

2016

ANNUAL REPORT



THE STRENGTH OF ME.



MEMBERS

COOPERATIVE CREDIT UNION

REPORT FROM THE PRESIDENT & THE BOARD CHAIR



Tammy Heikkinen, President and CEO; and Russ Salgy, Chair, MCCU Board of Directors

2016 brought many changes to MCCU and to the financial services industry, and we were proud to rise to the challenges.

Technology continues to change rapidly, making the world in which we operate simultaneously larger and smaller. This is particularly true in the world of banking, and at MCCU, we have worked hard to keep pace. In May, we completed the final stage of our merger, with our core system conversion. It was a substantial undertaking, and we were grateful for our members' patience. In the process of conversion, we upgraded security in a number of important ways. It is no secret that robust data and account security are critical to protecting our members' privacy and assets. Enhancing security protocols often dictates a degree of inconvenience up front, but in the long run, we are all well-served knowing there are solid protections in place to safeguard our members.

Correspondingly, in 2016, we issued our members new EMV chip debit cards. EMV technology helps guard against fraud and is fast becoming the transactional standard for many merchants. It was an important upgrade for our members. Additionally, we have continued to offer progressive technology products like our upgraded mobile app and CardValet® card management and fraud mitigation tool to serve our members even better.

On the brick-and-mortar front, 2016 was another busy year. We celebrated the June opening of our beautiful new Aitkin branch, and later in the year, we broke ground on our new regional facility in Sandstone. We are proud to be making investments in the communities we serve, and look forward to meeting the needs of our members with exceptional options and access, whether in-person or online.

We have made some important capital investments this year, but we also made critical investments in one of our greatest resources: our people. We expanded our internal training services to ensure our employees have the support they need to be successful, and to offer our members the best service possible. This is part of our efforts to make MCCU a great place to bank and work.

In keeping with our legacy of giving back to the communities we serve, we were proud to help push the Moose Lake Hospital Mercy Foundation's capital campaign over the top, with a \$65,000 donation. We remain committed to supporting the important work of organizations that help our members and neighbors lead healthy, happy lives.

We are pleased to confirm that MCCU remained financially strong in 2016, and your assets continue to be safe with the credit union. All deposits are insured to \$250,000 through the NCUA.

Year after year, we continue to live out our promise to treat you with the highest level of professionalism and respect, to identify your needs and provide solutions that will help you, to make it easy to work with us, and to strive to exceed your expectations every time. We look forward to building an even stronger cooperative in 2017, in partnership with you.

Respectfully submitted,

Tammy Heikkinen

President/CEO

and

Russ Salgy

Board Chair



SUMMARY STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31ST

ASSETS	2016	2015
Cash and cash equivalents	\$47,856,075	\$43,422,766
Net investments	47,151,923	56,546,314
Loans, net	483,084,493	478,007,389
Accrued interest receivable	1,150,873	1,371,794
Fixed assets, net	20,958,212	17,119,125
NCUSIF deposit	5,081,468	5,204,965
Other assets	24,932,425	27,271,573
TOTAL	630,215,469	\$628,943,926

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Member savings	545,463,886	\$537,010,332
Borrowed Funds	-	10,000,000
Other liabilities	4,903,540	5,579,626
	550,367,426	552,589,958

MEMBERS' EQUITY

Statutory reserves	8,062,717	8,062,717
Undivided earnings	71,785,327	68,291,251
	79,848,044	76,353,968

TOTAL	630,215,469	\$628,943,926
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SUMMARY STATEMENTS OF INCOME YEARS ENDED DECEMBER 31ST

	2016	2015
Interest income	\$21,470,035	\$22,060,212
Dividend & interest expense	2,659,782	4,357,149
Net interest income	18,810,253	17,703,063
Provision for loan losses	1,649,502	2,351,810
Net interest income after provision for loan losses	17,160,751	15,351,253
NON-INTEREST INCOME AND (EXPENSE)		
Service fees and other income	7,672,000	8,009,782
Operating expenses	(20,818,143)	(21,435,590)
NET INCOME	\$4,014,608	\$1,925,445

The pro forma statement of income for the year ended December 31, 2015 reflects the merger of Members Cooperative Credit Union with Lake State Credit Union as though the merger was completed on January 1, 2015.

MEMBERS

COMMUNITY SUPPORT

In 2016, we were proud to support countless worthy causes in all our branch communities. Here are just a few of the groups, organizations, and events that we were involved with:

- Aitkin Farmer's Market
- Aitkin Fish House Parade
- Best Christmas Ever
- Carlton County Labor Day Celebration
- Carlton County Fair
- Cloquet 4th of July Celebration
- Cloquet Educational Foundation
- Cloquet Community Memorial Hospital Foundation
- County Seat Theater
- Dollars for Scholars
- Duluth Airshow
- Duluth Library Foundation
- Duluth LISC
- Duluth Playhouse
- Duluth Spirit Valley Days
- Duluth Teen Challenge
- FDLTCC Foundation
- HarvestFest
- Hermantown Police Department
- Isanti Firefighters Rodeo Association
- Jaguar Youth Football
- Kiwanis
- McGregor Food Shelf
- McGregor Wild Rice Days
- Miss Sandstone Royalty
- Moose Lake Food Shelf
- Moose Lake Mercy Hospital Foundation
- Moose Lake - Willow River Home Run Club
- Moose Lake 4th of July Celebration
- North Branch Area Education Foundation
- North Branch Police Department
- REACH
- Rotary
- Santa's Home for the Holidays
- Second Harvest Northern Lakes Food Bank
- St. Luke's Foundation
- United Way
- Veterans of Foreign Wars (VFW)

REPORT FROM THE SUPERVISORY COMMITTEE

Betty Kosloski, Supervisory Committee Chair

The Supervisory Committee of MCCU works to ensure the credit union's safety and soundness.

This committee of volunteers provides review and oversight by performing specific tasks, including:

- Reviewing financial records
- Checking to see that policies and procedures are being precisely followed
- Confirming that safeguards are in place to protect member assets
- Working with our corporate attorney and ensuring strict adherence to federal and state regulations
- Making sure that the MCCU board, management and staff continue to serve the best interests of the organization and its membership.

Each year we engage an independent auditing firm to provide a financial audit of the credit union.

In 2016, we worked with CliftonLarsonAllen, LLP.

The Supervisory Committee is pleased to confirm that our 2016 audits, cash counts, and quarterly reviews were completed successfully, and revealed that MCCU continues to operate as a financially sound and secure institution.

Respectfully submitted,

Betty Kosloski

BETTY KOSLOSKI

Supervisory Chair



SUPERVISORY COMMITTEE (FROM LEFT TO RIGHT): JILL MARIE ERICKSON, BEVERLY PETERSON AND BETTY KOSLOSKI