



*Annual Report*

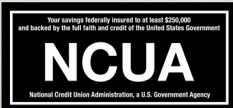
2012

*Rooted in our community.*



**Missoula Federal  
Credit Union**

*More than you expect*



# President's Report

**Y**our credit union completed its 57<sup>th</sup> year in operation in a positive fashion. We completed the 2<sup>nd</sup> year of a three year strategic plan focusing on Financial Strength, Service, Community Involvement, and Marketing.

Overall the credit union is larger and stronger today than at year end 2011 with assets of \$379,588,481 and regulatory net worth of \$34,163,984, a capital to asset ratio of 9%. We remain a well capitalized credit union providing the essential services needed and used by our membership.

We are extremely proud that the community has once again selected MFCU as Missoula's Best and Missoula's Choice in the Financial Institution Categories of both the Independent and Missoulian newspapers continuing a winning tradition since the inception of both awards. We are proud of the trust the membership bestows on us with their deposits in this historically low rate environment. We are encouraged that members are paying down their debts and becoming more fiscally responsible, and that those with financial challenges are taking advantage of our financial counseling service.

We are excited about the schools taking advantage of the financial education we provide through the Banzai financial education program. This year members

increasingly utilized our expanded relationship with VALIC financial planning services. We are also encouraged by the acceptance of our mobile banking application (MFCU2GO), another channel members can use to access their accounts. Indeed many positive trends were evident in 2012.

The economy, however, continued to struggle, especially in Missoula. Members remained concerned and hesitated to borrow, not being confident in what the future would bring. The year was an election year and unfortunately, politics played a big part in the uncertainty.

There were brutal elections both on the State and National levels. The national debt reached \$16 trillion and there were threats to close down the government. A fiscal cliff was being approached when the politicians kicked the can down the road.

Now as we enter 2013 we are hoping for some stability in the economy and a budget agreement that will give businesses the confidence to invest in growth and be able to hire new workers. We have money to lend in all areas, consumer, real estate and commercial. If members do not start to borrow we will have a difficult year in 2013 because of the narrowing spreads and limited investment options.

MFCU has been fortunate over the years to have a stable workforce with few

tenured employees reaching retirement age. This is about to change. Retirements, along with new regulatory burdens, have forced us to reallocate staff to different or newly-created positions. MFCU is a large, complex organization and we needed more and higher level analysis to manage the risks inherent in the credit union of today and tomorrow.

We have planned for and managed change well. Employees have been well trained over the years and are ready to succeed those who are retiring or moving into new positions. In 2012, although not directly supervised by the new Consumer Financial Protection Bureau, a new federal agency created by the Dodd/Frank Financial Reform Act, we split our compliance and internal auditing function. To enhance our Asset Liability Management analysis we created a position just to model our balance sheet.

We anticipate changes in Senior Management with the pending retirement of Roxanne Roehl at the end of July and my retirement the end of September. The Board is currently in the process of conducting a national search for my replacement, using a recruitment firm while at the same time our Human Resources Department is looking for Roxanne's replacement throughout the Rocky Mountain States and the



Gary Clark, *President/CEO*

Northwest. Although the faces and the organization chart may change, because of our prior planning, you as members should not experience any reduction in service.

In conclusion I would like to thank all the members for their trust over the past year. During my career you have been wonderfully supportive. I also would like to thank our outstanding Board of Directors and Supervisory Committee for the hours of volunteer time they have committed to the success of MFCU. And of course we would not be where we are today with hard work and dedication of the Senior Management Team, all the Vice Presidents, Supervisors, and Staff. You all have been incredible to work with. Thank you for your loyalty to MFCU.

# Chairman's Report

We would be naïve to think the economic, operational and regulatory challenges of the past are completely behind us. Our CEO will share operational milestones and the Treasurer will provide financial highlights. I won't duplicate their discussion, other than to reiterate that 2012 was a significantly improved year over 2011. We are optimistic that 2013 will hold many opportunities, but we are realistic in recognizing that there will be ongoing challenges.

Rest assured, we will not just survive, but our organization will prosper. Following are some of the strengths that will continue to differentiate us:

- Members – we have a loyal and hard-working membership group who are supportive of MFCU and the Credit Union movement. Our journey parallels that of our members, and we will work to help you succeed in 2013. In turn we ask that you help us succeed by making MFCU your primary financial institution, by borrowing money, and by telling your friends about all the great products and services at MFCU.
- CEO – we have a CEO who is a top performer, and well respected in the Credit Union community. Gary Clark offers a stable, guiding hand and has helped us weather recent economic storms and a

turbulent regulatory environment. He will be retiring later this year and leaves with over 18 years of service to MFCU. Thank you Gary! The Board is currently engaged in determining his successor.

- Senior Management – MFCU is fortunate to include Roxanne Roehl, Roberta Smith, Kathy Guderian, Linda Rayfield and Joni Walker in the senior management group. Each brings years of experience to MFCU in their area of expertise, and each brings a good work ethic, strong values and a special touch. Roxanne anticipates retiring later this year, and we wish her the best and thank her for her service to MFCU.

- Staff – we have an amazing and diverse staff. All are on point with the same goal of serving the members of MFCU. They are dedicated to education and self-improvement and are dedicated to volunteerism to make our community better.

- Volunteers – we have a dedicated high performing group of volunteers charting the course and monitoring progress. The Supervisory Committee takes care of oversight, while the Board sets strategic direction and operational policies. Bill Borrie, Kevin Broughton, Jane Cowley, Don Creveling and Leslie Halligan each bring their personal expertise and passion to their roles at MFCU.

Over the past year I have had opportunities to meet with our Senators at the Governmental Affairs Conference, speak to my peers about passion among volunteers at a Credit Union National Association conference and receive an award as 2012 Volunteer of the Year from the National Credit Union Association. It has been my pleasure, my pride and my passion to represent you, and I share all the credit with everyone I've mentioned previously.

Our journey is a shared one and our past and future success are the result of our collaborative efforts. Thank you for the role you each play in the "More Than You Expect" culture at MFCU.



Carl Rummel, CPA, CUV, Board Chair



*Rooted in our community.*

# Treasurer's Report

For the year ending December 31, 2012, in the face of continuing economic and regulatory adversity, Missoula Federal Credit Union improved its financial strength with a Net Income of \$1,973,195, and again attained the top spot as Missoula's favorite financial institution.

Thanks to all of our member-owners, MFCU assets increased from \$350 million to just over \$379 million, an increase of \$29.5 million from 12/31/2011 to 12/31/2012. However, with the effects of the economy and lower demand on member business loans, commercial credit lines, vehicle loans and real estate mortgages, MFCU's loan portfolio has decreased by over 22% (\$34.4 million). This significant decrease in loan volume, combined with the 10% (\$29 million) increase in share deposits, has pushed MFCU investments up over \$228.1 million versus \$164.5 million in December of 2011.

Despite 2012's slow economic recovery, MFCU Equity improved by almost \$3.6 million. This was due in largest part to a \$1.6 million improvement in the market value for our investments held available for sale. The remainder accumulated through net income developed from the cost saving efforts and decreased operational costs. Although a greater focus on MFCU

investment strategies has required more staff time, resources and reporting, the investment portfolio continues to perform and will be important in achieving our budget goals in 2013.

Although Total Operating Income was up almost 26% in 2012, Net Interest Income continued to decrease in 2012 (16.3%). Loan Interest Income was down 22% in 2012 and Investment Interest Income was down 10.8%. Offsetting the decreasing interest income was fee income, card interchange income, and mortgage related income, all creating an increase in total Other Operating income of 32% (\$1.8 million).

The most significant contribution to MFCU's Net Income was the reduction in our provision for loan loss. Through the hard work and diligence of MFCU staff, this expense declined by almost \$3.12 million over last year.

All factors considered, MFCU's financial position will continue to support all MFCU member financial service needs, as well as the larger Credit Union mission throughout 2013. The next year will bring multiple challenges to MFCU, putting pressure on MFCU to grow its lending programs and tightly manage expenses through efficiencies and larger economies of scale.



Don Creveling, *Treasurer*

# 2012 Financials

## Statement of Financial Condition

	2011	2012
<b>Assets</b>		
Loans	\$153,468,745	\$119,057,227
Cash	\$3,894,881	\$3,649,311
Investments	\$164,499,186	\$228,110,568
Land & Buildings	\$18,206,486	\$17,732,403
Other Fixed Assets	\$1,052,120	\$672,454
All Other Assets	\$8,938,378	\$10,366,518
<b>Total Assets</b>	<b>\$350,059,796</b>	<b>\$379,588,481</b>
<b>Liabilities</b>		
Notes Payable	\$23,730,427	\$20,377,460
Dividends Payable	\$193,335	\$169,833
Other Liabilities	\$4,836,247	\$5,046,734
<b>Total Liabilities</b>	<b>\$28,760,009</b>	<b>\$25,594,027</b>
<b>Shares</b>		
Regular Shares	\$100,844,139	\$120,823,252
Share Drafts	\$75,364,740	\$87,390,755
IRAs	\$14,823,419	\$14,716,701
Certificates	\$42,677,351	\$41,565,844
Money Market	\$53,739,027	\$52,065,271
Other Shares	\$3,334	\$10,131
<b>Total Shares</b>	<b>\$287,452,010</b>	<b>\$316,571,953</b>
<b>Equity</b>		
Regular Reserves	\$21,003,588	\$26,571,194
Unrealized Gain(Loss) on Investments	\$1,557,180	\$3,158,709
Undivided Earnings	\$11,287,009	\$7,692,598
<b>Total Equity</b>	<b>\$33,847,777</b>	<b>\$37,422,501</b>
<b>Total Liabilities, Shares &amp; Equity</b>	<b>\$350,059,796</b>	<b>\$379,588,481</b>

## Statement of Income

	2011	2012
<b>Interest Income</b>		
Interest on Loans	\$10,217,306	\$7,947,663
Investment Income	\$3,684,534	\$3,287,575
<b>Total Interest Income</b>	<b>\$13,901,840</b>	<b>\$11,235,238</b>
<b>Interest Expense</b>		
Dividends	\$2,399,595	\$1,590,773
Interest on Borrowed Funds	\$800,838	\$690,764
<b>Total Interest Expense</b>	<b>\$3,200,433</b>	<b>\$2,281,537</b>
Net Interest Income	\$10,701,407	\$8,953,701
Provision for Loan Losses	\$4,098,614	\$999,248
Net Interest Income <i>(after provision for loan losses)</i>	\$6,602,793	\$7,954,453
Other Operating Income	\$5,839,588	\$7,703,839
<b>Total Operating Income</b>	<b>\$12,442,381</b>	<b>\$15,658,291</b>
<b>Operating Expenses</b>		
Compensation & Benefits	\$6,997,547	\$7,420,157
Travel & Conferences	\$126,063	\$181,564
Association Dues	\$75,647	\$80,683
Office Occupancy	\$1,042,918	\$1,042,309
Office Operations	\$1,724,554	\$1,626,717
Educational/Promotional	\$632,359	\$670,177
Loan Servicing	\$458,931	\$602,661
Professional Services	\$1,774,988	\$1,868,194
Member Share Insurance	\$56,412	\$67,604
NCUA Operating Fee	\$77,287	\$78,973
Other Expenses	\$88,233	\$90,679
<b>Total Operating Expenses</b>	<b>\$13,054,939</b>	<b>\$13,729,718</b>
Non-Operating Income	\$352,388	\$44,622
<b>Net Income</b>	<b>-\$260,170</b>	<b>\$1,973,195</b>

# Supervisory Report

**M**issoula Federal Credit Union's volunteer Supervisory Committee is charged with the oversight of Credit Union assets, accounting functions, and implementation of certain policies adopted by your volunteer Board of Directors and executed by the Staff and Management. The Supervisory Committee consists of four members, all of whom are able to provide excellent feedback to the Board regarding Credit Union operations. To remain current on credit union matters, the Supervisory Committee receives electronic bulletins from federal regulators, trade publications and occasionally attends conferences and trainings.

The Supervisory Committee is solely responsible for overseeing one major operating function: the annual audit. The Supervisory Committee selected the accounting firm of Moss-Adams LLP, a nationally recognized accounting firm, to conduct the Credit Union's annual audit. We are pleased to report that the most recent audit covering operations ending June 30, 2012 indicated the Credit Union's Staff, Management and Board have performed together to achieve an audit that reflects commitment, stewardship and hard work. As the economic stresses arising out of the recent recession unwind,

their continual review and adoption of sound policies and practices will assure members receive both good service and sound asset protection.

New regulations continue to be issued by federal financial agencies and regulators in response to damage suffered by the national economy in recent years. The Staff and Board continue their work in keeping up with these changes and implementing them on your behalf. In 2013 the Credit Union took the important step of creating and staffing the position of Internal Auditor, who will report to the Supervisory Committee. It is fairly typical for credit unions to have an Internal Auditor once they achieve the size and complexity of MFCU. The Internal Auditor will constantly attend to the critical task of questioning every aspect of the Credit Union's operations to help the Supervisory Committee assure member assets are prudently and safely managed.

As always, our members may be the target of identity theft and other forms of fraud. The Supervisory Committee strongly urges each member to share responsibility to prevent fraud and theft by being a smart consumer and reporting any suspicious activity related to your accounts at the Credit Union. We continue to investigate ways to better safeguard the members' assets. We appreciate your

cooperation, patience and assistance in our effort to assure that the Credit Union is better protected, and that exposure from fraud and criminal activity is minimized.

The Supervisory Committee continually strives to respond to member issues by soliciting feedback from a sampling of members through a monthly survey. We also encourage members to provide suggestions regarding member services directly to any Staff member. In these ways, your Credit Union continues to improve itself. In that spirit, we also invite members to contact us directly regarding unresolved Credit Union problems, suggestions for improvements, or similar correspondence at:

Supervisory Committee  
Missoula Federal Credit Union  
P.O. Box 5384  
Missoula, MT 59806-5384

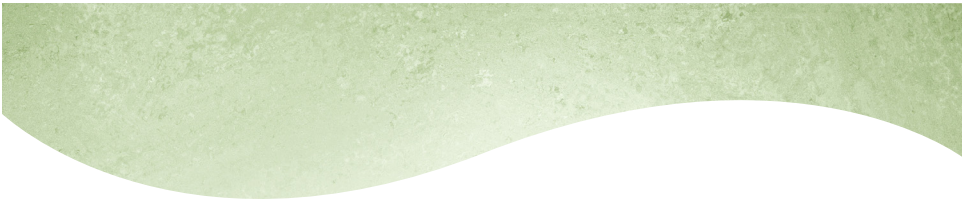
Finally, the Supervisory Committee would like to acknowledge its recommendation to the Board of the appointment of Heidi Fanslow to replace Keegan Eisenstadt on the Supervisory Committee. Keegan's many years of service to the members is much appreciated.

Thank you for your ongoing support and participation in YOUR Credit Union.

**Geoff Badenoch,**

*Chair, Supervisory Committee*

*Missoula Federal Credit Union classifies members' share accounts as equity as opposed to assets. This classification conforms to the definition in the Federal Credit Union Act and the National Credit Union Administration (NCUA).*



*Thank you for your ongoing support  
and participation in YOUR Credit Union.*

**Board of Directors**

Carl Rummel, Chair  
Kevin Broughton, Vice Chair  
Don Creveling, Treasurer  
Jane Cowley, Secretary  
Bill Borrie  
Leslie Halligan

**Supervisory Committee Members**

Geoff Badenoch  
Shirlee Walker  
Ryan Arthun

**Management Staff**

Gary Clark, President/CEO  
Kathy Guderian, SVP/CFO (Finance)  
Linda Rayfield, SVP (Branch Management)  
Roxanne Roehl, SVP (IT/Risk Management)  
Roberta Smith, SVP (HR/Facilities)  
Joni Walker, SVP (Marketing/Development)