



2016
Annual Report

Building **Our Future**



Building **Our Future**

Growing and expanding to create a strong and sustainable future for our members and employees.

A LETTER FROM THE CHAIRMAN OF THE BOARD AND PRESIDENT/CEO



Richard Wood
CHAIRMAN OF THE BOARD



Delbert Lee Morgan
PRESIDENT/CEO

Dear Members,

ValleyStar is committed to building a strong, sustainable future for our members and our employees. We have achieved great asset, loan, and deposit growth over the last several years. Along with sound capital position, we are fiscally ready for the type of growth that will facilitate long-term health for our organization. Financial preparedness alone isn't enough. We must also be willing to make changes that will expand our ability to serve new markets while improving service to our existing ones. This was much of our focus throughout 2016.

During the year, we saw the opening of the first new branch facility in a decade. This full-service branch at the Coleman Marketplace in Danville now provides a convenient location to serve existing and new members in the Southside area. We also broke ground on our first branch in Roanoke in the community of Clearbrook. We expect that facility to be complete and open in late 2017. During the summer, we expanded our field of membership to serve the city of Lynchburg and the counties of Amherst, Appomattox, Bedford, and Campbell. With this field of membership expansion, we are positioning ourselves for future growth into new markets.

As we continued to seek additional market presence beyond our current operating area, we were excited to have the opportunity to merge Valley Community Credit Union in Waynesboro, Virginia into the ValleyStar family. The union is expected to be complete by mid 2017, and will make our single

organization stronger and better able to serve all members. It also expands our geographic footprint, opening up the benefits of ValleyStar membership to more families and businesses across Virginia.

Throughout 2016, we made additional enhancements to improve members' experiences with the Credit Union. A new Vice President of Retail Operations was hired in the fall to focus on creating more efficient operations at each of our branch facilities and in our call center. We also expanded our electronic services to include E-Lerts and E-Receipts, making managing finances safer and more convenient than ever. On the lending side, we added FHA and USDA products to our home loan offerings. These loan options make the dream of home ownership a reality for many by providing our members the ability to put little to no money down on a home.

In addition to all of these endeavors, we organized another successful charity golf tournament, raising \$20,000 for Children's Miracle Network Hospitals of

Southwest Virginia. We also launched a new financial literacy program through Patrick Henry Community College with more than 500 students participating in our educational sessions. Although it was a busy year for all of us, it was a productive one most importantly. We took the measures necessary to build a strong future for our Credit Union, and we thank our members and employees for working with us as we continue to do so!

Sincerely,

Two handwritten signatures in black ink. The first signature is 'Richard Cloud' and the second is 'Bill Patton'.

SUPERVISORY COMMITTEE REPORT



David Deal
CHAIR,
SUPERVISORY
COMMITTEE



Michael Bryant
SUPERVISORY
COMMITTEE



Terry Young
SUPERVISORY
COMMITTEE

The Federal Credit Union Act and the bylaws of ValleyStar Credit Union provide for the establishment of a Supervisory Committee. The Supervisory Committee works independently of the Board of Directors and Credit Union management and is made up of Credit Union members who volunteer their time to support the credit union movement. Their principal function is to insure the accuracy of the Credit Union's financial statements and compliance with sound business practices and procedures.

The Supervisory Committee has the responsibility of playing an active role in protecting the interest of all Credit Union members while safeguarding the Credit Union's assets.

We are pleased to report that the certified public accounting firm of Brown, Edwards & Company, L.L.P. conducted a financial statement audit of ValleyStar Credit Union and found that the Credit Union is in strong financial condition. The firm also reviewed procedures to make sure that all standards set by our regulatory agencies, the National Credit Union Administration and the Commonwealth of Virginia State Corporation Commission, were met or exceeded. The audits were conducted in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants. The Supervisory Committee recently appointed the certified public accounting firm of OCM & Company to conduct the Annual Opinion Audit for ValleyStar Credit Union beginning in 2017. The certified public accounting firm of Brown, Edwards & Company will continue to do the quarterly Internal Audits for the Credit Union.

The Supervisory Committee can assure the membership that the policies, programs, and management practices of ValleyStar Credit Union are sound and will continue to be effectively maintained. We would like to express our sincere appreciation to the Board of Directors, management and staff for their complete cooperation in assisting us in fulfilling our volunteer duties. If any member has questions or wishes to make recommendations for improvement, please contact me or any other member of the committee.

Sincerely,

A handwritten signature in dark ink that reads "David L. Deal".



G. Steve Isley
TREASURER

As Treasurer of the Board of Directors, it is my pleasure to report that 2016 was a financially sound year for the Credit Union. Our year-end assets totaled \$291,415,247, a 5.46% increase over 2015's total of \$276,321,942. Year-end deposits grew by 5.92% over 2015 ending at \$247,008,732. Net income grew 133% over 2015 at \$1,593,421 and membership climbed to 27,637 members. All of these numbers represent planned, deliberate growth. We also remain above peer average in almost all ratio comparisons. The 2016 and 2015 Financials are provided for you in this program.

The Board of Directors and the Credit Union management team meet at least once a month to evaluate the financial condition and adherence to and implementation of the Credit Union policies that affect each member's life. If you have questions or comments regarding ValleyStar's financial performance, please do not hesitate to contact me. Thank you for the opportunity to serve in this capacity.

Sincerely,

A handwritten signature in black ink that reads "G. Steve Isley".



COMPARATIVE FINANCIAL STATEMENTS

Consolidated Statement of Financial Condition

As of December 31, 2016 (Unaudited)

	2016	2015
ASSETS		
Cash	\$2,945,579	\$4,030,248
Investments	101,915,332	102,708,005
Net Loans	173,146,972	156,847,183
Fixed Assets	7,976,214	5,975,700
Other Assets	5,431,150	6,760,806
Total Assets	\$291,415,247	\$276,321,942
LIABILITIES		
Total Liabilities	\$1,272,616	\$876,791
EQUITY		
Member Shares	\$247,008,732	\$233,193,354
Other Equity	43,133,899	42,251,797
Total Liabilities & Equity	\$291,415,247	\$276,321,942

Statement of Income

For the Periods Ended December 31, 2016

	2016	2015
Loan Income	\$8,939,515	\$7,231,466
Investment Income	1,332,818	1,280,441
Other Income	4,441,466	3,598,251
Total Gross Income	\$14,713,799	\$12,110,158
Operating Expense	\$11,677,766	\$10,171,562
Net Operating Income	\$3,036,033	\$1,938,596
Non Operating Gain/Loss	\$185,207	\$66,707
Net Income Before Dividends	\$2,850,826	\$1,871,889
Dividend Expense	\$1,257,405	\$1,187,429
Net Income	\$1,593,421	\$684,460

GROWTH TREND GRAPHS

Total Assets

2011	\$261,459,861
2012	\$263,650,525
2013	\$266,246,401
2014	\$275,037,823
2015	\$276,321,942
2016	\$291,415,247

Total Deposits

2011	\$223,169,966
2012	\$224,107,871
2013	\$224,979,838
2014	\$232,609,321
2015	\$233,193,354
2016	\$247,008,732

Total Loans

2011	\$152,227,777
2012	\$152,238,105
2013	\$146,444,450
2014	\$140,047,862
2015	\$157,701,234
2016	\$174,398,433

Total Members

2011	25,776
2012	26,475
2013	26,862
2014	25,933
2015	26,173
2016	27,637

LEGISLATIVE REPORT



Gregory Hill
CCUV, LEGISLATIVE
REPRESENTATIVE

Volunteers are one of the most significant assets we have in the credit union movement. Without the time and talent given by these volunteers, our movement could not have made the progress it has over the years. During this era of rapid change for our members, ValleyStar has continued the contributions of volunteers that are so desperately needed.

Andrew Reynolds, Norman W. Hill and I serve on the Statewide Governmental Affairs Committee. It is made of a Chairman, 11 members who reflect the 11 Congressional Districts in the Commonwealth of Virginia, as well as three Chairmen for each of the three standing sub-committees – Grassroots, Fundraising, and Regulatory Affairs. Each of the sub-committees is structured with a large number of dedicated credit union individuals in order to accomplish our legislative mission in Richmond and Washington, D.C.

ValleyStar Credit Union raised over \$2,500 for VACUPAC (Virginia Credit Union Political Action Committee). I thank everyone who participated.

VACUPAC is the only political action committee that supports credit union-friendly candidates on the state level. It is non-partisan, meaning funds are distributed to candidates of both major parties. It determines donations only on the candidate's position on credit union issues and sends a portion of the money to the national PAC to support our Congressional allies.

VACUPAC is important because it helps us stay in business. Laws and regulations effect our Credit Union and how we serve our members. We need lawmakers who will work with us and support our mission through sensible legislation.

Running for election is expensive and your voluntary donations help defray those lawmakers' campaign costs. This is your opportunity to participate and invest in the future of credit unions.

Sincerely,

A handwritten signature in black ink that reads "Gregory Hill". The signature is written in a cursive, slightly slanted style.

MINUTES OF 62ND ANNUAL MEETING

- I. Chairman Richard Wood called the meeting to order at 7:00 pm at the Spencer-Penn Centre. He declared the meeting officially open and introduced the head table.
- II. An invocation was given by James Rorrer.
- III. The Chairman determined a quorum was present.
- IV. A motion was made by Michael Craig and seconded by Charles Speakman to dispense with the reading of the 2014 Annual Meeting minutes.
- V. Chairman Richard L. Wood gave the Chairman's message.
- VI. President/CEO Delbert Lee Morgan gave the President's report.
- VII. Supervisory Committee Chairperson David Deal gave the Supervisory Committee's report.
- VIII. Treasurer Steve Isley gave the Treasurer's report.
- IX. Legislative representative Gregory Hill gave the Legislative Report.
- X. Unfinished Business: There was none.
- XI. New Business: There was none.
- XII. Director/Treasurer Steve Isley announced that the Nominating Committee nominated James Rorrer, Steve Isley, Gregory Hill, and Norman W. Hill to serve three-year terms [2019].

The Nominating Committee also nominated Betty Jo Ray to finish Frank Frazier's term ending in 2017.

He reported that ValleyStar's bylaws and election policy provide a process for nomination by petition and election by mail ballot when there is more than one nominee.

Since there were no nominations by petition and only one nominee for each vacancy, Director/Treasurer Steve Isley announced the election of the previously named individuals for the terms previously designated.

- XIII. President/CEO Delbert Lee Morgan announced the winners of twenty-five door prizes that included twenty-four \$25.00 cash awards and one floral arrangement.
- XIV. There being no further business, the meeting was adjourned at 7:16 pm.

BOARD MEMBERS



Richard Wood
CHAIRMAN



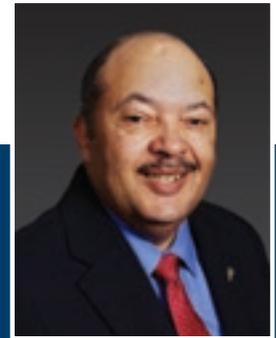
Douglas Nunn
VICE CHAIRMAN



Steve Isley
TREASURER



Ruth Mitchell
SECRETARY



Gregory Hill
LEGISLATIVE
REPRESENTATIVE



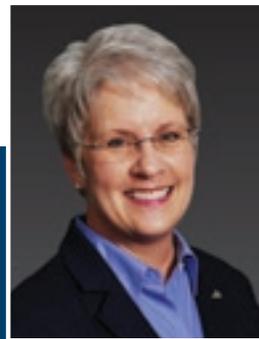
Norman W. Hill
DIRECTOR



James Rorrer
DIRECTOR



Nancy Phillips
DIRECTOR



Betty Jo Ray
DIRECTOR

SENIOR MANAGERS



Delbert Lee Morgan
PRESIDENT/CEO



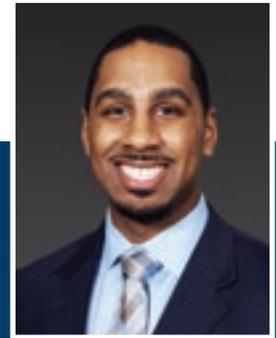
Wes Gordon
SVP/CFO



Kevin Laine
VP FACILITIES
AND SECURITY



Tanya Jones
VP LENDING



Wesley Williams
VP INFORMATION
TECHNOLOGY



Lori Cauley
VP BRAND



Robert Sparrow
VP ADMINISTRATION



Andrew Reynolds
VP STRATEGIC
DEVELOPMENT



Cathy Johnson
VP RETAIL
OPERATIONS



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