

# 2012 ANNUAL REPORT



*Delivering Results*



ORNLFCU.COM





2012 ANNUAL REPORT

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As a financial cooperative, it is our mission to deliver value, convenience and exceptional service to our membership. It is this mission that drives our decisions and will continue to pave the way for ORNL Federal Credit Union to become the preferred credit union in East Tennessee.

Proof that we are delivering value can be seen in our tremendous growth. Members continue to “vote with their wallet” by choosing ORNL Federal Credit Union over the countless other financial institutions in our community. And we continue to deepen these relationships while welcoming new members each and every day.



Marcy Catron

To enhance member value, your management team and employees continued to focus on finding new and better ways to meet the financial needs of our members. During the year, 100% of our employees were actively involved in receiving the most in-depth, comprehensive, targeted and quality training that has ever been delivered at ORNL Federal Credit Union. This training was in direct support of our commitment to “becoming the preferred credit union in East Tennessee, by delivering unparalleled, enhanced member value.”

To help keep us focused on our path, your volunteer Board of Directors serves as your voice in strategic and policy decisions that affect the membership.

We live in the same communities and understand your needs and goals. We monitor certain key measurements closely to ensure we stay member-focused, but also ensure the safety and soundness of the cooperative. And we are happy to report that your Credit Union is strong and positioned well for the future.

The outlook for 2013 is very exciting. Our management team and employees are prepared and committed to achieving our goals and objectives. I am confident that every day we will be doubling our efforts and stretching ourselves to deliver solutions that will enhance member value.

*Marcella A. Catron*

Marcy Catron

Board Chair, ORNL FCU



In 2012, in the face of continuing economic, regulatory and governmental challenges, we successfully continued the process of transforming ORNL Federal Credit Union. We made significant improvements in our operating efficiencies, substantially reduced operating expenses and deployed new technology and service innovations to enhance our members' experience.

In 2011, we defined a clear goal – "To become the preferred credit union in East Tennessee by delivering unparalleled, enhanced member value."

Our results for 2012

show that we are making real progress toward that goal. Membership grew 4.2%, ending the year at 157,310. Total assets grew to \$1.43 billion at year-end, an increase of \$82.3 million, or 6.1%. Credit Union deposits increased by \$68.4 million or 5.9%; total deposits for the year were \$1.2 billion. Net loans outstanding grew \$123.1 million or 12.4% to a total outstanding of \$1.12 billion, and 2012 was the best year for net income in our history.

Despite our progress, we face significant external challenges. Most notable is developing and maintaining compliance with the Dodd-Frank Wall Street Reform and Consumer Protection



Chris Johnson

Act of 2010, which mandates the most sweeping overhaul of the United States financial regulatory system since the Great Depression. Since only a portion of the Act's 400 rules have been finalized, we are just beginning to understand the bottom-line implications of these regulatory burdens, but certainly anticipate higher costs and more staff hours spent on regulation and compliance. We are actively working with our trade associations, legislative and other partners to address this and other regulatory challenges.

We enthusiastically look forward to 2013. We intend to do what we have been doing only better...to develop new and innovative products and services to better meet our members' financial needs...to continue to create a more efficient credit union...to make ORNL Federal Credit Union a vibrant, productive work place for all of our employees...and to demonstrate, every day, our commitment to provide even greater value for your membership. On behalf of all of our employees and management, thank you for being a member of ORNL Federal Credit Union.

A stylized, handwritten signature in black ink, appearing to read "Chris Johnson".

Chris Johnson  
President & CEO, ORNL FCU

# ORNLF CU OFFICIALS

## BOARD OF DIRECTORS

Marcy Catron, *Chair*  
Herb Debban, *Vice Chair*  
Jama Hill, *Treasurer*  
Wanda McCrosky, *Secretary*  
Leigha Edwards

Randy Gorman  
Cindy Mayfield  
Sam McKenzie  
James Payne  
Mary Helen Rose, *Recording Secretary*

## EXECUTIVE COMMITTEE

Marcy Catron, *Chair*  
Herb Debban, *Vice Chair*  
Jama Hill, *Treasurer*  
Wanda McCrosky, *Secretary*

## SUPERVISORY COMMITTEE

Harvey Gray, *Chair*  
David Watkins, *Vice Chair*  
Gerald Smith, *Secretary*  
Joel Pearman  
Vickie Caughron

## VOLUNTEER POLICY & GOVERNANCE COMMITTEE

Jama Hill, *Chair*  
Randy Gorman  
Wanda McCrosky  
Sam McKenzie  
James Payne

## NOMINATING & ELECTION COMMITTEE

Randy Gorman, *Chair*  
Jim McKinley  
Joe Setaro

## LEGISLATIVE & GOVERNMENTAL AFFAIRS COMMITTEE

James Payne, *Chair*  
Leigha Edwards  
Randy Gorman  
Sam McKenzie

## RETIREMENT PLANS & INVESTMENTS COMMITTEE

Herb Debban, *Chair*  
Marcy Catron  
Jama Hill  
Sally Jaunsen  
Mary Yoder

# ORNLF CU EXECUTIVE MANAGEMENT

Chris Johnson, *President and Chief Executive Officer*  
Dennis Bowker, *Senior Vice President and Chief Financial Officer*  
Melodie Godfrey, *Executive Vice President and Chief Operating Officer*  
Wayne Hood, *Senior Vice President and General Counsel*  
Colin Anderson, *Senior Vice President and Chief Financial Officer*

# A G E N D A

## AGENDA 65TH ANNUAL MEETING

### 1 Call To Order

*a. Welcome*

*b. Quorum Determination*

### 2 Minutes of 64th Annual Meeting

### 3 Announcement of Board Members

*Introduction of Appointed Board Members*

### 4 Reports

*a. Board Chair*

*b. Treasurer*

*c. Supervisory Committee*

*d. President and CEO*

### 5 Old Business

### 6 New Business

### 7 Adjournment

# 2 0 1 2 N O M I N A T I N G

## 2012 NOMINATING COMMITTEE REPORT

The ORNL Federal Credit Union Nominating Committee reviewed the qualifications of members who submitted their names for consideration as candidates for the Board of Directors. There are four positions on the Board of Directors to be filled in 2013, three of which are for three-year terms, and one of which is for a one-year term. We hereby nominate the following four individuals (listed in alphabetical order) for the four positions to be filled at our Credit Union's Annual Meeting on March 7, 2013: Marcy Catron, Cindy Mayfield, Sam McKenzie, and James Payne.

The nominees selected to fill the three three-year terms are Mrs. Catron, Mr. McKenzie, and Mr. Payne, and the nominee selected to fill the one-year term is Mrs. Mayfield. There were no candidate petitions filed with the Credit Union this year.

*Respectfully submitted,  
Randy Gorman, Chair;  
Jim McKinley; Joe Setaro*



Marcy Catron



Cindy Mayfield



Sam McKenzie



James Payne



# SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, which is appointed by the ORNL FCU Board of Directors, is responsible for ensuring that the Credit Union's financial records are in order and that necessary internal controls are in place to protect the Credit Union's assets for its members. The Supervisory Committee performs these functions by regularly reviewing the data from internal and external financial audits and examining the results from testing the Credit Union's internal controls.

To assist in the execution of these responsibilities, the committee engages several external audit and testing firms to provide independent oversight and opinions on the state of your Credit Union. In 2012 a multi-year contract was placed with the firm Nearman, Maynard, Valdez, CPAs to annually audit our Credit Union's financial status. The goals of the annual audit of the Credit Union's financials ending 12/31/2012, are (1) to determine the reliability and integrity of your Credit Union's financial and operating information and (2) to review the Credit Union's compliance with generally accepted accounting principles. The 2012 financial audit is currently in progress.

After a competitive procurement in 4th quarter 2011, Castlegarde was selected to perform computer external network vulnerability penetration testing. The results for the assessments completed in 2012 found no significant issues and the Credit Union received an "exceeds standards" rating.

The Internal Audit Program, under the direction of the Supervisory Committee, provides an ongoing review of compliance with Credit Union policies and procedures. This program also includes an annual inspection of internal controls, cash,

member loans, and other assets of your Credit Union. The audit program for the year 2012 was completed as planned with no major issues.

The Credit Union's Board of Directors and management are fully committed to complying with all applicable rules and regulations. As part of this ongoing commitment, the Supervisory Committee has the independent responsibility to monitor the Credit Union's business practices.

Additional activities of the Supervisory Committee during 2012 included: approving the annual internal audit; creating monthly reports documenting Supervisory Committee activities; attending monthly Board of Directors meetings; participating in training programs; meeting with members of the management team; handling member complaints when directed by the NCUA; and participating in the Credit Union's strategic planning activities. The Supervisory Committee is pleased to report your Credit Union continues a tradition of excellent financial management and compliance.

# TREASURER'S REPORT 2012

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

ASSETS	2012	2011
Cash and cash equivalents	\$ 86,225,703	\$ 108,336,892
Investments	\$ 127,709,376	\$ 159,976,955
Loans to members, net of the allowance for loan losses	\$ 1,119,588,993	\$ 996,501,797
Loans held for sale	\$ 10,489,777	\$ 13,541,875
Accrued interest receivable	\$ 3,491,397	\$ 3,565,096
Property and equipment	\$ 30,103,952	\$ 33,927,450
National Credit Union Share Insurance Fund deposit	\$ 11,390,896	\$ 10,640,982
Other assets	\$ 47,708,361	\$ 27,848,758
Total assets	\$ 1,436,708,455	\$ 1,354,339,805
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<u>Liabilities</u>		
Members' share and savings accounts	\$ 1,219,824,442	\$ 1,151,408,810
Accrued expenses and other liabilities	\$ 30,172,678	\$ 23,280,088
Borrowed funds	\$ 36,774,918	\$ 43,607,427
Total liabilities	\$ 1,286,772,038	\$ 1,218,296,325
<u>Members' Equity</u>		
Regular reserve	\$ 8,270,000	\$ 8,270,000
Undivided earnings	\$ 144,891,377	\$ 131,257,873
Accumulated other comprehensive gain/(loss)	\$ (3,224,960)	\$ (3,484,393)
Total members' equity	\$ 149,936,417	\$ 136,043,480
Total liabilities and members' equity	\$ 1,436,708,455	\$ 1,354,339,805

## CONSOLIDATED STATEMENT OF INCOME & EXPENSE

INCOME	2012	2011
<u>Interest Income</u>		
Interest on loans to members	\$ 53,586,675	\$ 53,257,765
Interest on investments and cash equivalents	\$ 3,003,277	\$ 3,731,054
Interest income	\$ 56,589,952	\$ 56,988,819
<u>Interest Expense</u>		
Dividends on members' deposits	\$ 6,959,757	\$ 8,849,253
Interest paid on borrowed funds	\$ 1,383,869	\$ 1,689,231
Interest expense	\$ 8,343,626	\$ 10,538,484
Net Interest Income	\$ 48,246,326	\$ 46,450,335
Provision for Loan Losses	\$ 6,233,219	\$ 6,326,314
Net Interest Income After Provision for Loan Losses	\$ 42,013,107	\$ 40,124,021
<u>Non-Interest Income</u>		
Fee income	\$ 11,715,266	\$ 10,490,380
Other non-interest income	\$ 18,212,097	\$ 13,947,801
Gain on sale of investments	\$ 210,751	\$ 88,992
Non-interest income	\$ 30,138,114	\$ 24,527,173
Income Before Non-Interest Expense	\$ 72,151,221	\$ 64,651,194
<u>Non-Interest Expense</u>		
Compensation and employee benefits	\$ 28,578,506	\$ 28,817,949
Operations	\$ 7,371,127	\$ 7,468,173
Professional & outside services	\$ 8,124,047	\$ 6,271,930
Occupancy	\$ 4,520,395	\$ 4,687,936
Loan servicing	\$ 3,821,322	\$ 2,678,777
NCUSIF premium	\$ 1,082,135	\$ 2,660,246
Education and promotion	\$ 2,140,333	\$ 2,437,796
Loss on assets	\$ 1,847,623	\$ 1,079,078
Non-interest expense	\$ 57,485,488	\$ 56,101,885
Net Income	\$ 14,665,733	\$ 8,549,309



## NOTES TO FINANCIAL STATEMENTS

**1. CASH AND CASH EQUIVALENTS** Cash and cash equivalents consist of cash on hand, demand deposits and money market funds.

**2. INVESTMENTS** Investments consist primarily of government agency securities and mortgage backed securities.

### 3. LOANS TO MEMBERS

	12/31/2012	12/31/2011
First Mortgage Real Estate	\$ 404,413,269	\$ 335,199,661
Other Real Estate	\$ 142,930,937	\$ 148,516,836
Member Business	\$ 130,099,044	\$ 138,334,990
Automobile	\$ 352,047,568	\$ 311,635,057
Unsecured	\$ 52,539,589	\$ 35,584,018
Other Loans	\$ 58,381,371	\$ 49,015,852
	<u>\$1,140,411,778</u>	<u>\$1,018,286,414</u>
Allowance for Loan Losses	<u>\$ (10,333,008)</u>	<u>\$ (8,242,742)</u>
	<u>\$1,130,078,770</u>	<u>\$1,010,043,672</u>

**4. LOAN SERVICING** Mortgage loans sold to FNMA are not included in the accompanying statements of financial condition. The unpaid principal balances as of December 31, 2012 and 2011 were \$536,109,417 and \$510,388,538, respectively.

**5. NATIONAL CREDIT UNION SHARE INSURANCE FUND (NCUSIF) DEPOSIT** The deposit in the NCUSIF is in accordance with the National Credit Union Administration regulations, which requires a deposit by each federally insured credit union in an amount equal to 1% of its insured members' shares.

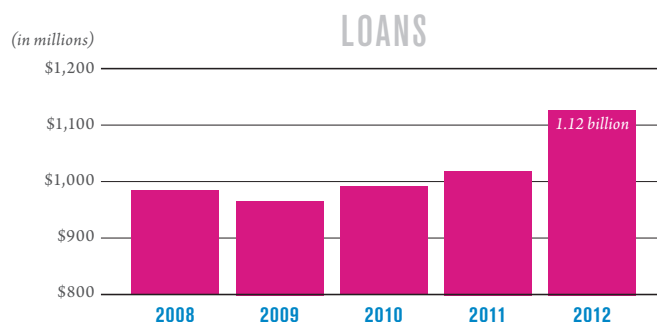
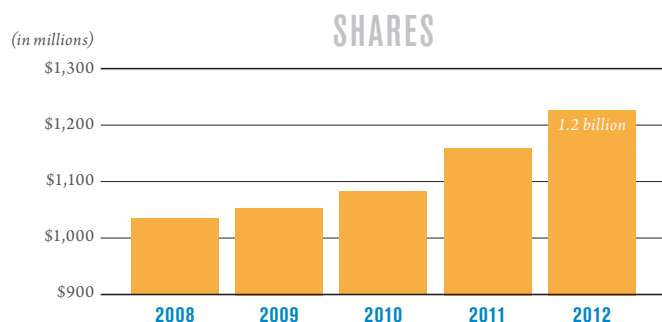
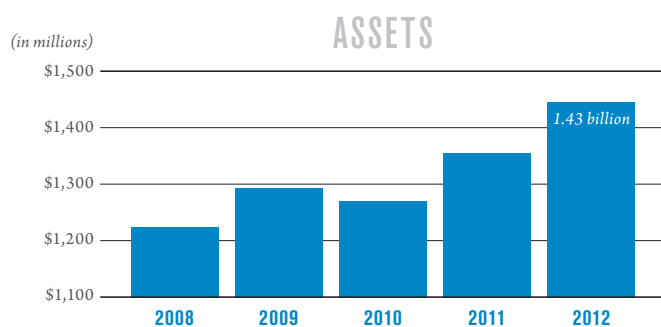
**6. BORROWED FUNDS** Borrowed funds advances from the Federal Home Loan Bank which are primarily used to lend to members for fixed rate mortgages.

### 7. MEMBERS' SHARES

	12/31/2012	12/31/2011
Regular Share Accounts	\$ 359,048,158	\$ 318,099,915
Share Draft Accounts	\$ 216,105,274	\$ 200,379,586
Money Market Accounts	\$ 249,400,622	\$ 228,306,035
IRA's	\$ 106,454,535	\$ 105,685,052
Certificates	<u>\$ 288,815,853</u>	<u>\$ 298,938,222</u>
	<u>\$ 1,219,824,442</u>	<u>\$ 1,151,408,810</u>

**8. COMPREHENSIVE GAIN/(LOSS)** Certain changes in assets and liabilities, such as 1) unrealized gains and losses on available-for-sale securities and 2) gains and losses on assets in defined benefit plans that are not recognized as components of net periodic benefit costs.

**9. CONSOLIDATED STATEMENTS** The credit union wholly owns CU Community, LLC, a credit union service organization. The credit union's financial statements are consolidated as required by generally accepted accounting principles.



# MINUTES OF THE 64TH ANNUAL MEETING

MARCH 1, 2012    *Double Tree Hotel, Oak Ridge*

## 1 CALL TO ORDER

*a. Welcome.* The 64th Annual Meeting of the ORNL Federal Credit Union (operating under NCUA Charter No. 5797, issued August 6, 1948) was called to order at 6:00 p.m. by Mason Oakes, Chair of the Board of Directors. He stated that the purposes of the meeting were to report to the membership, receive the report of the Nominating Committee, and elect Board members. No prizes were awarded this year, as three Board members were to be elected and only three were nominated, so there was no electronic voting. Oakes noted that refreshments were provided by Double Tree Hotel.

Oakes introduced President and Chief Executive Officer Chris Johnson, current Board members, and members of the Supervisory Committee. He thanked members of other committees and volunteers as listed in the printed report.

*b. Quorum Determination.* There were more than enough members present to constitute a quorum.

## 2 MINUTES OF THE 63RD ANNUAL MEETING

A motion was made, seconded, and passed to approve the minutes as written.

## 3 ELECTION

*a. Report of the Nominating Committee.* Members of the committee were Wanda McCrosky, Chair; Christy Griffith; and Jim McKinley. McCrosky referred to the Nominating Committee's report as published in the 2011 Annual Report. Nominees were Leigha Edwards, Randy Gorman, and Jama Hill.

*b. Election.* Motion was made, seconded, and passed to elect the three nominees. Oakes congratulated them on their election.

## 4 REPORTS

*a. Audiovisual Presentation.* A short audiovisual presentation on the Credit Union's activities during 2011 was shown. Oakes thanked members of the Marketing Department for producing the report.

*b. Board Chair.* Mason Oakes referred to the Board Chair's printed report and called for questions, but there were none. Oakes stated that we had a very good year, in spite of the economy and added regulations.

*c. Treasurer.* Marcy Catron referred to the printed Treasurer's report and called for questions (see questions below). She also said we had a good year and complimented staff.

*d. Supervisory Committee.* Chair Harvey Gray referred to the Supervisory Committee's report. He noted that the annual audit again gave ORNL FCU a clean bill of health, with no significant findings. He thanked Andrea Griffiths and her Internal Audit team. There were no questions about the Supervisory Committee's report.

## QUESTIONS BY MEMBERS

A member asked what makes up the losses shown in the Members' Equity section of the Balance Sheet. President Chris Johnson explained the items that run

through that account. He said that the Executive Committee watches investments very closely.

A member noted the Provision for Loan Losses of over \$6 million, and asked what types of loans we are writing off. Johnson said we are writing off some in all categories of loans, but we had a couple of Member Business Loans that were larger than average. He noted that there was a slight increase in losses over 2010, but the percent of loss was below our budgeted amount (the amount that we expected in this economic climate). He said we are beginning to see better trends. Losses spiked in 2010, and the ratio decreased every month in 2011. Our percentage of loans written off is below that of our peers.

A member asked how loan rates are set (she said she was quoted an interest rate of 8% for a loan on rental property). Johnson said we set rates very carefully with both members and impact on the Credit Union in mind. Every two weeks, we meet and look at competitive rates and the rates at which we can borrow money. He said other institutions have different strategies, and we know that we cannot always have the best rates on every product. One member stated that she thought we should be very competitive, since we are not a bank. A member asked whether the interest rate margin increased or decreased in 2010 and 2011. Johnson said the margin is actually decreasing in percentage terms; the margin is squeezing. He said we are working very hard to control operating expenses.

A member asked about plans to build a new corporate

headquarters in the west end of town and whether there would be a branch there. Johnson gave the background on our purchasing land at Horizon Center. He said our corporate offices are now located in multiple buildings and locations. He said we have not determined whether building the new building would be the right move for us. We have on our agenda to have dialog about that, and no branch has been planned as yet.

A member asked about interest rates on CDs, why they are not more competitive. Johnson explained that there has been a significant decrease in loan demand, and we are finding no better options to invest our liquidity than we are paying members. Our cash is in other depository institutions, and we are getting paid a very nominal rate of interest.

A member asked about our 32 branches, how we determine the rate of return and profitability of investment. Johnson commended the Board for its due diligence in planning the branches. He said there are metrics to determine whether a branch is as profitable as it was expected to be. He said that staff reports quarterly to the Board on the return on these branches.

## 5 OLD BUSINESS

None.

## 6 NEW BUSINESS

None.

## 7 ADJOURNMENT

The meeting adjourned at 6:40 p.m.



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