



2015 Annual Report

BOARD OF DIRECTORS



L TO R Roy Broxterman, Richard Carlisle, Rex Christner, John McCannon, Caroline Phelps, Kendal Pulliam, Mark Woleslagel

REPORT OF THE CHAIR

Thanks to our qualified staff, volunteers, and Heartland Credit Union members, 2015 was another positive and productive year ending with total assets of \$264.8 million, an increase of 8.7% since 12/31/2014. Heartland Credit Union posted net income of \$1,683,896 for 2015.

Some important highlights include:

- At year end, HCU was made up of 22,107 members, 22 volunteers, and 110 employees.
- During 2015, in our national peer group of 339 credit unions, HCU ranked #8 in terms of "Return to the member" as calculated by Callahan & Associates. For this same "Return to the member" calculation, HCU ranked #74 out of all 6,021 U.S. credit unions.
- HCU is #8 in asset size out of 88 credit unions in Kansas. HCU is #786 in asset size out of 6,021 U.S. credit unions.
- The 15 largest credit unions in Kansas had an average margin of 4.44%. HCU's margin is 4.05% giving HCU a \$1,048,000 advantage or an additional value of \$47 per member.

- Bonus dividends totaling approximately \$92,000 were paid to HCU members in February.
 - A new branch was opened at 29th & Main in Hutchinson.
 - The 23rd Street Branch received a much needed update after 20 years.
 - Plans are underway to start construction of the new HCU branch at 37th & Maize Road in Wichita. Construction should begin around June 1 with an anticipated opening date by March 31, 2017.
 - The HCU Hutch-Card Visa program topped \$400,000 in contributions to our City Parks & Zoo.
 - The servicing portfolio of Members Mortgage Services topped \$1 Billion in May, representing over 10,000 mortgage loans. MMS now employs 31 and serves 36 credit unions in Kansas, Missouri and Nebraska.
- We are fortunate to have one of the best financial institutions in the area and I thank each of you for your continued support.



Mark Woleslagel
Chair, Board of Directors



SUPERVISORY COMMITTEE



L TO R **Lori Blakesley, Ed Howard, Mike Juby, Marvin Schmucker, Dave Suhler**



Ed Howard
Chair, Supervisory Committee

REPORT OF THE SUPERVISORY COMMITTEE

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 Nearman, Maynard, Vallez, P.A. was employed to conduct the Annual Audit as of 9-30-15. Their report concluded that our records represent fairly and accurately the financial position of your credit union and conform to Generally Accepted Accounting Principles.

Nearman, Maynard, Vallez, P.A. also audits the records of HCU Investment & 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 12-31-14 and received a clean audit. Their 2015 audit fieldwork was scheduled for the second week of March 2016.

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 March 31, 2015. There were no material deficiencies cited.

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

- The Committee met several times during 2015 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.



Kendal Pulliam
Secretary-Treasurer

REPORT OF THE TREASURER

Thanks to you, 2015 was another great year for HCU. Your continued support allowed us to surpass the \$260 million in assets mark. In addition, we paid over \$1.4 million in dividends and were able to place almost \$1.7 million of net income into our reserves. This enables us to continue offering cutting-edge technologies at better than market rates while maintaining our high level of efficient and friendly service.

Included in HCU's 2015 net income is a \$429,231 gain from Members Mortgage Services, LLC (MMS), representing our 43% ownership. MMS had a positive operating income of over \$1.1 million, which was offset by a negative adjustment to mortgage servicing rights of just over \$230,000. As mortgage rates continue to rise, we expect to see this adjustment reverse and realize an even higher positive income, which will increase MMS's and HCU's bottom lines. These increases are far from certain however, and could go further negative if rates decline.

HCU's investment in MMS of \$450,000 has grown to almost \$5 million in the last 12 years. This substantial income has enabled us to continue offering exceptional value in our loan and share rates despite the increasing pressure on margins.

HCU Investments and Insurance (HCU I&I) had another strong year, with a positive contribution of \$67,203 to the HCU bottom line. More importantly, we are able to serve your needs in this arena by providing lower cost solutions while offering an alternative to traditional credit union products.

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

As member-owners, your continued support is vital to the sustained success of your credit union. Thank you for your support.

CREDIT COMMITTEE



L TO R Leila Emack, Jim Ewert, DeAngelo Green, Patsy Johnson, Karen Maness

REPORT OF THE CREDIT COMMITTEE

The credit committee is responsible for ensuring 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, charge-offs and randomly reviews loan files to ensure compliance. 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 grew \$21.1 million or 11.4%, total outstanding loans to members is \$205,898,952.

- The mortgage activity for 2015 moved back to more refinance activity with 46% of new mortgages for purchases and 54% for refinances. During 2015, HCU originated 441 mortgage loans for \$47 million. 277 of those loans totaling \$31.1 million were sold to the secondary market via Members Mortgage Services.
- At year end, HCU member business loans totaled \$44.3 million or approximately 22% of total loans.
- Delinquency at year-end was at .659%, down slightly from 2014. Our credit union peer average at year-end 2015 was .93%.
- Charged off loans for 2015 as a percentage of outstanding loans was .292%, up from 2014 and our historical trend. Our credit union peer average at year-end 2014 was .44%.

- The Allowance for Loan Loss account is fully funded at \$2.24 million which is just over 1% of total loans.
- At year end, 97% of member shares are currently reinvested in member loans compared to our peer number of 72%, a great sign of a healthy credit program especially with our low rates of delinquency and charge-off.
- Driven by the results of two focus groups conducted by the Credit Committee in 2014, HCU staff & volunteers put on a financial literacy reality fair for 60 USD 308 students. This program is being scheduled with other school districts during 2016.

	2014	2015
Total number of loans made	27,349	28,389
Total dollar volume of loans made	\$127,661,991	\$135,357,246
Number of loans made since April 1, 1948	418,974	446,691
Total dollar volume of loans since April 1, 1948	\$1,447,703,445	\$1,541,717,091
Loans charged-off since April 1, 1948	\$4,293,452	\$4,730,713
Recoveries from charged-off loans	\$449,100	\$496,634



Jim Ewert
Chair, Credit Committee

It's the Heartland way.™

FROM THE PRESIDENT

FIRE KEEPERS AND PRINCIPLES

In these modern times, we tend to take heat for granted. That is, until the next ice storm painfully reminds us of our vulnerabilities. In the early days of human history, keeping a fire going might have meant the difference between life and death. There were no matches, no easy ways to start a fire under wet conditions. Those entrusted with keeping the fire going often held an esteemed role in their culture. The seemingly mundane task of Fire Keepers should not be taken for granted as it requires passion and focus on the mission, regardless of what is going on. In addition to just keeping the fire going, Fire Keepers have two other roles. First, they are charged with providing 'starters' for others so that all can benefit. Secondly, Fire Keepers understand that in time, they will need to be replaced and therefore accept the importance of identifying future and capable Fire Keepers who also possess the required passion and focus. The Fire Keeper fully understands the importance of their role and what it means to the success of their family or tribe...or credit union!

Thinking as Fire Keepers, I ask that you consider the following International Credit Union operating principles from the World Council of Credit Unions as part of our credit union's fire:

DEMOCRATIC STRUCTURE

- Open and Voluntary Membership
- Democratic Control
- Non-discrimination

SERVICE TO MEMBERS

- Distribution to Members
- Building Financial Stability
- Service to Members

SOCIAL GOALS

- Ongoing Education
- Social Responsibility
- Cooperation among Cooperatives

As Philosophical Fire Keepers, it is just as critical that we maintain our passion and focus on credit union principles. For if that fire goes out, the saddest thing would be that we would have to tell younger generations, "I wish you could have been a credit union member." Just as changing physical elements challenge the ability to keep a real fire going, so too does the changing competitive, technological and regulatory environment bombard our credit union philosophies. Regardless of the challenge, it is incumbent on us, the Philosophical Fire Keepers, to embrace what is happening and guided by our principles, think creatively and strategically to find solutions that both align with our principles and meet the challenges.



Garth Strand
President



CONNECT WITH US

23RD AVE BRANCH 900 E. 23rd Ave. • Hutchinson, KS 67502
29TH ST BRANCH 2900 N. Main • Hutchinson, KS 67502
AVE A BRANCH 129 W. Ave. A • Hutchinson, KS 67501
HAVEN BRANCH 103 S. Kansas • Haven, KS 67543

NEWTON BRANCH 2201 S. Kansas • Newton, KS 67114
WICHITA BRANCH 245 N. Waco • Wichita, KS 67202
SUPPORT CENTER 4000 N. Monroe • Hutchinson, KS 67502
WEBSITE www.hcu.coop
PHONE 800.428.8472 and 620.669.0177

2015 GROWTH	HCU	Peer
Assets	8.75%	5.80%
Loans	11.38%	8.11%
Shares	3.51%	5.77%
Net Worth	7.55%	5.94%

BALANCE SHEET		
ASSETS	2014	2015
Loans, Net of Allowance for Loan Losses	185,259,625	206,116,060
Cash & Investments	47,604,756	47,234,984
Other Assets	10,644,303	11,457,490
Total Assets	243,508,684	264,808,534
LIABILITIES & EQUITY		
Other Liabilities	16,430,308	28,765,680
Share Deposits	204,898,368	212,097,743
Reserves & Undivided Earnings	22,180,007	23,945,111
Total Liabilities & Equity	243,508,684	264,808,534

INCOME STATEMENT		
	2014	2015
Interest Income	8,584,785	9,494,763
Dividends	1,564,618	1,427,762
Interest Expense	41,893	75,227
Net Interest Income	6,978,274	7,991,775
Non-Interest Income	4,158,098	4,549,797
Non-Interest Expense	9,678,345	11,288,320
Income from Operations	1,458,027	1,253,252
Non-Operating Income (Loss)	(86,227)	430,644
Net Income to Reserves	1,371,801	1,683,896

2015 HIGHLIGHTS



We built a playground! The \$88,000 project in Carey Park was fully funded through the Hutch-Card Visa®. Since 1998, over \$401,000 has been contributed to Hutch-area parks and the Hutchinson Zoo through the program.



We sponsored and facilitated Mad City Money, a hands-on financial literacy simulation for high school students, allowing them to gain valuable real-world financial experience as they enter their next life stage.



Conveniently located in northwest Hutchinson, our new branch at 2900 N. Main opened in March. The full-service branch offers the latest in banking technology coupled with personal HCU service in an inviting space.

2015 HIGHLIGHTS



The Hutchinson branch located at 900 E. 23rd received a complete makeover after 20 years. The re-opening of HCU's highest volume branch took place in May and was commemorated with a week-long celebration.

STAFF

Garth Strand PRESIDENT

Amy Philbrick EXECUTIVE ASSISTANT

Dan Springer EXECUTIVE VICE PRESIDENT / CFO

Joel Andrew SENIOR FINANCIAL ANALYST

Jennifer Wright INTERNAL AUDITOR, COMPLIANCE OFFICER

Cloé Bengston QUALITY ASSESSMENT SPECIALIST

Kristi Nuest EFT MANAGER

Taylor Glenn EFT COORDINATOR

Tyler Genschorck EFT COORDINATOR

Teresa Meyer CARD PRODUCTION SPECIALIST

Lisa Gamber ACH/EFT PROJECT COORDINATOR

Yvonne Yearout CREDIT CARD COORDINATOR

Elaine Marquez FRAUD SPECIALIST

Sandy Rush ACCOUNTING MANAGER

Debbie Altvater ACCOUNTS PAYABLE CLERK

Sheryll Suarez ACCOUNTING ASSISTANT II

Darren Werth ASSISTANT VP OF SALES & MARKETING

Taryn Horbotowicz MARKETING & SALES ASSISTANT

Mario Molina COMMUNICATION & DESIGN SPECIALIST

James Tyree REMOTE DELIVERY SPECIALIST

Tiffany Ramsey SALES MANAGER

Shelby Dryden INDIRECT LENDING MANAGER

Cadey Dick INDIRECT LENDING ASSISTANT

Joy Ann Jeffers INDIRECT LOAN PROCESSOR

Zack Clobes VP OF TECHNOLOGY

Ken Hase BUILDING & GROUNDS TECHNICIAN

Mike Armbruster BUILDING & GROUNDS TECHNICIAN

Thomas Henning NETWORK ADMIN/SUPPORT SPECIALIST

Travis Petersheim PROGRAMMER/DEVELOPER

Bambi Stewart PROJECT MANAGER

Ryan Sperling SENIOR PROGRAMMER

Angie Mielke DATA PROCESSING & IT OPERATIONS MANAGER

Colton Schmucker TECHNICAL SUPPORT

Aaron Keller JR. NETWORK ADMIN/TECHNICAL SUPPORT

Carol Kemp RECORDS MANAGER

Wendy Hildebrand TECHNICAL SUPPORT COORDINATOR

Scott Matthews PROGRAMMER

Dan McFadden VP OF LENDING

Chad Venters COMMERCIAL LOAN OFFICER

Kevin Wiens UNDERWRITING MANAGER

Korey Maldonado CREDIT ANALYST

Tanner McConnell CREDIT ANALYST

Jacquie Miller MORTGAGE MANAGER

Michael Lorimor MORTGAGE ORIGINATOR

April Chastain MORTGAGE CLOSING PROCESSOR

Lydie Terry MORTGAGE ORIGINATOR

Peytan Phemister MORTGAGE CLOSING PROCESSOR

Kara Malloy LEAD MORTGAGE LOAN PROCESSOR

Joe Ackerman MORTGAGE ORIGINATOR

Brandy Princ-Petermann LOAN PROCESSING MANAGER

Janet Woolsey LOAN PROCESSOR

Leah Alfaro LOAN PROCESSOR

Debbie Zook LOAN PROCESSOR

Cecilia Mayberry SPECIAL ACCOUNTS MANAGER

Lynn Prado SPECIAL ACCOUNT ASSISTANT

Monica Cullens SPECIAL ACCOUNT ASSISTANT

Michelle Wain VP OF HR & OPERATIONS

Debbie Ridpath DEPOSIT SERVICES MANAGER

Tasha Erickson HR AND EDUCATION DIRECTOR

Stephanie Dreiling EDUCATION SPECIALIST

Cindy Nolte HUMAN RESOURCES ASSISTANT

Jeremy Stauffacher AVP OF RETAIL BRANCH OPERATIONS

Mya Wilson WICHITA BRANCH MANAGER

Dee Lemen WICHITA BRANCH MANAGER

Char Bigger ADVISOR II

Jasmine Hurlbut 29TH & MAIN BRANCH MANAGER

Shelby Willems ADVISOR III

Kirk Zahn ADVISOR IV

Arika Graber ADVISOR IV

Julie Caffrey HAVEN BRANCH MANAGER

Traci Burt FLOATING TELLER

Kristi Chamberlain ADVISOR II

Christie Nienstedt ADVISOR IV

Troy Lambert PHONE CENTER BRANCH MANAGER

Morgan Dufford PHONE CENTER ADVISOR III

Dustin Johnson PHONE CENTER ADVISOR IV

Shaunna Geils PHONE CENTER ADVISOR III

Allison Ashford PHONE CENTER ADVISOR III

Brittney Carey PHONE CENTER ADVISOR III

Tammy Nachtigal PHONE CENTER ADVISOR IV

Marva Terrell AVENUE A BRANCH MANAGER

Katie Lawrence ADVISOR IV

Amanda Laymon ADVISOR IV

Brittany Willis TELLER SUPERVISOR

Stephen Rhoades FLOATING ADVISOR I

TeRyssa Belling ADVISOR I

Lisa Willm ADVISOR I

Angela White ASSISTANT VAULT TELLER

Janell Mendenhall NEWTON BRANCH MANAGER

Adam Esau ADVISOR IV

Lynsey Sholders ADVISOR I

Erick Lujano ADVISOR III

Laith Hasan ADVISOR IV

Donna Miller 23RD & SEVERANCE BRANCH MANAGER

Margaret Sebastian FSR MANAGER

Carmen Ramirez ADVISOR III

Gleysha Mendez-Rosario ADVISOR IV

Kasey Thiessen ADVISOR IV

Laura O’Neal TELLER SUPERVISOR

Rachel Jaskoski ADVISOR I

Michaela Troyer ADVISOR I

Yvonne Lange ASSISTANT VAULT TELLER

Shelly Anderson FLOATING ADVISOR I

Brooke VanDegrift ADVISOR I

Brenda Knox ASSISTANT VAULT TELLER

*MANAGEMENT TEAM IS **BOLDED**



Monte Cross PRESIDENT, HCU I & I

Victor Edwards FINANCIAL CONSULTANT

Gaylon Miller INSURANCE SPECIALIST

Jenny Boggs ADMINISTRATIVE ASSISTANT