



ANNUAL REPORT 2016

ORNL FEDERAL



CREDIT UNION

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BOARD CHAIR'S REPORT

The Credit Union remains focused on providing value to the membership through the execution of long-term strategic goals. Important initiatives were launched over the past year to leverage technology, drive efficiency, and promote the overall member experience.

Our [Master Facilities Plan](#) resulted in many positive improvements during 2016:

- In February, we unveiled a new, state-of-the-art **Oak Ridge Branch** office. The new facility is located at the site of the original main office (215 S. Rutgers Avenue) and features enhanced technology such as Interactive Teller Machines and biometric entry to safe deposit boxes. The location incorporates the energy and imagery of our new brand and showcases a universal service model that was developed to improve the member experience.
- The **North Knoxville Branch** and the **Kingston Branch** underwent much needed renovations in 2016. The results are astonishing! Like the Oak Ridge Branch, both feature modern designs and technology to support a stronger service model.
- Renovations to the **Oak Ridge Main Office** (Headquarters) continue on schedule as two of the three floors have been completed. Several departments will soon relocate to Headquarters from leased spaces in the Oak Ridge area which will reduce costs and bring teams and related functions together.
- A new **Northshore Branch** facility is nearing completion. The location will house a branch, multiple departments, and the *Credit Union Service Organization*. This facility will also allow us to vacate leased space and bring teams with related functions together. As part of the relocations, the Northshore Branch that is currently located in Kroger, will move to the new building and be open for business on February 21, 2017.



Marcy Catron, Board Chair



BOARD CHAIR'S REPORT (CONT.)

We remain committed to protecting our members by offering [secure transaction options](#). Over the past year we have successfully deployed services and features to support account security and to reduce fraud. These services and features include: **ATM Fraud Detection, Biometric Enhancements to Mobile Banking, Samsung and Android Pay, and Visa Checkout.**



In May of 2016, we converted approximately 11,000 mortgage loans to our new servicing partner, [Roundpoint Mortgage Servicing Corporation](#). This was a strategic decision to ensure ongoing compliance with regulatory requirements while improving access and options to mortgage borrowers. In order to honor our promise to always accept mortgage payments in our offices, we are committed to retaining servicing for all mortgage loans. This makes our partnership with Roundpoint even more important, as they offer the scalability and support needed to position the Credit Union for future growth.



Helping members save money has always been at the heart of what we do. In 2016 our newest savings tool, [Round Up](#), celebrated its one year anniversary. We are happy to report that by incrementally rounding up debit card transactions to the nearest whole dollar, **15,292 members successfully saved \$1,746,158.** It's quick and easy to enroll and is a great way to set aside savings for a *sunny* day.



After 18 years of utilization, the [core operating system](#) for the Credit Union was upgraded in December of 2016. This update offers more efficient processing and streamlined workflows while reducing internal obstacles that were present in the old system. In addition, our **deposit products were simplified** to better align with member needs.



Our community is important to us and we remain committed to providing support through [sponsorships and volunteerism](#). From **Dogwood Arts and Parade of Homes** to the annual **Knoxville boat and home shows**, we are proud to present opportunities for our members and employees to engage in the community.



Like many in our community, we watched in disbelief as wildfires caused loss and devastation to our friends and neighbors in [Sevier County](#). Relief programs were developed by the Credit Union to support impacted members. Staff banded together to provide personal financial contributions as well as volunteer personal time to the relief effort. Together, the Credit Union and its employees and members **donated over \$20,000 to support Sevier County relief programs.**



In 2017, we have planned more strategic initiatives to further our investment in new ideas and technologies:

- 2017
- **Continue the Master Facilities Plan.** Many elements of the plan will wrap up during 2017. This includes occupancy of a new building and branch in the Northshore area, termination of costly leases, and completion of the Clinton and Lab branch remodels. All of these changes support our goal of achieving operational efficiency.
 - **Implement a Robust Commercial Loan Platform.** In order to support the growing needs of business owners within our membership, we plan to implement a robust commercial loan system. The addition of this system will allow us to expand our lending options and operate in a more efficient and effective manner.
 - **Enhance Digital Banking Systems.** Digital banking utilization continues to grow within the Credit Union and within the financial services industry as a whole. For this reason, we are investing in technology to enhance the digital banking experience. Our ultimate goal is to offer access that allows our membership to seamlessly manage their finances from the device and location of their choice. Be on the lookout for new offerings later this year!

On behalf of your Board of Directors, thank you for making ORNL Federal Credit Union your trusted financial partner. We continue to invest in new ideas and new technologies so together, we *thrive*.


Marcy Catron, Board Chair

TREASURER'S REPORT

ORNL Federal Credit Union's financial condition remains strong and well-positioned for future growth. Considerable investments in systems, made in 2016, will enhance the member service processes and experience. In 2016, the Credit Union increased Net Income by \$1.55 Million ending the year with Net Income of \$10.09 Million. Because of this performance, Regulatory Net Worth ended the year at \$197.42 Million. The Credit Union experienced considerable Total Asset growth in 2016 with balances increasing by \$134.13 Million (or 7.76%) to end the period at \$1.863 Billion. With a Net-Worth Ratio of 10.60%, ORNL Federal Credit Union remains "Well Capitalized" as defined by the National Credit Union Administration.

7.76% INCREASE IN
TOTAL ASSET
GROWTH

Gross Loans increased by \$27.31 Million as loan portfolios rebalanced to reflect the current market conditions. Total Consumer Loans declined by \$58.51 Million as the auto market slowed in 2016 but the Credit Union reactively offered attractive mortgage lending products and remains the mortgage lender of choice for members.

Overall, Total Mortgage Loans increased by \$77.20 Million to end the period at \$684.34 Million. Total Member Business Loans continued the trend of positive growth with balances increasing by \$8.63 Million to end the period at \$80.58 Million. The reflective shift in loan portfolio balances resulted in a favorable increase in Total Interest Income of \$3.61 Million.

Total Deposits increased by \$124.43 Million (or 8.67%) to end the period at \$1.546 Billion.

8.67% INCREASE IN
TOTAL DEPOSIT
BALANCES

Strong growth across all deposit portfolios contributed to the increase. Share Draft balances increased by \$34.34 Million while Share Savings and Money Market accounts increased by \$18.17 Million and \$20.86 Million, respectively. Throughout 2016, the Credit Union offered best-in-market Share Certificate promotions which drove a \$49.93 Million increase in balances in 2016.

The Credit Union continues to attract new members as total memberships increased by 3,028 (or 2.00%) to end 2016 at 154,325. ORNL Federal Credit Union will continue to offer attractive products, competitive pricing, and exceptional service to engage members: because together, we *thrive*.

ORNL Federal Credit Union continues to exhibit strong growth and builds on the financial base with a solid performance in 2016.

**"...BECAUSE TOGETHER,
WE *THRIVE*."**

2016 SUPERVISORY COMMITTEE REPORT

The Supervisory Committee, appointed by the ORNL Federal Credit Union Board of Directors, is responsible for ensuring that our Credit Union’s financial records are in order and the necessary internal controls are in place to protect our members’ assets. The Supervisory Committee performs these functions by reviewing the data from internal and external financial audits and by testing and monitoring internal controls and business practices.

To assist in the execution of these responsibilities, the Committee engages several external audit and testing companies. After completing the 2016 audit it was recommended and mutually agreed to move the audit date to mid-year. Nearman, Maynard, Vallez, CPAs will audit our Credit Union’s financial status for the period 1/1/16 to 6/30/17. Future audits will return to 12 month review periods. These audits’ goals are to determine the reliability and integrity of our financial operating information and to review our Credit Union’s compliance with generally accepted accounting principles (GAAP).

The Internal Audit Program, under the direction of the Supervisory Committee, provides a risk based, ongoing review of compliance with Credit Union policies and procedures. This program also includes an annual inspection of internal controls, physical and cybersecurity systems, cash, member loans, and other assets of our Credit Union.

Key 2016 accomplishments include satisfactory Member Business Loan and Bank Secrecy Act audits. Also, Online Banking, website compliance audits, and monthly internal/external risk assessments were rated as meets standards. The Supervisory Committee, as directed by the NCUA, is also responsible for the review and response to member complaints. The Supervisory Committee is pleased to report our Credit Union continues a tradition of excellent financial management and compliance.

2016 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.

We hereby nominate the following three individuals (listed in alphabetical order) for the three positions to be filled by the election at our Credit Union’s 69th Annual Meeting on March 9, 2017:

Harvey Gray Joel Pearman Debbie Stairs

There were no candidate petitions filed with the Credit Union this year.

Respectfully submitted,
Sam McKenzie, Nominating Committee Chair

MINUTES OF THE 68TH ANNUAL MEETING

1. CALL TO ORDER

a. Welcome: The 68th 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 PM by Board Chair Marcy Catron. Ms. Catron stated that, in accordance with Credit Union bylaws, the meeting would be conducted in adherence with Robert’s Rules of Order, with Joy Wilson, Senior Vice President & Chief Administrative Officer, serving as Parliamentarian.

b. Quorum Determination: Ms. Catron announced that a sufficient number of members were present to constitute a quorum.

c. Purpose: Ms. Catron stated that the purposes of the meeting were to provide the annual financial and audit reports to the membership, and to present the Board of Directors’ current members.

2. MINUTES OF THE 67TH ANNUAL MEETING

A motion was made, seconded, and passed to approve the Minutes as included with the 2015 Annual Report.

3. ANNOUNCEMENT OF BOARD MEMBERS

a. Report of the Nomination & Election Committee:
The Nominating Committee submitted the names of four members as candidates for the four available positions on the Board of Directors; three of which are for a three-year term and one of which is for a one-year term. The nominees selected to fill the three three-year terms are Ms. Catron, Mr. McKenzie, and Mr. Payne, and the nominee selected to fill the one-year term is Mr. Pearman. A motion was made, seconded, and passed to reinstate Ms. Catron, Mr. McKenzie, and Mr. Payne as Directors for a term of three years and Mr. Pearman as a Director for one year.

MINUTES OF THE 68TH ANNUAL MEETING (CONT.)

b. Current Board Member Recognition: Ms. Catron introduced the current Directors, Supervisory Committee Members, and Members of the Nominating Committee as listed in the Annual Report and thanked them for their service.

c. Report of the Supervisory Committee: Supervisory Committee Chair David Watkins reported 2015 concluded with zero major findings and a clean and unqualified audit. Mr. Watkins thanked Andrea Griffiths, VP Auditing, the Auditing Staff, the Executive Management Team, and the Board of Directors. Ms. Catron thanked the Supervisory Committee for their diligence.

4. REPORTS

a. Chairman: Ms. Catron referred to the Chairman’s Report in the written 2015 Annual Report. Ms. Catron recognized the Board of Directors for their work throughout the year. Ms. Catron called Ms. Wanda McCrosky, a recently retired Board of Director, to the stand for recognition of her years of service on the Board of Directors. A framed print from the Credit Union House, a signed book from Richard Cook, and Ms. McCrosky’s first annual report as a Board Member was given to her in appreciation of her service. Ms. Catron thanked Ms. McCrosky for her dedication, commitment, loyalty, hard work, and passion.

b. Current Executive Team Recognition: The Chair introduced President & CEO Colin Anderson and announced that he would be giving both the President’s and Treasurer’s Reports. Mr. Anderson thanked the Chair, and recognized the combined 104 years of service the Board of Directors have given to the Credit Union. Mr. Anderson stated the Board of Directors is dedicated to attending monthly meetings, quarterly committee meetings, and performing annual training. Mr. Anderson introduced the Executive Management Team as listed in the 2015 Annual Report noting their lengths of service to the Credit Union. Mr. Anderson thanked the Executive Management Team. Mr. Anderson introduced the newly established Brand Ambassador program introducing two of the Ambassadors in attendance. Mr. Anderson stated the Brand Ambassadors are used to promote the Credit Union throughout the community.

c. Treasurer: Mr. Anderson referred to the written report appearing in the 2015 Annual Report. Mr. Anderson reported very strong loan demand in the market noting consumer auto growth and mortgage growth. Mr. Anderson reported \$1.1 Billion on serviced mortgage loans stating the loans are funded organically through the use of Money Markets and Deposits. Mr. Anderson reported strong consumer lending with Total Balances increasing by \$53.46 Million. Mr. Anderson stated vehicle loans represent 76.77% of the Consumer Loans. Mr. Anderson stated Total Deposits increased 8.72% to total \$1.423 Billion. Mr. Anderson stated the increase was due to growth in Money Market Accounts and Share Drafts due to attractive rates and members wanting to keep their assets liquid. Mr. Anderson reported

membership growth increased 6.23%. Mr. Anderson reported the Credit Union is well-capitalized at 10.83% at year-end. Mr. Anderson reported Net Income at \$8.54 Million reflecting the cost of the Initiatives, Loan Loss, Experience Ratio, and Net Charge-Offs. Mr. Anderson reported the Net Charge-Off ratio is .36%: 99.64% of loans are repaid to the Credit Union.

d. President and Chief Executive Officer’s Report: President and CEO Colin Anderson addressed the membership, stating there are no new initiatives for 2016. Mr. Anderson stated there are 20 ITMs at five branches and the majority of the members are happy with their experiences using the ITMs. Mr. Anderson stated the sound and visual quality is superb and allows the member to see and hear the agent with whom they are working. Mr. Anderson reported the Credit Union was the first in the market to issue EMV Credit and Debit Cards. Mr. Anderson stated nearly 200,000 EMV Credit and Debit cards have been issued saving members and the Credit Union losses associated with fraud. Mr. Anderson reported the Credit Union was the first to offer Apple Pay in the market and will be the first to offer Google Pay when it becomes available. Mr. Anderson stated the strategy of the Credit Union is to be progressive and it is evident in the technology, new branding, and updated facilities. Mr. Anderson provided an update on the Strategic Value Initiative stating there are more than 500 employees and the use of the HRIS System provides the Credit Union with updated technology for onboarding, career growth, and performance reviews. Mr. Anderson stated Y-12 Federal Credit Union has collaborated with ORNL FCU by investing in both the Title Company and Insurance Company for the first time. Mr. Anderson stated other credit unions are showing interest in collaboration. Mr. Anderson stated the Mortgage Servicing conversion is set to occur in May and is the number one priority of the Credit Union. Mr. Anderson stated the remodeling work being conducted on the Head Quarters building will save the membership \$500,000 and will provide expansion capacity.

5. OLD BUSINESS

None.

6. NEW BUSINESS

None.

7. ADJOURNMENT

There being no further business, the meeting was adjourned at 6:39 PM.



Marcy Catron, Board Chair

03/06/2017

Date



Joel Pearman

03/06/2017

Date

CONSOLIDATED STATEMENT OF CONDITION

ASSETS	2016	2015
Cash & Cash Equivalents	\$ 165,011,749	\$ 126,074,443
Total Investments	\$ 159,944,733	\$ 132,044,267
Gross Loans	\$ 1,400,518,325	\$ 1,373,209,567
Allowance for Loan Losses	\$ (10,530,287)	\$ (10,792,540)
Net Loans	\$ 1,389,988,038	\$ 1,362,417,027
Accrued Interest Receivable	\$ 3,315,794	\$ 3,319,633
Total Fixed Assets	\$ 55,058,375	\$ 43,172,847
Total Other Assets	\$ 89,775,735	\$ 61,933,186
Total Assets	\$ 1,863,094,424	\$ 1,728,961,403
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Total Deposits	\$ 1,545,868,290	\$ 1,422,573,840
Borrowed Funds	\$ 98,684,321	\$ 90,150,876
Total Other Liabilities	\$ 26,580,948	\$ 33,981,940
Total Liabilities	\$ 1,671,133,559	\$ 1,546,706,656
MEMBERS' EQUITY		
Total Members' Equity	\$ 191,960,865	\$ 182,254,747
Total Liabilities & Equity	\$ 1,863,094,424	\$ 1,728,961,403

CONSOLIDATED INCOME STATEMENT

	2016	2015
Total Interest Income	\$ 55,805,653	\$ 52,198,218
Total Interest Expense	\$ 7,157,421	\$ 6,764,006
Net Interest Income	\$ 48,648,232	\$ 45,434,212
Provision for Loan Loss	\$ 5,720,000	\$ 5,855,000
Net Interest Income after Provision	\$ 42,928,232	\$ 39,579,212
Total Non-Interest Income	\$ 34,788,298	\$ 33,368,973
Total Operating Expense	\$ 67,272,202	\$ 64,393,744
Income/(Loss) from Operations	\$ 10,444,328	\$ 8,554,441
Non-Operating Gain/(Loss)	\$ (351,659)	\$ (11,786)
Net Income	\$ 10,092,669	\$ 8,542,655

OFFICIALS

BOARD OF DIRECTORS

Marcy Catron, *Chair*
Randy Gorman, *Vice Chair*
Jama Hill, *Treasurer*
Joel Pearman, *Secretary*
Harvey Gray
Leigha Humphries
Sam McKenzie
James Payne
Debbie Stairs

SUPERVISORY COMMITTEE

David Watkins, *Chair*
Gerald Smith, *Vice Chair*
Mary Beth Blair, *Secretary*
Mary Kiser

NOMINATING COMMITTEE

Sam McKenzie, *Chair*
Herb Debban
Randy Gorman
Bob Hightower
Jama Hill

EXECUTIVE COMMITTEE

Marcy Catron, *Chair*
Randy Gorman, *Vice Chair*
Jama Hill, *Treasurer*
Joel Pearman, *Secretary*

LEGISLATIVE & GOVERNMENTAL AFFAIRS COMMITTEE

Harvey Gray, *Chair*
Randy Gorman
Leigha Humphries
Sam McKenzie
James Payne

VOLUNTEER POLICY & GOVERNANCE COMMITTEE

Joel Pearman, *Chair*
Randy Gorman
Leigha Humphries
James Payne
Debbie Stairs

EXECUTIVE MANAGEMENT

Colin Anderson, President/CEO
Chris Boler, President/CEO, CU Community, LLC
Dawn Brummett, Senior Vice President/Chief Operating Officer
Janita Clausell, Senior Vice President/Chief Member Experience Officer
Becky Curry, Senior Vice President/Finance
Derek Saidak, Senior Vice President/Chief Lending Officer
Joy Wilson, Senior Vice President/Chief Administrative Officer
Tom Wright, Senior Vice President/Chief Marketing Officer