

# ANNUAL REPORT

2018



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Pima Federal executives and board members cut the ribbon at our new Marana branch, Continental Ranch

# THE BOARD OF DIRECTORS



James Kisner  
Board Chairman



David Bosman  
Vice Chairman



James Knoff  
Treasurer



Linda Kennedy  
Secretary



Tim Dunne  
Board Member



David Finerson  
Board Member



Pedro Nájera  
Board Member



Jason Larter  
Board Member



Lisa Parke  
Board Member

# THE MANAGEMENT

**President/Chief Executive Officer**  
Eric Renaud

**SVP/Chief Retail Lending Officer**  
Cindy Campano

**SVP/Chief Human Resources & Marketing Officer**  
Angi Griffin

**Sr. Vice President of Branch Administration**  
Celyna Cervantes

**Sr. Vice President of Commercial Lending**  
Adam Coggshall

**Vice President of Finance**  
Antonio Dias

**Vice President of Operations**  
Leah Friedenberg

**Vice President of Human Resources**  
Sarah Holt

**Vice President of Marketing**  
Jennifer Overpeck

**Vice President of Compliance**  
Aaron Stewart

**Vice President of Home Loans**  
Adam Stewart

# THE COMMITTEES

## Supervisory Committee

Victor Thornton, *Chair*  
Linda Dhaemers  
David Finerson

Michael Klinicki  
Ron Parker  
Van Elrod (alternate)

## Asset & Liability Committee

James Knoff, *Chair*  
David Bosman  
Cindy Campano  
Tim Dunne  
David Finerson

Angi Griffin  
James Kisner  
Pedro Nájera  
Eric Renaud

## Credit Review Committee

Linda Kennedy, *Chair*  
Cindy Campano  
John Davis

Ramon Gonzalez  
Rudy Ingersoll  
Eric Renaud



# 2018 ANNUAL MEETING MINUTES

**M**r. James Kisner, Chairman of the Board, opened the meeting at 6:45 p.m. He welcomed the members, staff, and volunteers present and he thanked them for attending the annual meeting. He then called the meeting to order and asked for a motion to approve the minutes from April 18, 2017, as printed. A motion was made, seconded, and the motion carried. Mr. Kisner asked if there was any Old Business and there was none. He then introduced Mr. Pedro Nájera, Treasurer, to deliver the Treasurer's Report.

Mr. Nájera stated 2017 was a great year for the credit union with earnings having increased \$3.8 million and \$25.8 million in total assets. Loan and share balances continue to grow year-over-year while products and services remain competitive. Mr. Nájera then asked to have the Treasurer's Report approved as printed on page 8 of the Annual Report.

The Chairman introduced Mr. Mike Klinicki, Supervisory Committee Member. Mr. Klinicki, on behalf of the Supervisory Committee, reported on the credit union's financial condition and its compliance with laws and regulation. Mr. Klinicki then asked to have the Supervisory Committee's Report approved as printed on page 9 of the Annual Report.

The Chairman introduced Ms. Linda Kennedy, Credit Review Committee Chair. Ms. Kennedy reported on the delinquency ratio having increased less than half of a percent while the net charge-off ratio decreased slightly compared to 2016. She recognized staff for their diligence and commitment to providing great member service. Ms. Kennedy asked to have the Credit Review Committee Report approved as printed on page 10 of the Annual Report.

Ms. Kennedy, Nominating Committee Chair, announced the results of the 2018 elections stating that Mr. James Kisner and Mr. David Bosman were re-elected to the Board by acclamation to a three-year term.

The Chairman asked if there was any New Business and there was none. He then asked for a motion to approve the 2017 Annual Report. A motion was made, seconded, and the motion carried.

The Chairman introduced Eric Renaud, President/CEO. Mr. Renaud thanked the University Marriott for the accommodations and great service, credit union members for their attendance and continued support, and staff for their help in making the annual meeting a success.

Mr. Renaud reported on the state of the credit union highlighting the balance sheet, income statement, and five-year financial trends and specifically referenced the year-ending capital ratio of 10.77%. He reviewed share and loan composition and growth, and the enhancements to the consumer, home, and debit card programs. He spoke about the increase in mobile app users and the numerous functions available via the app. Members who have yet to explore this option were encouraged to do so.

Mr. Renaud provided an overview of the credit union's community giving efforts in 2017 to include the annual Golf Classic that raised \$55,000, totaling \$317,000 YTD since 2013. He stated the funds are designated for the purchase of school supplies by teachers in the Amphi, Marana, Flowing Wells, and Sunnyside school districts. Mr. Renaud recognized staff for having volunteered over 2,800 hours within the local community and he congratulated the entire organization for receiving multiple awards this past year. Mr. Renaud stated it was a successful year overall and he anticipates continued success in the year to come. Two videos were then shown, one focusing on the credit union's community involvement and the other on Pima Federal's commitment to the credit union philosophy.

The Chairman asked for a motion to adjourn the meeting. A motion was made, seconded, and the motion carried. The meeting adjourned at 7:25 p.m.



Volunteers handing out backpacks at the Sunnyside Back to School Wellness Fair



Honoring our 2018 I AM PIMA award recipients for their dedication to our credit union



Our Home Loan Originators at the 2018 TAR Expo



We were proud to nominate our friends at Literacy Connects for a \$2,500 grant from Enterprise Holdings Foundation



Our piggy bank station at iHeart's Love Pup event



Staff presented the benefits of our Youth Program to families at the Sunnyside Back to School Wellness Fair



# A MESSAGE FROM OUR CHAIRMAN & PRESIDENT/CEO

The year 2018 was an amazing year for your Credit Union. The management team at Pima Federal has worked diligently to reduce operating expense and increase revenue to strengthen the cooperative and improve the value of services provided to you, our member-owners.

The following are notable achievements to this end:

- ▶ The growth in the balance sheet increased net interest income to new levels.
- ▶ Diversified the loan portfolio; Increased business and home loans while reducing dependence on auto loans purchased from dealers.
- ▶ Eliminated many fees and lowered several current fees.
- ▶ Increased dividends paid on Money Market and Term Share Certificates throughout the year.
- ▶ Introduced business lending and business deposit accounts.
- ▶ Decrease non-interest expense year-over-year.

Improving our efficiencies is paramount to improving the value of service we provide to you. Through lower operating expenses and enhanced income from the balance sheet, we can then continue the journey to lower or eliminate fees, increase deposit rates and remain competitive on loan rates.

Pima Federal ended 2018 with record earnings of \$6.7 million, and record assets of \$551.4 million, ending the year with a strong capital ratio of 11.22%. Additionally, membership grew by 4.5%, resulting in 60,484 members at year-end. The credit union once again received a 5-star rating from Bauer Financial.

To increase awareness around financial responsibility and readiness, the credit union provided financial education lessons for students ranging from kindergarten to college and held frequent Home Buying seminars. Beyond working directly with students in the classroom, Pima Federal provides exciting and valuable youth accounts and education scholarships. The Youth Saver Account provides a financial reward for good grades with a high dividend. The Home Buying seminars, which included speakers from our Home Loans team, local realtors, and other industry professionals were held throughout the year to educate potential buyers on what to expect in today's market with our ultimate roadmap to home buying.

Your Credit Union is more than about earnings and strong capital, it is also about serving. In 2018, employees have

volunteered over 2,100 hours in the community, taught financial literacy to just over 800 students, and donated over \$163,600 in sponsorships and donations to organizations that directly benefit the communities in which we serve.

Additionally, the 6th annual Pima Federal Golf Classic alone raised \$50,000 for local teachers, bringing our total contribution to \$367,000 since inception. Through our partnership with Tucson Values Teachers, we distributed over 1,000 gift cards to teachers to assist them in purchasing supplies for their classroom.

As a member-owned financial cooperative, Pima Federal is, at its core, all about giving back to our communities. Not only are we proud of how many hours we serve, we are particularly proud that greater than 70% of our employees participated in giving back to the community, helping over 80 organizations through volunteerism.

Through new membership donations, Pima Federal was able to contribute a total of \$18,640 to Friends of the Pima County

Public Library, the Children's Museum, and Literacy Connects thereby increasing membership with these non-profits.

On behalf of our entire organization, we are grateful to our board of directors, supervisory committee, and other committee members for their continued dedication to the credit union.

Your credit union's strength relies on active participation and engagement from all members. Let us be your first choice for your financial solutions, together making our credit union even stronger.

The Board of Directors, the Management Team, and all employees provide you, our members, with service excellence at each interaction. We exist because of you, and we remain committed to your success. We know you have many choices as a consumer, and we are thankful that you choose to be a member of Pima Federal Credit Union.



James Kisner  
Chairman of the Board



Eric H. Renaud  
President & Chief Executive Officer



6th Annual Pima Federal Golf Classic



In 2018, Pima Federal employees donated gifts to children in foster care





Volunteers at the 6th Annual Pima Federal Golf Classic



Pima Federal hosted the first Home Buyers' Open House to help inform prospective homebuyers about the process

## TREASURER'S REPORT

The financial strength of your member-owned financial cooperative continued to strengthen through 2018, improving on several measures year-over-year.

Year-end 2018 assets totaled \$551.4 million, an increase of \$38.8 million from year-end 2017. The growth in total assets was provided by share (deposit) growth of \$54.8 million, resulting in a 2018 year-end share (deposit) balance of \$488.6 million.

Capital, as defined by the NCUA, grew \$6.7 million resulting in a regulatory capital ratio of 11.22%. Total capital adjusted for unrealized gain/(loss) of securities and a valuation adjustment for the defined benefit pension plan grew \$6.3 million, resulting in a capital ratio of 10.31%.

Loan-to-Share is a simple indicator of our credit union's success in meeting our members demand for loans. This ratio is simply a measure of how effective the credit union is in moving a dollar of deposit into a loan. Pima Federal ended 2018 with a ratio of 70.72%, meaning that for every dollar on deposit, the credit union lent \$0.71 back out to the membership. Ideally, the greater the loan-to-share ratio, the better value the credit union can provide to all membership. Over the last few years the credit union has made great strides to increase this ratio. When more deposits are put to work, the credit union earns more income, which then can be used to provide higher deposit rates and lower fees. Of course, this is balanced against rising operating expenses, cost from increased regulatory compliance, and other emerging threats. First and foremost, Pima Federal will invest its resources in ways to become stronger for all members.

Year-over-year, loan balances grew 13.62% and shares grew 12.64%, both measures are in-line with growth experienced in the industry.

In July 2018 our credit union started offering business loans to the membership. This was a very successful operation, and by year end the business loan balances were \$16.5 million. To fund these loans and the significant increase in mortgages given to our members, Pima launched a special CD campaign that raised \$23.9 million.

Our credit union completed the year earning \$6.7 million on total assets of \$551.4 million, resulting in a return on asset ratio of 1.25%. The results in 2018 were a significant improvement over 2017, where net income was \$3.8 million on total assets of \$512.6 million, with a return on asset ratio of .75%.

With the earnings success attained by Pima in 2018, the Board and Management carefully evaluated our credit union's ability to increase share (deposit) rates and share the earnings with the members. As a result, the amount of the dividends paid to the members in 2018 increased 85.8% over 2017.

Pima Federal is financially strong and will continue to offer competitive products and services to our membership. As always, Pima Federal will continue to be a steadfast resource for our members, helping them achieve their financial objectives.

James Knoff, *Board Treasurer*

## SUPERVISORY COMMITTEE REPORT

The Supervisory Committee volunteer members are Dave Finerson, Mike Klinicki, Ron Parker, Linda Dhaemers, Victor Thornton and alternate member Van Elrod. The committee is appointed by the Board of Directors, from among the members of Pima Federal Credit Union. The Supervisory Committee is the credit union's audit committee - a kind of "watchdog" for the members. It is responsible for ensuring that the financial records are in order and that internal controls are in place to protect the assets of the credit union and its members. The committee also determines whether Pima Federal Credit Union is in compliance with all relevant regulations and laws and whether the Board-approved policies are being followed.

In order to fulfill its responsibilities, the Supervisory Committee:

- ▶ Engaged the services of CPA firm Nearman Maynard Vallez (NMV) to perform the annual Financial Audit, the annual Verification of Member Accounts and other regulatory compliance audits.
- ▶ Engaged the services of the CPA firm of Clifton Larson Allen LLP (CLA) to perform quarterly internal audits and other regulatory compliance audits.
- ▶ Engaged the services of CPA firm Doeren Mayhew (DM) to perform an internal audit and a regulatory compliance audit.
- ▶ Developed an annual internal audit plan working with the Compliance Department, and obtaining input from the audit firms, the Board of Directors and Management, with special emphasis on areas of higher risk.

In summary, based on the various reports of the three public accounting firms, regulatory examinations, internal reviews, meetings with credit union's management and members of the Compliance Department, we believe the credit union's financial condition and internal controls and procedures are sound.

On behalf of the Supervisory Committee, I want to thank the Board of Directors, Management and Employees for their support and cooperation throughout the year. I also want to thank our members for their trust in Pima Federal Credit Union.

Victor Thornton, *Chair*



# ASSET & LIABILITY COMMITTEE REPORT

The Board Asset and Liability Committee (ALCO) is chaired by the Board Treasurer. The committee members include board members selected by the Board Chair, the President/CEO, SVP/Chief Retail Lending Officer, and SVP/Chief Human Resources & Marketing Officer with support from the Accounting/Finance team. Asset Liability Management (ALM) is about understanding balance sheet structure and behavior, finding a balance between the structure and composition of shares (deposits) and structure and composition of loans and investments. The primary objective of this committee is to oversee the implementation of an effective process for managing interest rate risk, liquidity risk, capital risk, and credit risk inherent in the credit union's balance sheet. ALCO manages the use of assets and cash flow to ensure adequate profitability and liquidity to meet obligations. This committee is tasked with developing strategies and tactics for loans and investments (assets), and share deposits and borrowings (liabilities), which take into account changes in interest rates, economic trends, market demands, and regulations.

The Board ALCO is committed to ensuring that the credit union maintains sufficient capital levels, while providing value to the membership. As we began to emerge from recent years of low interest rates, the committee carefully considered different strategies that allowed the credit union to be responsive to interest rate movements, seeking to ultimately enhance member value. The committee actively monitors growth, interest rate risk, asset mix/quality, regulatory requirements, and dividend policies.

The Board ALCO committee is pleased to report that Pima Federal continues to operate with very strong capital and liquidity position, with earnings sufficient to support growth in assets.

James Knoff, *Chair*



Pima Federal's booth at iHeart's Kids Fest 2018, complete with a fun cash cube

# CREDIT REVIEW COMMITTEE REPORT

The Credit Review Committee meets on a quarterly basis and is comprised of three volunteers and four credit union employees. The committee is chartered with ensuring appropriate oversight of credit-related products and to monitor and assess management's ability to manage credit risk inherent in any loan portfolio.

expense associated with credit losses on loans is virtually unchanged year-to-year.

Additionally, the Credit Union has begun to grow the home loan and commercial lending portfolio, which is designed to reduce reliance on the auto loans, diversifying the credit risk embedded in the total loan portfolio.

Overall, delinquency and charge-offs continued to remain within acceptable and manageable levels, which can be attributed to our membership's commitment to our credit union, a strong partnership between branch and underwriting personnel, and effectively working with members as they encounter financial difficulties.

Linda Kennedy, *Chair*

The committee's ongoing responsibility and commitment is to balance the borrowing needs of the membership with the safety and soundness of the credit union's assets. At a minimum, this includes reviewing and maintaining adequate allowance for loan losses, delinquency trends by product, credit tier, collateral, management of automobile dealerships and underwriter performance. The committee also works with management to monitor economic trends and the potential impact to members.

At year-end 2018, as a percentage of loans, the delinquency ratio was .67% versus .46% in 2017, while the year-to-date net charge-off ratio was .75% versus .76% in 2017. The delinquency ratio, although higher in 2018 than 2017, reflects the credit union's focus to work with those members that are facing financial difficulties. It is important to note that the actual



Through our partnership with the Tucson Roadrunners, we contributed over \$1,400 to Pima Federal youth account savers



Pima Federal congratulating the 2018 Financial Literacy Scholarship recipient



Pima Federal at iHeart's Love Pup event



Pima Federal piggy bank at the Children's Museum



# 2018 BALANCE SHEET

	December 31, 2018	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
Loans to Members	\$347,018,444	\$305,692,876	\$286,379,677
Less: Allowance for Loan Losses	3,332,699	3,248,911	3,105,425
Net Loans Outstanding	343,685,745	302,443,965	283,274,252
Cash and Investments	176,528,408	178,011,545	171,136,372
Land and Buildings & Furniture and Equipment	19,533,037	20,444,964	20,890,816
NCUSIF Deposit	4,573,145	4,310,888	3,898,016
All Other Assets	7,100,790	7,387,694	7,559,069
<b>Total Assets</b>	<b>\$551,421,125</b>	<b>\$512,599,056</b>	<b>\$486,758,525</b>
<b>LIABILITIES</b>			
Total Member Shares/Deposits	488,617,080	433,775,504	406,992,235
Notes Payable	-	20,000,000	25,000,000
Accounts Payable and Other Liabilities	5,942,590	8,277,897	7,376,635
<b>Total Liabilities</b>	<b>\$494,559,670</b>	<b>\$462,053,401</b>	<b>\$439,368,870</b>
<b>CAPITAL</b>			
Undivided Earnings and Regular Reserves	61,882,275	55,191,308	51,405,960
Other Comprehensive Income & Investment Market Valuation	(5,020,820)	(4,645,653)	(4,016,305)
Total Capital	\$56,861,455	\$50,545,655	\$47,389,655
<b>Total Liabilities &amp; Equity</b>	<b>\$551,421,125</b>	<b>\$512,599,056</b>	<b>\$486,758,525</b>

# 2018 INCOME STATEMENT

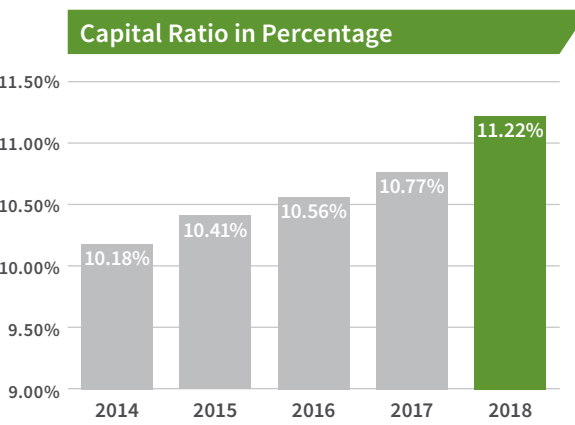
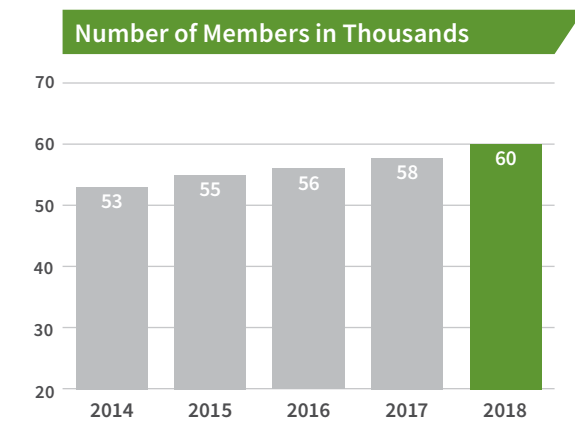
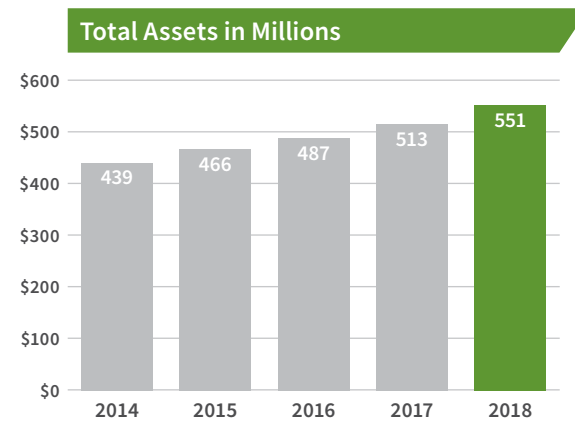
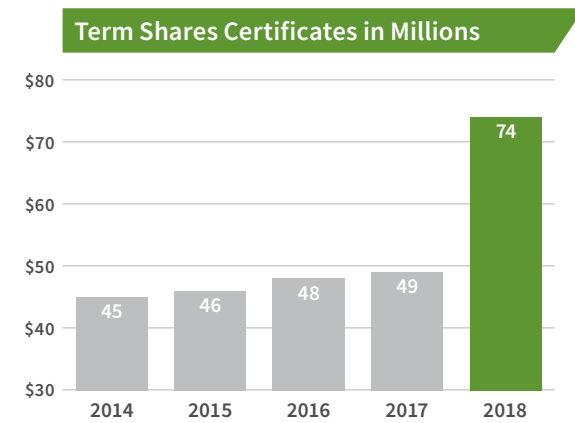
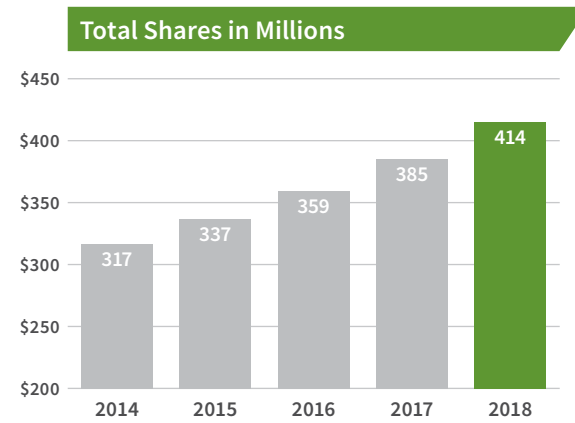
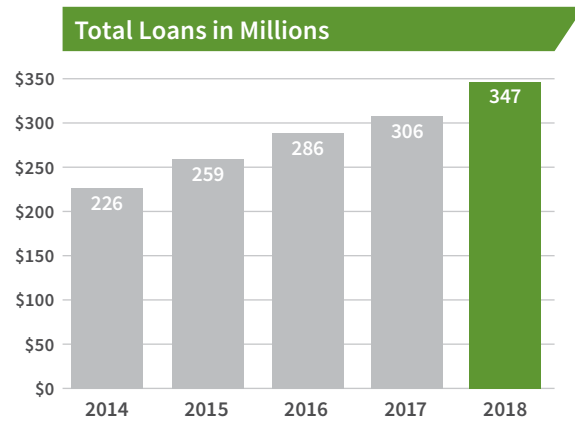
	2018	2017	2016
Interest on Loans	\$16,064,432	\$14,028,125	\$13,694,143
Interest on Investments	4,056,727	3,619,859	3,327,225
Total Interest Income	20,121,159	17,647,984	17,021,368
Dividend Expense	1,436,901	773,319	678,064
Funds Purchased	268,585	234,669	118,192
Total Interest Expense	1,705,486	1,007,988	796,256
Net Interest Income	18,415,673	16,639,996	16,225,112
Provision for Loan Loss	2,509,990	2,400,700	2,923,848
Net Interest Income after Prov	15,905,683	14,239,296	13,301,264
Fee & Other Income	10,078,958	9,343,816	8,779,480
Operating Expense	19,293,674	19,797,764	19,210,973
<b>Net Income</b>	<b>\$6,690,967</b>	<b>\$3,785,348</b>	<b>\$2,869,771</b>



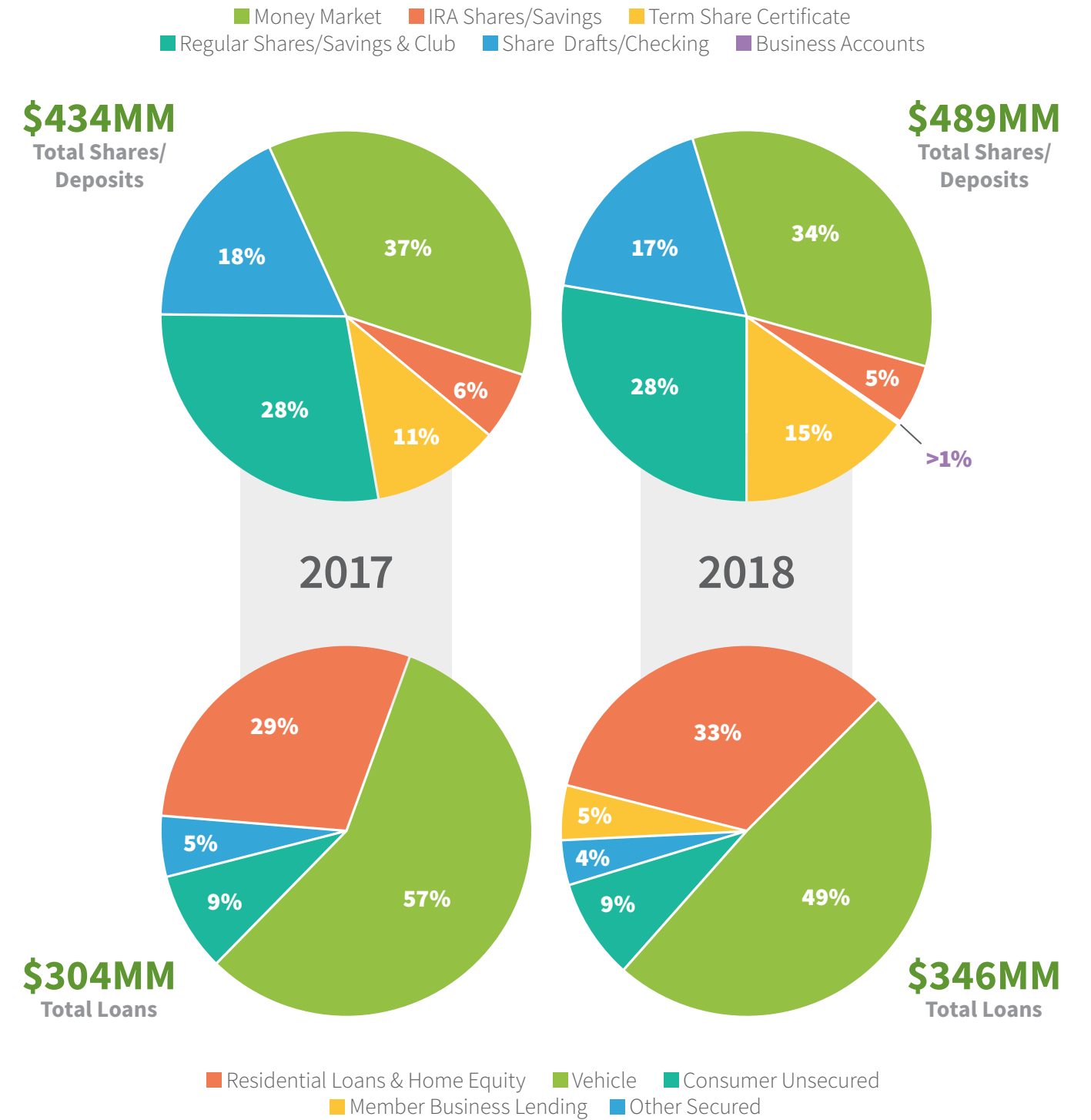
Pima Federal executives presenting a check to Tucson Values Teacher with funds raised from our annual Golf Classic



# 5-YEAR FINANCIAL TRENDS



# SHARE COMPOSITION



# LOAN COMPOSITION



2018

# COMMUNITY IMPACT





# LOCATIONS

## Stone

3730 N. Stone Ave., Tucson, AZ 85705

## Thornsdale

6510 N. Thornsdale Rd., Tucson, AZ 85741

## Valencia

2455 E. Valencia Rd., Tucson, AZ 85706

## Pantano

231 N. Pantano Rd., Tucson, AZ 85710

## Silverlake

1177 W. Silverlake Rd., Tucson, AZ 85713

## Steam Pump

11025 N. Oracle Rd., Oro Valley, AZ 85737

## Continental Ranch

8631 N. Silverbell Rd., Marana, AZ 85743

## Springerville

830 E. Main St., Suite 170, Springerville, AZ 85938

## Home Loan Center

6840 N. Oracle Rd., Tucson, AZ 85704

## Sahuarita

*Coming soon – mid 2019!*

# CONTACT US

520.887.5010

[pimafederal.org](http://pimafederal.org)

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