



20

ANNUAL REPORT

18



**HAWAII LAW
ENFORCEMENT**
FEDERAL CREDIT UNION



Foreword

Our focus is and always will be our members. After all, a credit union cannot exist without its membership. So, throughout 2018, we focused on finding new ways to build value for our members to help them achieve their financial goals. Our commitment to our membership is evident with the recent introduction of a zero-down USDA Mortgage Loan program and a higher rate Money Market account. But we're not stopping there. As we prepare for the future, keep an eye out for enhanced conveniences via electronic services, and even more products and services tailored specifically for you, our Law Enforcement Ohana.





Our Future Home

In 2018, the most significant development of the Hawaii Law Enforcement Federal Credit Union was the purchase of our future home. Located just blocks away from our current Main Office, our new home promises easy street-level access to our branch from King Street. No more waiting for the slowest elevator in the State! Our new Main Office will not only be a place to do your banking, but will also be an inviting place where our Law Enforcement Ohana can gather, relax, and talk-story.



Chairperson's Report



It has been 82 years since the Hawaii Law Enforcement Federal Credit Union first opened its doors. Since then, there have been many changes to our Credit Union, including a name change, logo update, mission refresh, vision refocus, and a data processor migration. The decision to direct these changes were not taken lightly. The changes were necessary to ensure that the Credit Union continued to position itself to remain relevant to our membership's financial needs now and into the future. But, one thing that has not changed and will not change is our unwavering commitment to taking care of our Law Enforcement Ohana. We exist to serve you.

Upon review of last year's performance, I'm pleased to advise you that assets, shares, loans, and membership continued to grow, although at a slower pace than the previous year. This sustained growth improved earnings, which allowed for enhancements toward our products and services, including the release of a Money Market account that provides higher yields for depositors, the introduction of our USDA mortgage loan program that allows for 100% financing, and the introduction of five (5) customized badge cards. With our membership reaching new heights, we will continue to evaluate the best ways to enhance services supporting the financial needs of our Law Enforcement Ohana.

In our most significant announcement of the year, the Credit Union shared the decision to build a new headquarters. We envision a place that will include ample convenient parking, easy access to do transactions, and private offices to discuss finances confidentially. With your continued support, the Credit Union will be able to improve the financial strength of our members by investing in better ways to meet their needs. We extend our most sincere gratitude to our members for entrusting the Credit Union in taking this important step.

On behalf of your Board of Directors and myself, I want to thank you for your continued support, involvement, and business that you have given to the Hawaii Law Enforcement Federal Credit Union. We have and will always be ready to "Serve to Honor."

Aloha and Malama Pono,

Russell Ikeda, Chairperson
Mark Nakagawa, Vice-Chairperson
Robert Aton, Treasurer
Frank Fujii, Secretary
Robert Kane, Director
Roy Helepololei, Director
Derrick Tsukayama, Director

Board of Directors



Mark Nakagawa
Vice-Chairperson



Robert Aton
Treasurer



Frank Fujii
Secretary



Robert Kane
Director



Roy Helepololei
Director



Derrick Tsukayama
Director

CEO's Message



Aloha Members and Supporters,

During the past few years, our Hawaii Law Enforcement Federal Credit Union Team has worked tirelessly to deliver financial products and services that are relevant to our Law Enforcement Ohana. With our eyes toward thriving and growing in an ever-evolving financial services environment, we are pleased to deliver products that addressed home ownership in a very challenging real estate market and a savings product that addresses the rising rate environment. To expand on the purpose of these initiatives, we realized that saving enough for the standard 20% down payment for a home is difficult at best. As a result, our USDA zero down mortgage program was accepted to assist members in achieving their dream of homeownership. Further, in 2018, the Federal Reserve increased Federal Funds rates four (4) times. As the Federal Reserve raised rates, the Credit Union returned the improved earnings to our membership by launching

a tiered rate Money Market account, which was designed to provide higher yields to members' deposits. Last year, the Credit Union increased its Money Market rates five (5) times.

Although somewhat slower than the previous year, all critical areas in the Credit Union continued to see improvement in 2018 as follows:

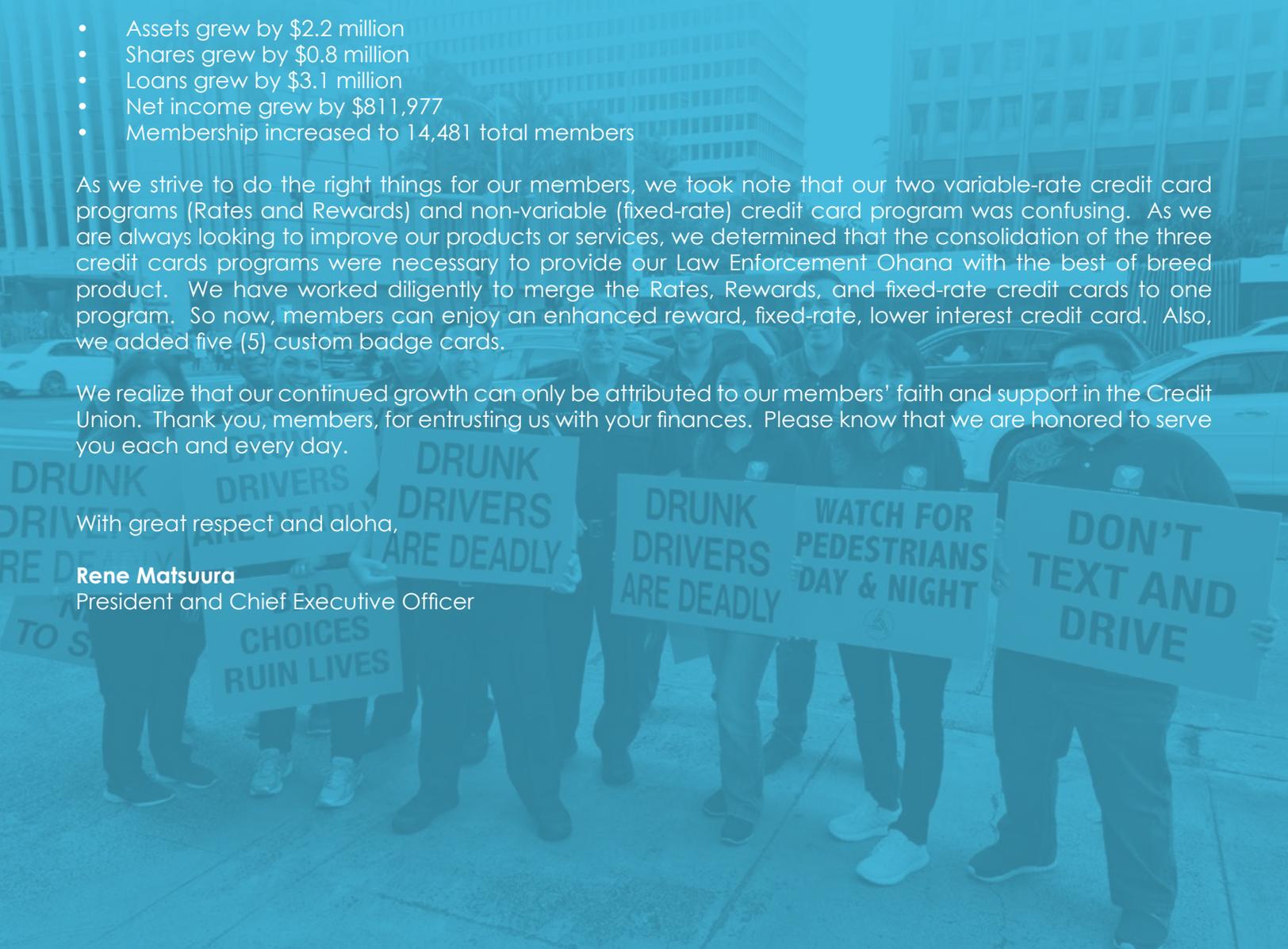
- Assets grew by \$2.2 million
- Shares grew by \$0.8 million
- Loans grew by \$3.1 million
- Net income grew by \$811,977
- Membership increased to 14,481 total members

As we strive to do the right things for our members, we took note that our two variable-rate credit card programs (Rates and Rewards) and non-variable (fixed-rate) credit card program was confusing. As we are always looking to improve our products or services, we determined that the consolidation of the three credit cards programs were necessary to provide our Law Enforcement Ohana with the best of breed product. We have worked diligently to merge the Rates, Rewards, and fixed-rate credit cards to one program. So now, members can enjoy an enhanced reward, fixed-rate, lower interest credit card. Also, we added five (5) custom badge cards.

We realize that our continued growth can only be attributed to our members' faith and support in the Credit Union. Thank you, members, for entrusting us with your finances. Please know that we are honored to serve you each and every day.

With great respect and aloha,

Rene Matsuura
President and Chief Executive Officer



Statement of Income

For the period ending December 31, 2018

	2018	2017
Operating Income		
Interest on Loans	4,464,365.74	3,736,224.89
Interest on Investments	1,322,733.04	1,312,669.04
Fee and Charges	223,085.78	253,490.49
Miscellaneous Income	<u>1,228,693.63</u>	<u>810,588.29</u>
Total Income	<u>7,238,878.49</u>	<u>6,112,972.71</u>
Operating Expenses		
Compensation	1,720,627.72	1,642,586.75
Employee Benefits	434,925.87	367,194.94
Travel & Conference	78,469.96	46,182.04
Association Dues	46,866.18	46,671.76
Office Occupancy	591,519.52	552,819.64
Office Operations	563,646.16	636,694.59
Education & Promotion	152,011.76	203,292.50
Loan Servicing	350,470.52	366,858.05
Professional Services	801,488.85	624,024.74
Provision for Loan Losses	85,908.04	55,216.35
Member Insurance	-	-
NCUA Operating Fees	44,535.90	36,565
Fed Exam Fees	-	-
Interest on Borrowed Funds	0.60	20,778.73
Annual Meeting	24,569.12	29,965.30
Miscellaneous	<u>59,369.30</u>	<u>73,725.26</u>
Total Operating Expenses	<u>4,954,435.96</u>	<u>4,702,275.65</u>
Income (Loss) from Operations	<u>2,284,442.53</u>	<u>1,410,697.06</u>
Gain (Loss) on Investments	-	-
Gain (Loss) on Disposal of Assets	(163.00)	(2.00)
Non-Operating Income (Loss)	-	-
Gain (Loss) on OREO	-	-
Gain (Loss) Rental on OREO	-	-
Net Income (Loss) before Dividends	<u>2,284,279.53</u>	<u>1,410,695.06</u>
Dividends	<u>396,374.44</u>	<u>332,821.93</u>
Net Income (Loss)	<u>1,887,905.09</u>	<u>1,077,873.13</u>

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the period.

Treasurer's Report



Last year, the Hawaii Law Enforcement Federal Credit Union saw one of its strongest years in earnings. The strong earnings can be contributed to the Credit Union's continued growth in assets, shares, and loans as follows:

- Assets grew by \$2.2 million (1.28%) to \$170,771,062
- Shares grew by \$0.8 million (0.51%) to \$151,518,034
- Loans grew by \$3.1 million (3.26%) to \$98,591,126
- Membership grew by 220 (1.54%) to 14,481

Notably, the strong earnings increased the Credit Union's net worth ratio from 10.24% in 2017, to 11.21% in 2018. The Credit Union's net worth ratio equates to \$18.36 million in reserves, which surpasses the

National Credit Union Administration's minimum guideline of 7%. More importantly, stronger earnings allow the Credit Union to allocate resources to enhance or introduce products and services that serve our members' needs, such as the introduction of our Money Market account and USDA zero down mortgage program.

As you will note from my report, the Hawaii Law Enforcement Federal Credit Union is financially stable and moving forward with plans to enhance services to the membership in all operational areas.

On behalf of the Credit Union's board of directors, management team, and dedicated staff, we are grateful for the honor to serve as your trusted financial partner.

Robert Aton, Treasurer

Financial Comparison

For the period ending December 31, 2018

Category	2018	2017	Difference	% Change
Assets	170,769,117	168,617,185	2,151,932	1.28%
Shares	151,518,034	150,742,512	775,552	0.51%
Loans	98,591,126	95,482,728	3,108,397	3.26%
Net Worth Ratio	11.21%	10.24%	0.98%	9.54%
Number of Members	14,481	14,261	220	1.54%

Supervisory Committee Report



The Supervisory Committee consists of five Hawaii Law Enforcement Federal Credit Union members appointed by the Board of Directors.

The Committee is responsible for the objective review and evaluation of the overall financial performance of the Credit Union. It is the Committee's responsibility to ensure that the Credit Union operates with sound internal controls, maintains records which accurately account for the Credit Union's assets, and adheres to practices that will safeguard those assets.

To ensure that these responsibilities are completed, the Committee has retained CU Pacific Audit Solutions for the following:

- Conducting periodic audits of the Credit Union's records and processes
- Conducting an annual audit of the Credit Union's financial statement
- Conducting a bi-annual audit of member account verifications
- Conducting quarterly internal control audits

Throughout their evaluations in 2018, the Supervisory Committee did not detect any anomalies.

Cary Okimoto, Chairperson
Christopher Park, Secretary
Nathan Matsuoka, Member
Allan Lewis, Member
Carlene Lau, Member

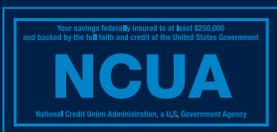
Credit Committee Report



In 2018, the Credit Union had the honor of providing over \$38.5 million in loans to our Law Enforcement Ohana, which ended the year with 98.59 million in total loans. However, the real success behind the loan numbers was the impact to our members' lives, such as our members financing and moving into their first new home, driving their dream vehicle, or walking down the aisle to marry the love of their life. These stories and many more are why the Credit Union exists and are our Loan Team's passion.

Thank you, Law Enforcement Ohana, for entrusting us with your financial needs.

Kent Harada, Chairperson
Rene Matsuura, Member
Radford Real, Member



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