

2018



Annual Report

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Heritage
Federal Credit Union®

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PEOPLE HELPING PEOPLE IN 2018



53rd ANNUAL MEETING MINUTES

02

Bill Yockey, 1st Vice Chairman, welcomed everyone to the 53rd Annual Meeting of the Members at 4:59 p.m. All members were invited to eat dinner provided by the credit union.

- John Phipps gave the invocation.
- Steve Crow, Chairman, officially started the meeting at 5:56 p.m.
- Norm Adams, Supervisory Committee Chairman, led the membership in the Pledge of Allegiance.
- Crow asked if there was a quorum of the membership. Adams indicated a quorum was present.
- Crow introduced the Board of Directors: Bill Yockey, 1st Vice Chairman; David Willett, 2nd Vice Chairman; Neal Probus (not present this evening), Secretary; Nicki Sledd, Treasurer; George Barnett, Director, Ron Sheets, Director; Brian McGuire, Director (not present this evening); and Russ Stilwell outgoing Director (not present this evening).
- Crow introduced the Supervisory Committee: Norm Adams, Chairman; George Barnett, Supervisory Board Liaison; Don Bowen, Committee Member (not present this evening); Deb Anderson, Committee Member (not present this evening); and TJ Dau, Committee Member.
- George Barnett instructed the members that the 52nd Annual Meeting of Heritage Federal Credit Union minutes from last year's meeting of the membership are on page 2 of the annual report. Barnett asked if anyone had any additions or corrections to last year's minutes. A motion from the members was made to accept the minutes. The motion was seconded. The motion passed.
- Crow covered the chairman's report on page 5 of the Annual Report. Crow stated the Heritage Federal Credit Union management and staff have done an excellent job of helping the credit union be accountable to the highest standards demanded by the membership and the Board of Directors. Crow discussed Heritage Federal Credit Union has a strong diverse board that assists with the overall strategic plans and goals while ensuring HFCU continues to provide the best possible service to you, the member. Crow stated we monitor the quality of service, along with benefits, by conducting various surveys to assure our members come first. Crow mentioned our volunteers and employees care about you the members and exhibit a commitment to our community by volunteering their time and energy to many local organizations.
- Crow introduced Ruth Jenkins, President/CEO. Jenkins started by welcoming and thanking everyone for attending the meeting and showing their support for Heritage Federal Credit Union.
- Jenkins introduced all of the executive team, Steve Bugg, Executive Vice President; Mike Carroll, Chief Financial Officer; Jason Dietz, Chief Digital Services & Deposit Operations Officer; John Phipps, Chief Lending Officer; Anthony Spitz, Chief Information and Technology Officer; and Barb Winstead, Chief Human Resources Officer. Jenkins also introduced Hope York-Kozioł her Administrative Assistant. Then, she introduced David Milligan our retired Chief Risk Officer. Jenkins asked all the staff to stand and thanked them for all the hard work they do.
- Jenkins emphasized she wanted to thank everyone for their participation in providing financial solutions to our family's needs. It is because of our members trust and involvement that our Credit Union is able to provide so many important benefits to our members and community. Jenkins said looking at the detailed Annual report on page 11, it shows HFCU continues to be financially strong, sound, and highly rated by our auditors and Federal regulators.
- Jenkins said being rooted and involved in Warrick, Vanderburgh, Posey Counties in Indiana, and Henderson County in Kentucky communities, we continue to provide low cost or no cost products to our member owners with a high level of service at every level.
- Jenkins mentioned we are constantly striving to do better so we can help you, your families, your friends, and your neighbors achieve their dreams. Jenkins said let's discuss what has made Heritage Federal a strong institution that is many of your primary institution.
- Jenkins polled the audience to see the number of members that had one, two, three, four, or five digit account numbers. Jenkins shared how impressive it is that HFCU has had the same members for 53 years. She thanked everyone for his or her long time loyal commitment. Jenkins pointed out the strong ties members have at the Credit Union and how it was an honor to keep their one and two digit account numbers to keep in their families.

- Jenkins discussed that in 1970s credit unions peaked to 24K and now they stand less than 6K today. She shared HFCU is in the top 10% of that 6K with assets greater than \$500M. Jenkins stated how the members have helped build our legacy. Jenkins informed the attendees about the membership requirements of Heritage Federal. Jenkins explained how Heritage is our legacy to gift to our family to have the same financial benefits.
- Jenkins stated it is our responsibility to build that legacy for future generations to come so that our grandchildren's grandchildren can benefit from that humble beginning in the trunk of the car in 1965.
- Jenkins discussed the video of our employees, and how you can see the passion, they have to support our legacy of Heritage. Together we do this for you and your future generations to come. Legacy is what makes Heritage Federal different; it makes us strong, and will sustain us in the future.
- Jenkins thanked everyone for being a part of our Credit Union family at Heritage Federal Credit Union. Jenkins said on behalf of our entire staff we look forward to a happy and successful 2018 for us all.
- Crow introduced Norm Adams, Chairperson of the Supervisory Committee to give the Supervisory Committee report. Adams started by thanking everyone for attending and stated we are always looking for members to volunteer on the board of directors. He explained this is what keeps us growing and strong.
- Adams stated it is the Supervisory Committee's responsibility to hire the internal and external auditors. Adams mentioned the Supervisory Committee report on page 10 of the annual report. He discussed Clifton Larson Allen, LLP conducted the annual financial statement audit in accordance with the auditing standards accepted by the USA. Clifton Larson Allen, LLP also conducted the member account verification as required by National Credit Union Association. The Independent Auditor's Report gives us the continued confidence that HFCU's operations are sound and our business is conducted in a proper manner. Adams said he would answer any questions you may have about the report. In closing, Adams said it has been a privilege to serve and he thanked them all.
- Crow introduced Kurt Decker, Financial Advisor. Decker introduced Joe Mandujano, Financial Advisor. Decker stated Mandujano joined Heritage Financial this year, he moved from California to Boonville, and he has 20 years' experience.
- Decker mentioned we serve over 1200 members and manage over \$100M in assets for our clients. Decker stated we crossed this threshold at the end of last year. Decker added last year was a great year for Heritage Financial. Decker discussed the many planning services Heritage Federal offers including 401K, retirement planning, mutual funds, and life insurance just to mention a few. Decker explained to the attendees Heritage Financial could schedule an appointment to meet at any of our locations with no cost and sit down to discuss their finances. Decker thanked everyone for his or her continued business and support.
- Crow also introduced Nicki Sledd, Nominating Committee Chairman, to give the Nominating Committee update. Sledd stated there were no ballots this year, Steve Crow and David Willett 2nd Chair elected by acclamation.
- Crow thanked everyone for attending.
- Crow introduced Bryan Russelburg, Business Development Specialist and Kurt Decker to announce winners of the drawings.
- A motion was made to adjourn at 6:32 p.m. The motion was seconded and passed.



Neal Probus

Secretary

54th ANNUAL MEETING AGENDA

WELCOME

INVOCATION

PLEDGE OF ALLEGIANCE

DETERMINATION OF QUORUM

53RD ANNUAL MEETING MINUTES

CHAIRMAN'S REPORT

PRESIDENT'S REPORT

SUPERVISORY COMMITTEE REPORT

ELECTION RESULTS ANNOUNCEMENT

ADJOURNMENT

DOOR PRIZES DRAWING

STEVE CROW, BOARD CHAIRMAN

JASON DIETZ, CHIEF OPERATIONS OFFICER

NORMAN ADAMS, SUPERVISORY COMMITTEE CHAIRMAN

STEVE CROW, BOARD CHAIRMAN

NEAL PROBUS, SECRETARY

STEVE CROW, BOARD CHAIRMAN

DAVID MILLIGAN, PRESIDENT & CEO

NORMAN ADAMS, SUPERVISORY COMMITTEE CHAIRMAN

DAVID WILLETT, NOMINATING COMMITTEE CHAIRMAN

As Chairman of the Board, I am pleased to report that HFCU has had another successful year. Success is not measured solely by income or asset size. Success is also measured by how HFCU is benefiting the membership. We are thankful for your help in making 2018 a truly successful year and look forward to continuing our success in 2019. We are proud to be your credit union and continuing to serve you in years to come.

Credit Unions exist to turn dreams into reality for our members and to support the communities we serve. Whether saving for college, purchasing a home or automobile, or planning for retirement, the credit union's focus has always been centered on asking how we can help. Our *People Helping People* philosophy separates your credit union from other financial institutions.

In 2018, our successes were your successes:

- Bauer 5-Star rating: We continued to earn a 5-Star rating from Bauer Financial, their highest stamp of approval for soundness and stability.
- Our Boonville branch was voted "Best Financial Institution in Warrick County" by The Warrick Standard readers.
- We were voted the Evansville Courier & Press' 2018 Gold Award for "Best Credit Union" by the Courier readers.
- We opened a new branch in Mt. Vernon, IN as part of an overall growth plan to better serve our Mt. Vernon and Posey County members.
- We celebrated two major milestones, reaching 60,000 members and \$600 million in assets.

In June of 2018, the Board was happy to announce the appointment of David Milligan as President and CEO. David came to the credit union in February

2011 from Vectren where he was the manager of Corporate Audit. While at Vectren, David held multiple positions including Senior Business Analyst/Project Manager and Senior Auditor. In addition, Mr. Milligan has over 20 years of commercial banking experience in various leadership roles.

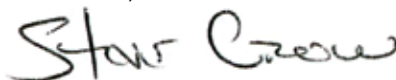
With David's leadership, we are confident that HFCU will continue to provide the member service that makes us special while bringing the credit union to even greater heights.

Moving forward, HFCU's goal remains the same: to provide members with the products, services, and guidance needed to prosper financially. We understand that your individual financial well-being is directly correlated with the well-being of HFCU. We are committed to partnering with our over 60,000 members to positively impact their financial health and stability.

Along with the board, I would like to thank all employees of HFCU for their ongoing support in providing professional and courteous service to our membership.

On behalf of my fellow board members, we are honored that you continue to trust HFCU with your financial future. I thank you for your membership and your confidence in our stewardship of HFCU and your financial well-being.

Thank You,



Steve Crow
Chairman



**Bauer
Financial
5-Star
Rating**



**Best
Financial
Institution
of
Warrick
County**



**Best
Credit
Union
Gold
Award**



**Mount
Vernon
Branch
Grand
Opening**



**60,000
Members
Milestone**



**600
Million
in
Assets
Milestone**





Over the past 53 years, Heritage Federal Credit Union has proudly served our members and inspired their loyalty. In order to continue to be able to serve all of our members and inspire such loyalty, however, we need to ensure that we continue to grow, using a “smart growth” approach which is one of our three strategic areas for 2019.

Increased technology and competition from online fintechs such as Rocket Mortgage and expectations from members and small businesses all underscore the need for new strategies and tools to be successful. Using data to identify members and potential members who will help propel Heritage into a position where we can continue to grow and fulfill our ultimate mission of supporting the changing financial needs of our members has been the basis of formulating our “smart growth” strategy.

The way in which we reach out and engage with current and prospective members is shifting constantly. We now have the ability to gain feedback from our members regarding their interactions with us throughout the year and not just one time a year. We can also communicate on a much more personal level, offering products and financial solutions that are tailored to our individual members.

With this targeted approach, we can identify our members and what their needs are. As a result, we will introduce technology that is both easily accessible and easy to use, including becoming a member online. We will also introduce a checking product that will reward our members and makes it easy to participate.

Growth is not only essential for Heritage Federal CU in order to thrive and continue to serve our members, but it is also the very foundation of our local economy and communities. Without growth, the economy stagnates, making it difficult to attract new organizations and industries, limiting job growth and failing to keep our young, talented workforce at home. As part of our “smart growth” objective, we are also focusing on supporting local growth through investing in individuals and companies; lending them money to help them prosper and thrive and supporting their employees by sponsoring programs such as Boots4Work. This program pays for steel-toed boots/shoes for individuals in our community that wouldn't be able to otherwise accept employment because they don't have the money to buy the required footwear to start a job.

If you want to see your local businesses survive and prosper which, in turn, contributes to your communities' long-term health, one of the best things you can do is bank close to home at Heritage Federal Credit Union. Big banks or brokerage houses often use a community's deposits to make investments in other regions or on Wall Street, not in the local economy. Keep your money local with Heritage and tell all of your friends and neighbors to do the same.

At Heritage Federal Credit Union, we are committed to growth, to our local economy and community and to you.

Thank You,

A handwritten signature in black ink that reads "David K. Milligan". The signature is fluid and cursive, with a large, stylized 'D' and 'M'.

David K. Milligan, CIA, CUERME

President & CEO

“Growth is not only essential for Heritage Federal CU in order to thrive and continue to serve our members, but it is also the very foundation of our local economy and communities.”



SUPERVISORY COMMITTEE REPORT

Norman Adams | Supervisory Committee Chairman

As the Members' representative to the Board of Directors, the Supervisory Committee plays an important role in evaluating the performance of Heritage Federal Credit Union as well as ensuring internal controls are effectively maintained and Members' interests are protected. The Supervisory Committee accomplishes this with the help of Internal Audit and independent industry experts.

The Committee engaged the certified public accounting firm of CliftonLarsenAllen, LLP to conduct the annual financial statement audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. CliftonLarsenAllen, LLP also conducted member account verifications, as required by the National Credit Union Administration. The Independent Auditor's Report gives us continued confidence that the Credit Union's operations are sound and that our business is conducted in a proper manner.

Cordially,



Norman Adams

Supervisory Committee Chairman



STATEMENT OF FINANCIAL CONDITION

Assets	2018	2017
Cash and cash equivalents	\$ 33,920,425	\$ 33,561,210
Investments	67,189,850	64,424,307
Loans receivable, net of allowance for loan losses	454,547,840	404,242,523
Premises and equipment, net	19,166,372	19,523,973
Other assets	26,653,160	28,029,834
Total assets	\$ 601,477,647	\$ 549,781,847

Liabilities and Members' Equity

LIABILITIES:

Members' share and savings accounts	\$ 502,434,305	\$ 485,924,280
Borrowed funds	32,000,000	0
Dividend payable	150,832	97,491
Accounts payable and other liabilities	6,148,188	6,722,730
Total liabilities	\$ 540,733,325	\$ 492,744,501

Commitments and contingent liabilities

MEMBERS' EQUITY:

Regular reserve	\$ 4,843,456	\$ 4,843,456
Undivided earnings	55,886,997	52,336,362
Unrealized gain on investments	13,869	(142,472)
Total members' equity	60,744,322	57,037,346
Total liabilities and members' equity	\$ 601,477,647	\$ 549,781,847

Consolidated Statement of Income

	2018	2017
INTEREST INCOME:		
Total interest income	\$ 21,024,174	\$ 18,456,991
INTEREST EXPENSE:		
Total interest expense	3,147,588	2,527,634
Net interest income	17,876,586	15,929,357
PROVISION FOR LOAN LOSSES	2,986,162	3,101,000
Net interest income after provision for loan losses	14,890,424	12,828,357
NON-INTEREST INCOME:		
Total non-interest income	11,577,347	10,842,626
NON-INTEREST EXPENSE:		
Total non-interest expense	22,917,136	21,078,098
Net income	\$ 3,550,635	\$ 2,592,885

Board of Directors

Steve Crow - *Chairman*
William Yockey - *1st Vice Chairman*
David Willett - *2nd Vice Chairman*
Nicki Sledd - *Treasurer*
Neal Probus - *Secretary*
George Barnett - *Director*
Ron Sheets - *Director*
Dr. Brian McGuire - *Director*
Tim O'Brien - *Director*

Executive Team

David K. Milligan - *CIA, CUERME, President & CEO*
Barbara Winstead - *Chief Human Resource Officer*
Jason Dietz - *Chief Operations Officer*
Mike Carroll - *Chief Financial Officer*
Tony Aylsworth - *Chief Risk Officer*

Supervisory Committee

Norman Adams - *Chairman*
George Barnett - *Board Liaison*
Don Bowen
Deb Anderson
TJ Dau

Nominating Committee

David Willett - *Chairman*
Steve Crow
Nicki Sledd

Personnel Committee

Neal Probus - *Chairman*
Nicki Sledd
David Willett

Building Committee

William Yockey - *Chairman*
David Willett
Ron Sheets
Nicki Sledd
Neal Probus

ALCO - Asset Liability Committee

Dr. Brian McGuire - *Chairman*
David K. Milligan - *CIA, CUERME, President & CEO*
Mike Carroll - *Chief Financial Officer*
Ron Sheets
William Yockey

Governance Committee

William Yockey - *Chairman*
Neal Probus
Steve Crow
George Barnett

Strategic Planning Committee

Dr. Brian McGuire - *Chairman*
Ron Sheets
David Willett
Nicki Sledd



People Helping People

In 2018, HFCU partnered with 102 local non-profit organizations across the four counties we serve (Warrick, Vanderburgh, and Posey, IN and Henderson, KY). In addition, HFCU donated tens of thousands of dollars to these organizations with 84 volunteers providing 2,745 hours of volunteer support.

Many of our staff also hold volunteer board and committee positions with local non-profit agencies and, true to the HFCU spirit of participation, give many hours of their time and expertise in volunteering to work at events and helping to facilitate programs that are offered by the non-profit agencies.



Main
5388 Old State Rd. 66
Newburgh, IN 47630

Headquarters
8266 Bell Oaks Dr.
Newburgh, IN 47630

Bell Oaks
8266 Bell Oaks Dr.
Newburgh, IN 47630

Boonville
966 N. State Rd. 61
Boonville, IN 47601

First Avenue
3540 First Ave.
Evansville, IN 47710

Henderson
2011 U.S. Hwy 60 East
Henderson, KY 42420

Lending
5422 Darlington Road
Newburgh, IN 47630

Mt. Vernon
321 North Main St.
Mt. Vernon, IN 47620

New Harmony
502 Main St.
New Harmony, IN 47631

Northfield
331 E. Boonville-New Harmony Rd.
Evansville, IN 47725

Operations Center
8300 Bell Oaks Dr.
Newburgh, IN 47630

Vogel Road
4920 Vogel Rd.
Evansville, IN 47715

West Side
5343 Pearl Dr.
Evansville, IN 47712



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