



2019 ANNUAL REPORT

Financial Education Empowers

FROM THE PRESIDENT



Dan Springer
President/CEO

To empower someone means to make them stronger and more confident. At Heartland Credit Union we exist to empower our members to take control of their financial life and experience financial well-being. This means feeling secure in your financial future and being able to make choices that allow you to enjoy life and achieve your goals. We also understand that each person's route to financial well-being is different and requires personalized solutions to meet individualized needs.

Feeling financially secure means two things. First, members must have control over their day-to-day and month-to-month finances. Your credit union is here for you with financial counseling and financial literacy workshops that will help you build a budget, pay down debt, improve your credit score, or help create a plan to establish an emergency fund. By investing in your financial literacy, setting goals, and establishing a budget, you can gain control over your finances, which leads to financial freedom, the second phase of financial well-being.

Having financial freedom gives you the ability to make choices to enjoy your life. We are here for you, as well. Maybe you are saving for a family vacation, purchasing a second car or a larger home. Your credit union has the expertise and products to help you get there. Finally, financial freedom means you are on track to meet your financial goals, such as saving for your retirement or your children's education. Whatever your stage in life, we're here to empower you with the right solutions to reach your goals.

As you can see, achieving financial well-being isn't something we measure by income or net worth. It's about having control over your financial life and being able to "splurge," once in a while. For some, that may be going out to dinner. For others, it's taking a much-needed vacation or being able to be generous with family or your community. Whatever that looks like, your credit union is here to empower you with the right advice, tools, and services to help you achieve financial well-being.

BOARD OF DIRECTORS



Rex Christner
Chairman



Roy Broxterman
Vice Chairman



Kendal Pulliam
Secretary & Treasurer



Richard Carlisle



Caroline Phelps



John McCannon



Mark Woleslagel

AGENDA

Call To Order

Determination of a Quorum | Rex Christner

Approval of Minutes and Agenda | Rex Christner

Report of Chair | Rex Christner

Report of Supervisory Committee | Lori Blakesley

Report of Credit Committee | Brock Wells

Report of Treasurer | Kendal Pulliam

Report of the President | Dan Springer

Report of Election | Rex Christner

Unfinished Business

New Business

Adjournment





EMPOWERING OUR YOUTH

Last summer, HCU joined educators in back-to-school preparation as we prepared for the opening of Heartland's newest branch, the Salthawk Center, located at the intersection of B and G Hall at the Hutchinson High School.

The Salthawk Center staff is made up of 11 student interns from Hutchinson High School and a full-time HCU Branch Manager, Julie Caffrey. Julie has been with HCU for 22 years and most recently served as the branch manager of HCU's Haven branch.

At the Salthawk Center, members are able to open accounts, make deposits and withdrawals, and school staff can even apply for loans. Julie is on-hand to support interns and help members through the entire process.

"The Salthawk Center serves as a training ground for preparing young adults to enter the workforce," said Julie. "It teaches important foundational skills such as communication, accountability, punctuality, and the importance of excellent member service."

In addition to working in the branch, the interns lead presentations on personal finance management to help their peers prepare for their future.

To apply to be an intern, students must submit an application, teacher recommendations, and

a current transcript and attendance reports. Julie and Tasha Erickson, AVP of Human Resources, work with teachers to interview each applicant. Once hired, interns attend the same orientation and operations training as full-time HCU staff, and they are assigned courses via Heartland University throughout the school year. At the end of each trimester, students participate in performance reviews, which are also part of their final grade.

The Salthawk interns have taken on far more than what's listed in their job description. Dylan Shah and Giselle Graciano took the initiative to organize Bite of Reality, a financial education workshop, for more than 60 students at the Hutchinson High School.

Bite of Reality is an app-based financial reality program that teaches students how to properly budget and manage their money. Each student receives a persona that includes a job, salary and family structure. They must then create a monthly budget that allows them to purchase a home, groceries, transportation, and other necessities. The object is to create a budget that allows you to pay your bills, while still having some money to place back in savings.

Dylan and Giselle worked with fellow interns, as well as staff from HCU and Hutchinson High School, to bring the workshop together. They organized volunteers for the event, along with two training sessions to make sure everyone was prepared.

Throughout the process, Dylan and Giselle gained valuable new job skills. "We saw how important communication is when putting on such a big project," said Giselle. "We had to make sure everyone knew the plan." Dylan added, "There are a lot of moving parts to put this event on. We had to stay organized in order to get everything done on time."

Interns have also initiated opportunities to work with the marketing department in creating designs, brainstorming ways to better meet the needs of our younger members, and volunteering for community events.



REPORT OF THE CHAIR

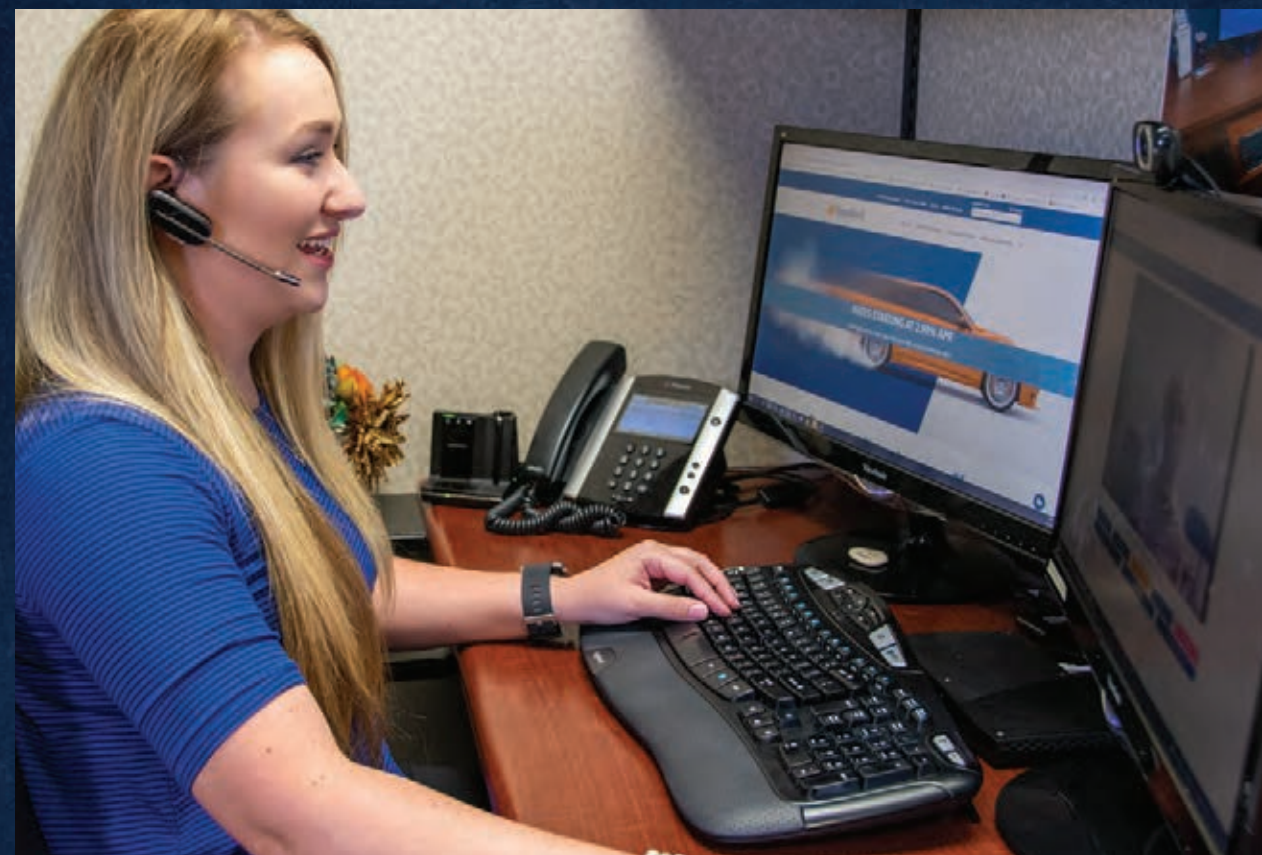


Rex Christner
Chairman

Thanks to our staff, volunteers, and members, we experienced another positive and productive year for our credit union as a whole. In 2019, we ended the year with total assets of \$325.7 million, an increase of 4.6% since 12/31/2018. Heartland Credit Union posted net income of \$586,549 for 2019.

Some highlights from this past year include:

- We introduced Heartland Connections, our video banking service, that allows members to visit with experts from all areas of the credit union, regardless of which branch they visit. The system has resulted in less wait time for members and greater convenience.
- New loan origination systems for both consumer and commercial loans were implemented. These new systems will allow for shorter wait times for members and greater efficiencies for HCU staff members.
- During 2019, in our national peer group of 347 credit unions, HCU ranked #15 in terms of “Return of the member” as calculated by Callahan & Associates. For this same “Return of the member” calculation, HCU ranked #144 out of all 5,314 U.S. credit unions. We ranked #2 among all Kansas credit unions.
- HCU is #8 in asset size out of 78 credit unions in Kansas. HCU is #785 in asset size out of 5,314 U.S. credit unions.
- In August of 2019, HCU opened a new branch inside Hutchinson High School, the HCU Salthawk Center. The new branch is empowering local youth through on-the-job experience and financial education.
- The servicing portfolio of Members Mortgage Services topped \$1.7 billion, representing 11% growth in 2019.
- Our financial cooperative is successful because of our members’ commitment to utilize the services of the credit union. Your participation in the credit union helps HCU grow and provide even better service to the membership. Thank you for your continued support.



INVESTING IN YOUR FINANCIAL WELL-BEING

What are your dreams? Goals? Financial needs? At Heartland Credit Union, we believe that financial literacy is the greatest way to empower our members so that they can take control of their finances.

We know future aspirations look different for every member. That’s why we offer our members a variety of free financial education opportunities, to meet you where to you are and get you on the road to financial well-being.

Heartland Connections

Last April, we launched Heartland Connections, allowing you to video chat with subject matter experts at every branch location. Since then, Heartland Connections has reached 4,491 members, helping them find the right solutions for their needs, fast. The technology behind Heartland Connections has cut down on wait times and gives us the opportunity to interact with our members in new ways to help us truly understand someone’s situation. Stop by a branch and ask anything, really! From motorcycle loans to managing your business account, Heartland Connections is your one-stop solution for nearly every banking need.

And, Heartland Connections is about to get an upgrade to make managing your money

Continued on page 14 ▶



REPORT OF THE SUPERVISORY COMMITTEE



Lori Blakesley
Chairperson

The Supervisory Committee is charged with ensuring that members' assets are safeguarded.

They accomplish this through the following:

- Oversight of the Internal Audit Program
- Reviewing Policies and Procedures
- Evaluating and Reviewing the Credit Union's Financial Condition
- Interacting with Credit Union Management
- Cooperating with Regulatory Agencies
- Reviewing Activities of the Board of Directors and Other Committees

In order to fulfill these responsibilities and provide an objective view of the financial strengths and weaknesses of your Credit Union, the Supervisory Committee relies on and uses a variety of resources, including an Internal Auditor. This allows the Supervisory Committee to proactively monitor the high-risk areas of the credit union on a regular basis.

The Certified Public Accounting Firm of Moss Adams LLP was employed to conduct the Annual Audit as of 9-30-19. Their report concluded that our records represent fairly and accurately the financial position of your credit union and conform to Generally Accepted Accounting Principles.

Moss Adams LLP also audits the records of HCU Investment and Insurance Services in conjunction with the HCU audit, and HCU Investment and Insurance Services was found to be in good order. Our other CUSO, Members Mortgage Services, was audited as of 12-31-18 and received a clean audit. Their 2019 audit fieldwork is scheduled, and the final report is expected to be available by March 30th.

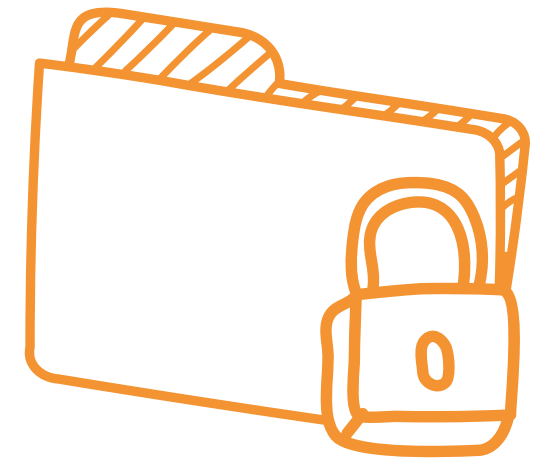
In addition, the committee cooperates fully with regulatory examinations by the Kansas Department of Credit Unions and the National Credit Union Administration. Any records of action are followed up by the Supervisory Committee.

The most recent exam covered transactions up to the close of business on June 30, 2019. There were no material deficiencies cited.

Finally, the Supervisory Committee relies on its own activities and findings:

- The committee met several times during 2019 to conduct reviews of various policies, procedures, accounts and reports.
- Staff members from various areas report to us about their operations in their respective departments.
- Committee members take turns attending Board of Directors meetings.

In summary, the Supervisory Committee is glad to report to members that your funds and records are being maintained in a safe, sound and confidential manner.



Mike Juby



Randall Gray



Libby Beck



Ed Howard



FINANCIAL STATEMENTS

LOAN REPORT

| Category | 2019 | 2018 |
|---|-----------------|-----------------|
| Total number of loans made | 33,065 | 33,530 |
| Total dollar volume of loans made | \$182,154,410 | \$130,580,904 |
| Number of loans since April 1, 1948 | \$577,778 | \$544,713 |
| Total volume of loans since April 1, 1948 | \$2,212,915,651 | \$2,030,761,241 |
| Loans charged-off since April 1, 1948 | \$9,965,221 | \$8,164,042 |
| Recoveries from charged-off loans | \$1,012,161 | \$742,145 |



Total assets
\$325,808,826

Loan volume since April 1, 1948

\$2,212,915,651



Return of the Member **#2**
in State of Kansas

BALANCE SHEET

| Assets | 2019 | 2018 |
|---|----------------------|----------------------|
| Loans, Net of Allowance for Loan Losses | \$277,862,581 | \$256,631,833 |
| Cash & Investments | \$26,697,428 | \$33,051,244 |
| Other Assets | \$21,248,817 | \$21,561,733 |
| Total Assets | \$325,808,826 | \$311,244,810 |
| Liabilities & Equity | 2019 | 2018 |
| Other Liabilities | \$11,655,532 | \$21,526,693 |
| Share Deposits | \$284,757,584 | \$261,036,014 |
| Reserves & Undivided Earnings | \$29,395,710 | \$28,682,103 |
| Total Liabilities & Equity | \$325,808,826 | \$311,244,810 |

INCOME STATEMENT

| Category | 2019 | 2018 |
|-------------------------------|---------------------|--------------------|
| Interest Income | \$13,551,577 | \$12,222,615 |
| Dividends | (\$2,785,755) | (\$1,999,960) |
| Interest Expense | (\$265,827) | (\$329,021) |
| Net Interest Income | \$10,499,995 | \$9,893,643 |
| Non-Interest Income | \$7,023,822 | \$5,804,857 |
| Non-Interest Expense | (\$16,976,755) | (\$15,933,319) |
| Income from Operations | \$547,062 | (\$234,819) |
| Non-operating Income | \$39,487 | \$503,494 |
| Net Income to Reserves | \$586,549 | \$268,675 |

REPORT OF THE CREDIT COMMITTEE



Brock Wells
Chairman

The Credit Committee is responsible for insuring lending policies of the credit union, as established by the Board of Directors, are carried out by the loan officers. The committee meets periodically to review reports of new loans, delinquencies, and charge-offs. Types of loans, portfolio changes, and the overall loan pricing structure as well as new products and services are also reviewed.

Notable information and actions in the lending area during the year include the following:

- Loans for the year increased 6.1% over 2018 to \$284.8 million.
- Home loan activity for 2019 was positive with 604 home loans funded for \$82 million. Purchase activity was up with 55% of the total amount for new purchases and 45% for refinancing activity. Home loans sold to the secondary market during the year, with servicing retained by members Mortgage Services was also good with 361 loans totaling \$53.6 million.
- At year end, HCU member business loans totaled \$59.8 million, approximately 22% of total loans.
- Delinquency for the year ended at 2.03%, up from 1.80% in 2018. Our credit union peer average for the year was 0.77%.
- Net-charged off loans for 2019 as a percentage of outstanding loans was lower, at 0.58%. Our credit union peer average for 2018 was 0.53%.
- The Allowance for Loan Loss account remained fully funded for the year and ended at \$2.3 million.
- At year end, 95.8% of member shares were reinvested in member loans compared to our peer average of 78.88%.



Leila Emack



Dan Busenbark



Jan Steen

REPORT OF THE TREASURER



Kendal Pulliam
Secretary & Treasurer

Thanks to you, 2019 was a positive year for Heartland Credit Union (HCU). Your continued support allowed HCU to surpass \$325 million in assets, pay over \$2.7 million in dividends, and \$586,549 net income into our reserves.

Included in HCU's 2019 net income is a \$38,000 gain from members Mortgage Services, LLC (MMS), representing our 43.9% ownership. HCU's original investment in MMS of \$450,000 in 2004 has grown to \$8.6 million.

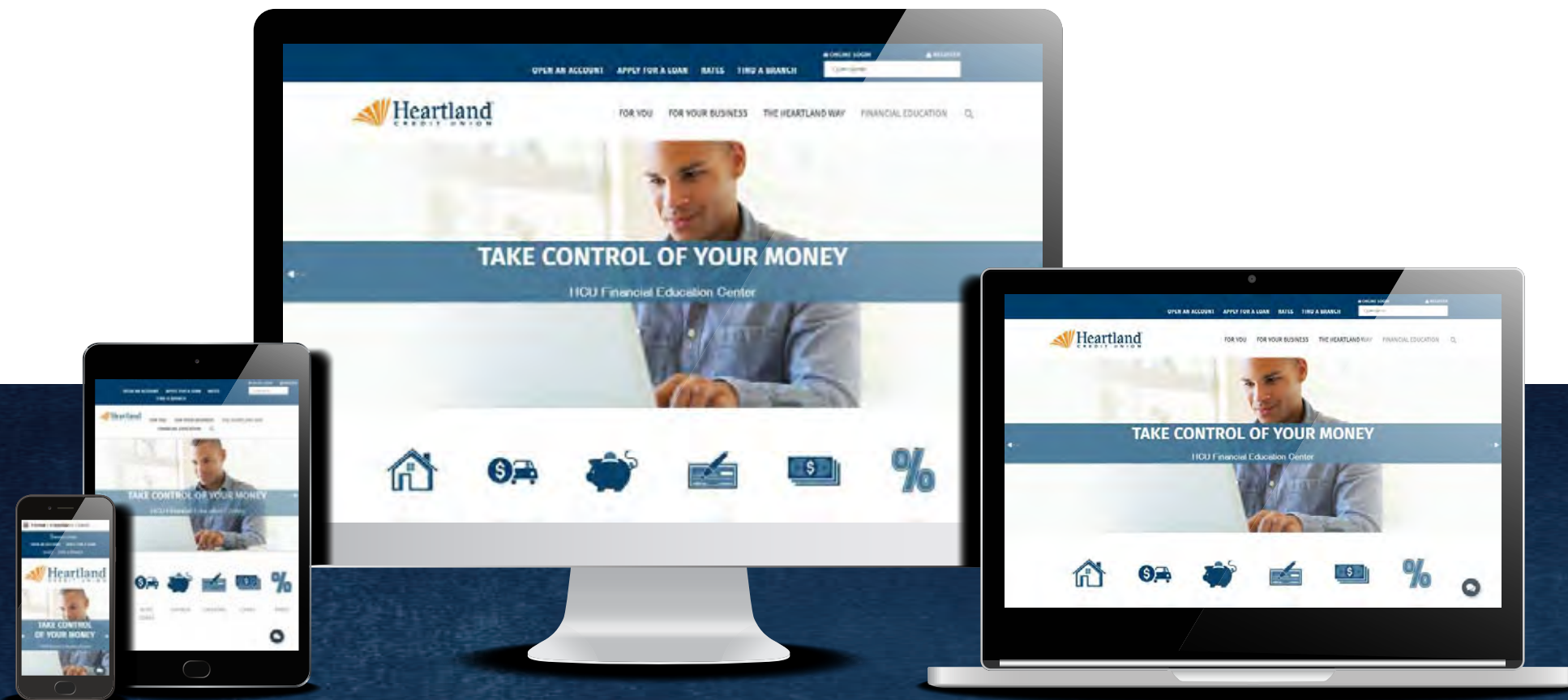
The board of directors believes your credit union is financially sound, and capable of continuing to fulfill its mission of offering financial services in a safe and sound manner.

As members, your continued support is vital to the sustained success of your credit union.

Thank you for your support.

“ The Board of Directors believes your credit union is financially sound, and capable of continuing to fulfill its mission of offering financial services in a safe and sound manner. ”





INVESTING IN YOUR FINANCIAL WELL-BEING

Continued from page 7 ►

even easier! You'll have everything you need in the palm of your hand...it's going to be seriously convenient for days you don't want to leave the house.

Online Financial Education Center

Visit www.hcu.coop and click on the Financial Education Center tab for free financial education that's quick and easy to understand. Choose from nearly 40 courses on topics including building emergency savings, understanding your credit score, saving for college, home loans and refinancing, planning for retirement, and more — you can even build your own budget with the monthly budgeting tool. Best of all, the Financial Education Center is available online anywhere, anytime.

Attend Free Workshops

Throughout the year, the real estate lending team partners with local expert speakers to walk homebuyers through all they need to know about buying a home — from finding a reliable realtor, to what to look for in a home inspection, insuring your home, and closing on your new home.

"We love hosting homebuyer's workshops. They are great educational evenings that give the homebuyer a sense of control," said Jasmine Hurlbut, Real Estate Loan Consultant. But education doesn't end after the workshop is over. Jasmine adds, "The best financial education our homebuyer gets is what they learn throughout the loan process, every step of the way. We try to be there for our members in a way that's specific to that person and their story. That might be through discussing credit counseling, budgeting, learning how an escrow account works, and so many more potential topics."

Heartland Credit Union Insurance and Investments also holds helpful workshops on Medicare, insurance basics, retirement, investment outlooks, long-term care insurance, and more. For notifications on upcoming workshops, add your email address to your HCU account, visit our website, and follow us on social media.

We don't just see numbers and statistics; we see real people with dreams, goals, and needs. We're here to help you gain the essential skills and knowledge you need so you can take control of your finances and enjoy financial security. So visit us online, via Heartland Connections, or sign up for a workshop to start investing in your financial well-being.