

## Financial Report

It is a pleasure to report back to you the financial state of your credit union. Cornerstone FCU remains strong and stable with a Net Worth/Total Assets Ratio that increased from 10.05% to 10.24% by 4Q2016. Additionally, Membership Growth in 2016 exceeded 2.50%!

As of December 2015, Delinquent Loans/Total Loans ratio was still higher than we like to see it at 1.78%. Throughout 2016, we have worked to reduced that ratio to 0.66%, comparing favorably to peer credit unions with a 0.85% ratio. As always, our Net Charge-offs/Average Loans ratio remains well below peers at 0.23% versus 0.46%. We are proud to work with members in difficult financial situations in order to maintain high quality loans.

One way in which we have continued to show a benefit to our members is in our low loan rates, compared to peers. This is evident in our Yield on Average Loans ratio. As of 4Q2016, this was 4.37% compared to peers at 4.90%. This resulted in saving our members more than \$320,000 in loan interest. This also identifies an opportunity to adjust rates for high yields and loan revenue while still offering highly competitive rates to our members.

Loan Growth struggled throughout 2016. Our Loans/Shares ratio hovered around 64%-65%, while peers showed a ratio around 72%. Our members continue to be our primary source of referrals and new loan business and we ask for that to continue.

It should come as no surprise that we highlight our Fee Income/Average Assets. CFCU has a strong philosophy and history of charging the lowest fees possible and helping our members avoid fees as much as they can. This is illustrated in our 0.84% ratio compared to 1.42% from peers. This compares to a monetary savings of more than \$210,000 in lower fees than they would have experienced at peer credit unions.

As earnings pressure continues to mount in the industry, we work to keep our operating expenses low to maintain appropriate profits. This resulted in a 4Q2016 Operating Expense/Average Assets ratio of 3.23%, compared to a higher peer ratio of 3.67%

The Future is Bright for Cornerstone FCU. We look forward to working through the merger transition with you and bringing you with us into a Bright Future with Belco Community Credit Union.

## Supervisory Committee Report

The Supervisory Committee is charged with various requirements to help ensure the safety and soundness of credit union operations. To this end, the Federal Credit Union Act requires the Supervisory Committee to conduct or cause to be made an annual audit of credit union operations and submit a report to the Board of Directors. The Committee has met this requirement.

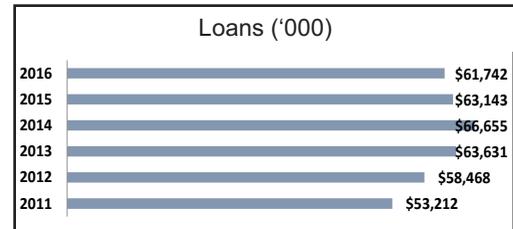
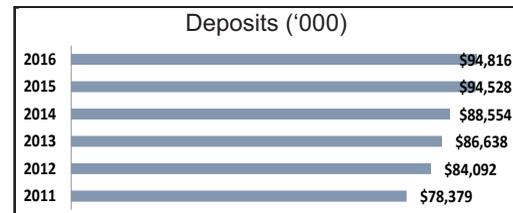
The Committee contracted with Padden, Guerrini & Associates, P.C., Certified Public Accountants, to conduct the annual audit in 2016. This review reported no major safety and soundness discrepancies.

Committee members, Nancy Clay, Wayne Schwartz, Beth Rhoades, Bill Rockwood, and Larry Osiecki, met throughout the year to review policies, procedures and loans; monitor internal controls; and, to perform monthly reconciliation of corporate checking, cash and investment accounts.

No material discrepancies were found as the committee carried out its duties.

Members are encouraged to send confidential inquiries regarding Cornerstone Federal Credit Union policies or unresolved account problems to:

**Supervisory Committee**  
P.O. Box 1393  
Carlisle, PA 17013



## Cornerstone FCU 2016 Board Members

Rich Love — President  
Denny Calaman — Vice President  
Helen Pernice — Secretary  
Pam Fisher — Treasurer  
Doug Graham  
Dawn Mellick                      Jeff Cohick  
Nancy Clay                              Pete Fair

More information about  
Cornerstone Federal Credit Union  
can be found on our Web site:  
**www.cornerstonefcu.coop**

Mailing Address:

P.O. Box 1181

Carlisle, PA 17013

Offices located at:

5 Eastgate Drive &

320 N. Hanover Street, Carlisle

5 Carlisle Road, Newville

**249-1661 or 1-888-718-6786**

Sam Glesner - CEO

Rebeka Landon - CFO

Roxane Kain - Director Lending  
Services

Vickie Eberts - Director Member  
Services

Charlene Lentvorsky - Director  
Marketing/Business Development



*A Bright Future  
Awaits*

# 2016 Annual Report



## Management Message

### 2016: Storied Past, Bright Future

United Telephone Employees Federal Credit Union was founded in September 1974. Over the years, many changes have occurred, including a name change to Cornerstone Federal Credit Union and a change to a community charter, allowing more people the opportunity to join our credit union. However, one thing that has not changed is Cornerstone's impeccable service to our members.

Cornerstone has always done the right thing for members: low rates, low/no fees, new services, etc. Services such as: Mobile Banking, Remote Check Capture, Online Branch, and E-Statements have been offered in a timely manner in order to maintain our competitiveness within the saturated financial marketplace.

As a not-for-profit cooperative, Cornerstone returns its earnings back to its members through higher dividend rates on savings, and lower interest rates on loans. The Board of Governors of the Federal Reserve System increased its fund rate in December 2015 by 25 basis points and had another 25 basis points increase in December 2016. Even though the federal rate was increased twice over that period, Cornerstone maintained its loan rates with limited to no increases to members.

In 2016, Cornerstone's asset size increased slightly (0.5%), and continues to be classified in a peer group with assets between \$100 million and \$250 million. CFCU also continued to grow membership in 2016 (2.5%). Our goal of 11,000 members was met in November, however, by year end it was slightly less.

Unfortunately, federal regulations continue to place significant regulatory burdens upon Cornerstone which demand more and more staff time to implement and monitor the mandated requirements. The staff and management team continued to make the regulatory burden transparent to you, while, at the same time, placing your needs first.

From a Safety and Soundness perspective, Cornerstone is rated as Well Capitalized with a 10.24% Capital/Asset position versus a 7% minimum threshold for this classification, as of year-end. This rating is the result of continually

monitoring expenses while maintaining the necessary income and asset levels.

Loan growth for Cornerstone continued to struggle in 2016. Even though our loan interest rates are some of the lowest in the market, we do not have the member demand we would expect. In the current interest rate environment, for each loan paid off, we need to book two to four new loans. We have revised our marketing mix in an effort to attract new borrowers. Our media mix is made up of radio, television, online, newspaper, direct mail, email and statement inserts.

Cornerstone's brand awareness continued throughout the year as we remained involved in various local organizations, such as: Carlisle C.A.R.E.S., Safe Harbour, Hope Station, YWCA Carlisle, Children's Miracle Network, Carlisle Family YMCA, and several other organizations that serve the communities in which our members live.

Our school branch at Big Spring High School continues to provide financial literacy education to Big Spring students. With classroom presentations and activities, students receive the information necessary to make good financial decisions upon graduation. We are able to reach the next generation of consumers. It is extremely important for all credit unions to give back to the communities in which they are located since this is the foundation of credit unions.

While Cornerstone continued to add to its storied history in 2016, the Board of Directors revisited long-term growth strategies in order to move into the future in a more aggressive manner. Discussions were conducted that pertained to merger opportunities, CUSO (Credit Union Service Organization) opportunities, and continued organic growth opportunities. In an effort to better serve our members and sustain a credit union presence that continues the historic culture of Cornerstone, it was decided that a merger with Belco Community Credit Union was the right opportunity. This merger brings together two very strong credit unions who have very similar cultures. Additionally, both credit unions provide impeccable service to their members. With these similarities and more, together, our credit union will be stronger. A very BRIGHT FUTURE is ahead for all members!

## Cornerstone Comparative Statement of Conditions

ASSETS	2013	2014	2015	2016	%Change 2015-2016
Loans to Members.....	63,631,285	66,655,387	63,255,881	61,741,518	-2.4
Less allowance for loan loss.....	(154,568)	(267,803)	(215,237)	(161,177)	-25.1
Cash on hand.....	1,133,473	1,442,356	5,343,608	1,854,494	-65.3
Investments.....	29,101,806	27,596,162	33,481,635	38,771,257	15.8
Fixed Assets ( Net Depreciation)..	1,618,003	1,527,784	1,429,498	1,363,287	-4.6
Insurance fund deposit.....	865,608	902,503	903,471	927,352	2.6
Other Assets.....	459,968	1,070,181	673,579	909,004	35.0
<b>TOTAL ASSETS.....</b>	<b>\$ 96,655,575</b>	<b>\$ 98,926,570</b>	<b>\$ 104,872,435</b>	<b>\$ 105,405,735</b>	<b>0.5</b>
<b>LIABILITIES/EQUITY</b>					
Accounts/Taxes Payable.....	288,166	270,174	253,373	304,209	20.1
Dividends Payable.....	42,703	39,616	37,179	36,639	-1.5
Member Shares.....	39,804,132	42,669,150	49,370,662	50,220,194	1.7
Member Cert./Money Market.....	46,834,177	45,884,889	45,156,846	44,596,007	-1.2
Regular Reserves.....	1,207,315	1,207,315	1,207,315	1,207,315	0.0
Undivided Earnings.....	8,479,082	8,855,426	8,847,060	9,041,371	2.2
<b>TOTAL LIABILITIES/EQUITY....</b>	<b>\$ 96,655,575</b>	<b>\$ 98,926,570</b>	<b>\$ 104,872,435</b>	<b>\$ 105,405,735</b>	<b>0.5</b>
<b>STATEMENT OF INCOME</b>					
Interest on Loans.....	\$2,933,604	\$2,919,467	\$2,859,217	\$2,713,695	-5.1
Income from Investments.....	209,252	209,945	283,926	420,159	48.0
Other Income.....	787,992	797,347	864,184	879,618	1.8
<b>GROSS INCOME.....</b>	<b>\$ 3,930,848</b>	<b>\$ 3,926,759</b>	<b>\$ 4,007,327</b>	<b>\$ 4,013,472</b>	<b>0.2</b>
<b>DISTRIBUTION OF INCOME</b>					
Dividends to Members.....	\$430,903	\$371,650	\$338,721	\$306,195	-9.6
Operating Expense.....	3,248,129	3,205,193	3,219,883	3,467,113	7.7
Undivided Earnings.....	251,816	349,916	448,723	240,164	-46.5
<b>TOTAL.....</b>	<b>\$ 3,930,848</b>	<b>\$ 3,926,759</b>	<b>\$ 4,007,327</b>	<b>\$ 4,013,472</b>	<b>0.2</b>
<b>MEMBERS.....</b>	<b>10365</b>	<b>10569</b>	<b>10727</b>	<b>10996</b>	<b>2.5</b>