



# VSECU 2012 ANNUAL REPORT

## CHAIRMAN'S REPORT

M. JEROME DIAMOND—CHAIRMAN, BOARD OF DIRECTORS



Cooperative enterprises build a better world!

That was the message that resonated in 2012 where people from nations around the world and various industry sectors

celebrated our unique business model that puts people first. The International Year of the Cooperatives in 2012 served as a reminder that it is possible to pursue both economic viability and social responsibility whether your business is in agriculture, housing, education, marketing, energy, or financial services.

This past year we worked hard to educate members and consumers that choosing a local not for profit member-owned financial institution just made plain sense. Attracting over 5,000 new members in one year and reaching the milestone of \$600,000,000 in assets are testaments to consumer desire and thirst for something that is different and personally meaningful when it comes to managing money and achieving goals.

As the world evolves and invention, technology, and political policies continue to expand and challenge the status quo, our world at VSECU experienced evolution by advancing basic fundamentals to our business model. A long time battle finally ended when we came to agreement with our regulators that using a common and ubiquitous word from the English language was acceptable to describing what our members do – BANKING – with a credit union. Our foundation is now complete some 65 years later and it is strong and ready to support the growing need and desire to offer an alternative to traditional banking to all Vermonters.

Reflections in the rear view mirror remind us that triumphs and celebrations alone are not the benchmarks to our success. Although the past is behind us it is not forgotten. Our ability to learn from errors and mistakes is fundamental to earning your trust and our success. You can rely on us to remain vigilant about protecting your confidential and personal information when you choose VSECU.

As we continue to expand around the state I hope that you are watching, witnessing and most of all experiencing the difference we are making. From the personal attainment of individual member goals, dreams and family security to community health, restoration and responsibility, VSECU is here to help build a better life for all of us and for Vermont.

I would like to acknowledge and thank the Board of Directors and members of the Supervisory and Credit Committee for their endless hours of commitment in donating their time to you, our members. I also thank our CEO, Steve Post, and all of the staff at VSECU for leading and fulfilling the vision of our founders.

We look forward to what the future may bring knowing that our strength, cooperative spirit, and stability will make a positive impact on the lives of our 50,000 plus members. Thank you for being a member and your continued trust in VSECU.

*Respectfully submitted,  
M. Jerome Diamond, Chairman  
VSECU Board of Directors*

## PRESIDENT/CHIEF EXECUTIVE OFFICER'S REPORT

STEVEN D. POST—PRESIDENT/CEO



We didn't enter 2012 thinking about making history, but the breadth of experiences we had certainly made it a historic year for us.

We opened three new branches, which included the relocation of our Waterbury State Complex branch to its new Main Street home after Tropical Storm Irene, the relocation of our Rutland branch to a newly constructed and energy efficient facility that provides more convenient access and better parking, and our introduction to southern Vermont with the opening of a new branch in Brattleboro.

The combination of new branches, competitive rates and affordable services attracted more members than any other year with 5,372 new members joining VSECU. Collectively they brought \$59 million in loans and \$28 million in deposits to the credit union contributing to the pool of resources from which all members can benefit.

The local and nationwide attention we received over the use of the word "banking" in our advertising was very intense, but in the end we were able to come to an agreement with our state regulators. We'll continue to highlight that consumers can do their banking at a credit union.

Our give back to members extended beyond traditional financial services. We developed a first of its kind student loan repayment program called Student LIFT, which awarded three members \$5,000 each to help relieve the monthly payment burden of their student debt. We pledged to help feed as many as 86,000 Vermonters with a \$120,000 gift to power one of the Vermont Foodbank trucks. And we supported nearly 100 other organizations around the state through our VGives program.

We experienced an extraordinarily successful year managing growth, financial performance and member relations – testimony to the talent and commitment of staff and volunteers – and we've emerged smarter, stronger and safer.

Thank you for your continued confidence, trust and help in shaping VSECU as Vermont's place to save, borrow and thrive.

*Respectfully submitted,  
Steven D. Post, President/CEO*

## OUR STORY IN 2012

VSECU had an eventful and productive year. We launched new initiatives, opened branches, and continued to improve the products offered to our members. Below is a highlight of the happenings at our credit union.

- Opened 3 new branches: Waterbury, Brattleboro, Rutland
- Built the first energy efficiency branch model in Rutland
- Deployed the first Personal Teller Machines in Waterbury and Brattleboro
- Rallied 800 members to vote and help direct \$10,000 in charitable giving
- Paid members \$117,378 in ATM rebates
- Launched VGreen Loans and financed \$2 million in loans to support members and their energy efficiency lifestyles
- Awarded \$15,000 in student loan relief with Student LIFT repayment program
- 148 Employees worked at VSECU
- Helped 1,833 members reduce their fuel buying costs with VHeat and an average cost savings of 26¢ per gallon on heating oil
- Over 5,000 more Vermonters joined our cooperative financial alternative
- Saved members on average 10% on auto and homeowners insurance with annual savings over \$47,000 in premiums



## TREASURER'S REPORT

JUDY P. ROSENSTREICH—TREASURER, BOARD OF DIRECTORS



As your Treasurer, I chair the VSECU Finance Committee, which meets each month prior to the full Board of Directors meeting. This is where the Directors who serve on Finance Committee

meet with senior management most closely involved in tracking and analysis of a complex array of financial metrics. We ask probing questions to inform our discussions and arrive at decisions that will strengthen the financial health of the credit union in order to offer members and businesses innovative products and services to meet their needs. The past year has gone well, ending with just over \$600 million in assets or about \$27 million over 2011. Economic growth in Vermont has been slow but steady, encouraging members

to utilize VSECU as their preferred banking alternative to help them borrow, save and access affordable options that best meet their financial needs.

Existing and new members took advantage of our low loan rates and premium savings rate to grow the total loan portfolio to \$407 million and the deposit portfolio to \$539 million by year end.

The investment portfolio balance decreased \$22 million from last year driven by the increase in loan balances. Strong lending activity decreased liquid funds that would normally be available for investing. Healthy mortgage financing and refinancing activity that was driven by historically low interest rates contributed significantly to both interest and non-interest income.

After paying our members nearly \$6 million in dividends and interest, and accounting for operational expenses of \$18 million, the year ended with a very strong net gain of \$3,572,000 resulting in a higher net worth ratio from the targeted 8.0% to 8.23% at the end of the year.

VSECU will continue to benefit from experienced and savvy financial management. As Treasurer, I am confident that VSECU will enjoy continued stability to support expansion of branch services around Vermont and development of new products and services to meet the growing needs of our members.

*Respectfully submitted,  
Judy P. Rosenstreich, Treasurer*

## STATEMENT OF FINANCIAL CONDITION

ASSETS	2012	2011
Cash and Cash Equivalents.....	\$25,845,332	\$32,435,653
Investments.....	\$141,177,801	\$163,573,052
Loans to members, net of the allowance for loan losses.....	\$387,743,310	\$344,090,652
Loans held for sale.....	\$20,093,594	\$6,946,842
Property and equipment.....	\$13,703,974	\$13,061,025
National Credit Union Share Insurance Fund deposit.....	\$5,155,436	\$4,887,158
Other Assets.....	<u>\$8,180,620</u>	<u>\$8,480,570</u>
Totals.....	\$601,900,067	\$573,474,952

LIABILITIES AND EQUITY	2012	2011
Liabilities.....	\$3,452,120	\$4,237,361
Borrowed Funds.....	\$8,675,792	\$8,692,834
Commitments and contingent liabilities.....	\$0	\$0
Members' shares.....	\$539,413,178	\$513,736,646
Equity		
Retained earnings, substantially restricted.....	\$49,557,674	\$45,984,979
Other Comprehensive Income.....	\$(77,552)	\$(63,273)
Net unrealized gains (losses) on available-for-sale investment...	<u>\$878,855</u>	<u>\$886,405</u>
Total Equity.....	\$589,772,155	\$560,544,757
Totals.....	\$601,900,067	\$573,474,952

STATEMENT OF INCOME	2012	2011
<b>Interest Income</b>		
Interest on loans to members.....	\$18,293,078	\$18,053,988
Interest on investments and cash equivalents.....	<u>\$1,726,431</u>	<u>\$2,046,495</u>
	\$20,019,509	\$20,100,483
<b>Interest Expense</b>		
Dividends on members' shares.....	\$5,800,481	\$6,716,323
Net interest income.....	\$14,219,028	\$13,384,160
Provision for loan losses.....	<u>\$951,900</u>	<u>\$955,758</u>
Net interest income after provision for loan losses.....	\$13,267,128	\$12,428,402
Non-Interest income.....	<u>\$8,625,960</u>	<u>\$7,227,305</u>
	\$21,893,088	\$19,655,707
General & administrative expenses...	<u>\$18,320,393</u>	<u>\$17,239,948</u>
Net Income.....	\$3,572,695	\$2,415,759

## SUPERVISORY COMMITTEE REPORT

NORMAND DESROCHERS  
CHAIR, SUPERVISORY COMMITTEE

According to the provisions of Title 8, Vermont Statutes Annotated, Chapter 221, Section 31306, the Supervisory Committee oversaw an extensive audit of the books and affairs of VSECU for the twelve months ending August 31, 2012, performed by Wolf and Company of Boston, Massachusetts. We have reviewed the audited financial statements and supporting footnotes to the financial statements. The Committee has presented the results of the audit to the Board. The Committee is satisfied that the work received from the audit firm is accurate and complete.

A copy of the opinion and financial statement audit report presented by Wolf and Company is available upon request. Please contact the credit union for more information.

*Respectfully submitted,*  
*Normand Desrochers, Chair*  
*Joseph Healy*  
*Sarah Miller*

## CREDIT COMMITTEE REPORT

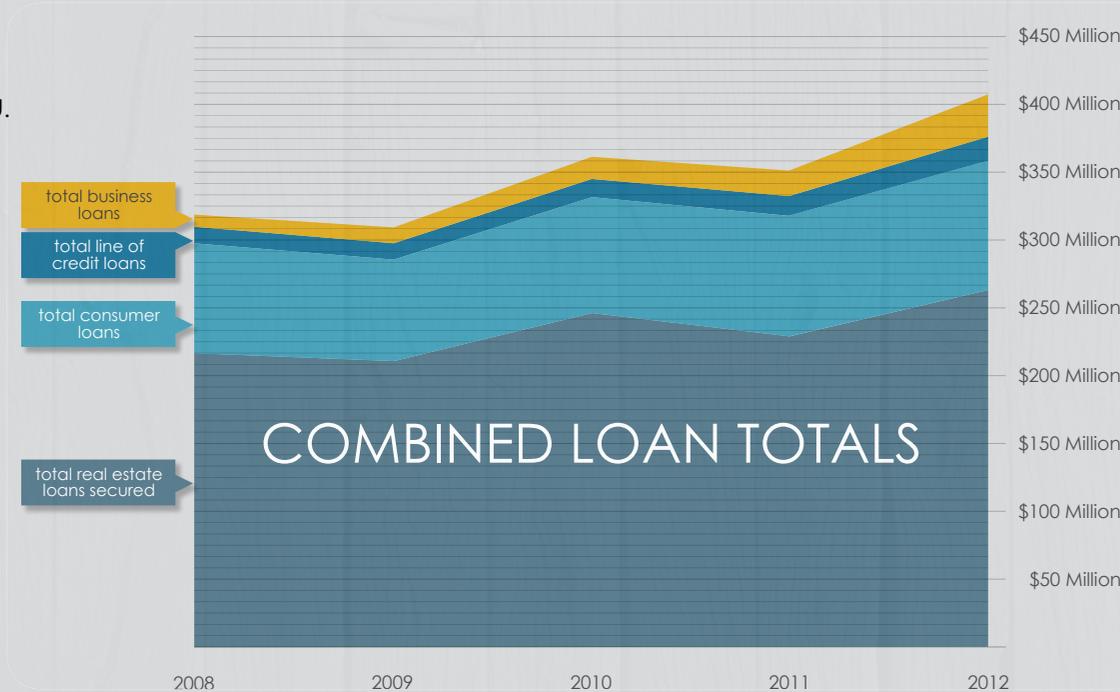
NELLIE GILLANDER  
CHAIR, CREDIT COMMITTEE

During 2012 we worked hard to keep loan interest rates low so members could purchase items that they needed or to refinance existing loans from other financial institutions to VSECU.

Mortgage and auto lending continues to be the area where VSECU can fill a need for our members. We closed 1,769 real estate loans totaling over \$201 million. We funded 7,620 consumer loans for nearly \$67 million with 45% of those loans representing auto loans.

We developed several new energy savings loan products to support the energy efficient lifestyles of our members including discounted rates for vehicles that meet certain MPG guidelines, energy improvement home loans for upgrades such as solar panel installment or heating alternatives, off grid mortgages and longer term mortgages to support the cost of implementing energy audit recommendations.

Respectfully submitted,  
Nellie Gillander, Chair  
Richard Cron  
Helen Weed



## MINUTES OF THE SIXTY-FIFTH ANNUAL MEETING OF THE MEMBERS OF VSECU

CONVENED MARCH 14, 2012

The Sixty-Fifth Annual Meeting of the members of VSECU was convened in the Governor's Ballroom at the Capitol Plaza Hotel in Montpelier, Vermont, on March 14, 2012.

Board Chairman Jerry Diamond introduced himself and welcomed everyone to the Capitol Plaza for the Annual Meeting. He noted that this was the second year of the new format for the Annual Meeting, which placed more of a focus on the business of the credit union, giving members the opportunity to meet with the Directors and talk about the business of the past year as well as what the plans are for the future of the credit union. He added that the Board had also been concerned about the increasing costs of the Annual Meeting, which was another reason for changing its format.

Diamond then introduced the volunteer members of the Credit Committee, Supervisory Committee, and Board of Directors:

### Board of Directors

Kimberly Cheney, Vice Chairman  
Judy Rosenstreich, Treasurer  
Todd Bailey, Secretary  
Jana Bagwell  
Edward Friihauf  
Heather Jarvis  
Thomas Joslin  
Terence Macaig  
Robert Morgan  
Kate Paine

### Credit Committee

Nellie Gillander, Chair  
Richard Cron  
Helen Weed

### Supervisory Committee

Normand Desrochers, Chair  
Joseph Healy  
Sarah Miller

Diamond then called the 65th Annual Meeting of the VSECU to order at 6:00 PM.

### DETERMINATION OF A QUORUM:

Diamond noted that Article 5; Section 5 of the VSECU Bylaws had been amended in 2011 so that the presence of 15 members constitutes a quorum. He asked each member to raise his or her hand. This show of hands clearly demonstrated that well over 15 members were in attendance and Diamond declared that a quorum was present.

### PROOF OF NOTICE OF ANNUAL MEETING:

Diamond stated that, in accordance with Article 5; Section 2 of the VSECU Bylaws, notice of the meeting had been mailed to all members and posted in the offices of the credit union. Certification will be kept on file at the credit union that both the posting and the mailing were done within the time frame set forth in the Bylaws.

**APPOINTMENT OF PARLIAMENTARIAN:**  
Diamond proposed the meeting be conducted under Robert's Rules of Order and would appoint a Parliamentarian if the need arose. There were no objections.

**READING OF THE MINUTES OF THE 64TH ANNUAL MEETING:**  
Diamond entertained a motion to dispense with the reading of last year's minutes and accept them as printed.

*Peter Johnke moved to approve the 64th Annual Meeting Minutes, the motion was seconded by Edward Friihauf and carried.*

**OFFICER REPORTS AND 2011 ANNUAL REPORT:**  
Diamond stated that the Annual Report contained written reports from the Chairman, Treasurer, Supervisory Committee, Credit Committee, and the CEO. He called for a motion to accept the reports as printed, adding he would then ask if members had any questions.

*Paul Irons moved to accept the Reports as printed. Helen Johnke seconded the motion.*

A member asked about the degree of exposure the credit union has in its investment portfolio.

Chairman Diamond and President Post explained that credit unions are very limited regarding in which securities they are allowed to invest. Credit unions may only invest in government backed securities that are protected by the full faith and credit of the U.S. Government. Those types of securities are not the highest yielding, but they are the safest form of investment, and safety is VSECU's top priority when investing its members' money.

Another member asked about the increase in administrative expenses and the drop in income. Post explained that expenses were up approximately 5% in 2011 over the previous year. Considering the expansive efforts undertaken to provide services to more people throughout the state he believed the increase to be reasonable. Plus, the credit union's performance is tied in no small part to the national and global economic situation. The declining rate of return being experienced almost universally has affected the amount VSECU can pay on its deposits. In an ideal world VSECU would invest its funds in loans to members, which pay a higher return than other forms of investments. However, the current economic climate has also made it rather difficult to increase the credit union's loan portfolio.

There being no additional comments or questions, *Diamond called for a vote and the motion carried unanimously.*

**ELECTION OF OFFICERS:**  
Diamond noted that he was a candidate for re-election and called upon Vice Chairman Cheney to preside over this part of the Agenda. Cheney expressed his appreciation to the three members who served on the Nominating Committee: Chair Wayne Hersey, Barry Bernstein and Karen Saudek. He thanked them for their work, noting that the Report of the Nominating Committee was printed on the front side of the Agenda. The Committee had nominated the following seven members for the four open positions on the Board of Directors: Jason Aldous, Todd Bailey, Christopher J. Dermody, M. Jerome Diamond, Lucas Herring, Robert Morgan and Judy Rosenstreich. He explained that the Bylaws also provide an alternate means by which a member can be nominated to serve as Director: submission of a petition to the Supervisory Committee. The Report of the Supervisory Committee also appeared on the front side of the Agenda. No members had submitted a petition.

The Nominating Committee had selected two candidates for the single open position on the Credit Committee: JoAnn Corskie Gibbons and Helen Weed. The Report of the Supervisory Committee also stated there had been no petitions from members declaring candidacy for the Credit Committee position.

Cheney noted that the Bylaws do not allow nominations from the floor of the Annual Meeting, but do allow for members to cast their votes at the Annual Meeting in addition to allowing early/absentee voting via U.S. mail or the Internet. He asked members in attendance who had not yet voted, and who would like to cast a vote, to please raise their hands and a ballot would be brought to them. As ballots were being handed out to those members who requested them, Cheney explained the procedure the members needed to follow so their ballot could be verified as valid and their votes recorded anonymously. He said the Supervisory Committee would oversee the final tabulation of the votes the following morning and announced the results of the balloting would be posted in the lobbies of the credit union and on the Internet within 48 hours. After all of the ballots had been collected, Cheney declared the balloting to be closed and instructed the Supervisory

Committee to proceed with the tabulation of the votes.

A member rose to ask a question about the economy and what plans VSECU has to continue operations if a worst-case scenario were to unfold in America like it has in other areas of the world. If a "banking holiday" were to be declared in this country, or there was a "run on the banks" from people worried about access to cash, would VSECU be able to allow members access to their safe deposit boxes, for example? Post replied that every institution is vulnerable to that type of situation. Since the majority of VSECU's investments are in loans to its members, VSECU is in a less vulnerable situation. He noted that VSECU is largely in charge of when it opens its doors and could likely provide access to safe deposit boxes on a weekday even though a national banking holiday had been declared.

**OTHER BUSINESS:**  
Diamond introduced Recording Secretary Perry Thompson to conduct the drawings for the door prizes. Thompson explained that the drawing for the Amazon Kindles would be held after the ballots cast at the Annual Meeting had been verified and those members' names had been entered into the drawing pool.

He then proceeded to entertain the crowd as he drew the winning numbers and the various prizes, all of which had been made by Vermonters, were distributed. The prizes and their winners were as follows:

*Glass Fish Platter: Kate Paine  
Pastel Drawing: Vicki Hill  
Handmade Ballpoint Pens: Kyle Mooney  
\$100 Restaurant Gift Certificate: Robert Lorenz  
\$500 Cash: Heather Jarvis*

Follow Up Note: The winners of the Amazon Kindles were Dawn Rinker, Vasili Bellini, and Barbara Bruno.

Once the prizes had been distributed Diamond noted that 2011 had been another great year for credit unions in general and VSECU specifically. VSECU welcomed nearly 5,000 new members in 2011.

A member asked about an item on the Agenda that had not been discussed: Limits on Borrowing Power. Post explained that Vermont law used to require the membership to vote on authorizing the borrowing of money to assist with credit union operations. The last revision to State law, now several years ago, eliminated that need by authorizing credit unions to

borrow an amount up to 20% of their assets. Approval from the Banking Department is required if a credit union wants to exceed the 20% limit.

Another member asked about the new VERMONT Platinum Credit Card. Post explained that the card carries a split rate, which is less for purchases made at Vermont merchants. He noted that a Vermont merchant has to process its credit card transactions using a Vermont address in order for the special rate to apply. In addition to being a way to save members money, the special rate serves as an incentive for people to shop locally.

*ADJOURNMENT:*

A motion was made by Paul Irons and seconded by Barbara Smith at 6:30 PM to adjourn the Sixty-Fifth Annual Meeting. The motion received unanimous approval.

*Respectfully submitted,  
Perry H. Thompson, Recording Secretary*

*Approved:  
M. Jerome Diamond, Chairman  
Kimberly Cheney, Vice Chairman*

VERMONT STATE EMPLOYEES CREDIT UNION  
One Bailey Avenue, PO Box 67  
Montpelier, Vermont 05601-0067

802/800 371-5162  
[www.vsecu.com](http://www.vsecu.com)