.6 million.

During the year, 1,400 line of credit advances were made resulting in \$187.5 million being advanced.

Term loan activity in 2005 consisted of 17 loans for \$16.5 million in advances.

No loans became delinquent or were classified during 2005.

It has been our pleasure to serve on the Credit Committee, and we wish to thank our loan officers, Trudy Wise and Doug Wolf, for their efforts during 2005. We encourage any member who may have questions regarding credit services to contact the loan officers.

Respectfully Submitted,

*Paul Brucker*

Railway Credit Union

*Ron Schulz*

New Salem Credit Union

*Debra Gallagher*

Capital Credit Union

## Investment Services

- ◆ Variable-Rate High Yield Overnight Investment/Settlement Account
- ◆ Variable-Rate 90-Day Notice Account
- ◆ Variable-Rate Membership Capital Share Deposit Account
- ◆ Floating-Rate Term Certificates (FRAPs)
- ◆ Fixed-Rate Term Certificates
- ◆ Callable Fixed-Rate Certificates
- ◆ Step-Up Rate Callable Certificates
- ◆ SimpliCD
- ◆ CNBS (Broker/Dealer & ALM Services)

## Liquidity Services

- ◆ Variable-Rate Advised Line of Credit
- ◆ Variable-Rate Committed Line of Credit
- ◆ Variable-Rate Term Loans
- ◆ Fixed-Rate Term Loans
- ◆ Loan Pool Purchases (through CharlieMac)
- ◆ Central Liquidity Facility (CLF)

## Correspondent Services

- ◆ ACH Services - APEX-ACH
- ◆ Cash Concentration
- ◆ Check Collection
- ◆ Card Services \*\*
- ◆ Coin & Currency \*
- ◆ Corporate Connection Online Account Management
- ◆ Corporate Share Drafts \*
- ◆ Credit Union-to-Credit Union Transfers
- ◆ Electronic Bill Payment (eBP) Solutions \*\*
- ◆ Financial Planning for Your Members \*\*
- ◆ Foreign Currency
- ◆ Item Processing \*\*
- ◆ Member Loan Participation Transfers
- ◆ Reverse Repurchase Agreements
- ◆ Savings Bonds \*
- ◆ Security Settlement & Safekeeping
- ◆ Treasury, Tax, & Loan Program (TT&L) \*
- ◆ Website Hosting/Development \*\*
- ◆ Wire Transfers

\* *These services are only available to members within Midwest Corporate's primary service area of North Dakota, South Dakota, Western Minnesota, and Eastern Montana.*

\*\* *Service provided through a business partner organization.*

***Locally Owned,  
Locally Focused***

***Serving the credit, liquidity,  
investment, and correspondent needs  
of credit unions in the Dakotas.***

***Midwest Corporate FCU***

## *Our Mission*

*The mission of Midwest Corporate Federal Credit Union is to serve members by promoting value-added financial and correspondent services consistent with safety and soundness principles.*

## *Our Vision*

*Midwest Corporate Federal Credit Union, through cooperative efforts, will be a thriving organization leveraging its resources wisely to provide leadership, support services, and innovative solutions to meet credit union financial needs.*

*Midwest Corporate Federal Credit Union will only succeed through sound business values based on respect, integrity, honesty, commitment, and valued services. In addition, we expect our business partners to embrace these same values.*

*Midwest Corporate Federal Credit Union will work cooperatively with credit union leagues and other credit union organizations to support credit unions locally and nationally.*

*Midwest Corporate Federal Credit Union will be an advocate for its member credit unions, both locally and nationally, on issues important to them.*



*Locally Owned, Locally Focused*

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Business Hours: Monday - Friday  
8:30 a.m. - 4:00 p.m. CT

