

Annual **REPORT**

2019



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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



Jason Larter
BOARD MEMBER



Pedro Nájera
BOARD MEMBER



Lisa Parke
BOARD MEMBER



Ribbon cutting ceremony at our newest branch in Sahuarita/Green Valley.

MANAGEMENT

President/Chief Executive Officer
Eric Renaud

SVP/Chief Retail Lending Officer
Cindy Campano

SVP/Chief Financial Officer
Antonio Dias

SVP/Chief Administrative Officer
Angi Griffin

Sr. Vice President of Branch Administration
Celyna Cervantes

Sr. Vice President of Commercial Lending
Adam Cogshall

Sr. Vice President of Operations
Leah Friedenber

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, <i>Chair</i>	Michael Klinicki
Linda Dhaemers	Ron Parker
David Finerson	Van Elrod (alternate)

Asset & Liability Committee

James Knoff, <i>Chair</i>	James Kisner
David Bosman	Pedro Nájera
Cindy Campano	Eric Renaud
David Finerson	
Angi Griffin	

Credit Review Committee

Linda Kennedy, <i>Chair</i>	Ramon Gonzalez
Cindy Campano	Rudy Ingersoll
John Davis†	Eric Renaud

† Mr. John Davis passed away in January 2020. We thank him for his service to our credit union since 2004.

2019 Annual MEETING MINUTES

Mr. James Kisner, Chairman of the Board, opened the meeting at 6:45 p.m. He acknowledged management for another successful year. He then called the meeting to order and asked for a motion to approve the minutes from April 17, 2018, 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. James Knoff, Treasurer, to deliver the Treasurer's Report.

Mr. Knoff highlighted ending 2018 with an increase in assets of \$38.8 million compared to year-end 2017 while loan balances increased by 13.62%. He provided an overview of the financial successes which made it possible to give back to members in the form of dividends, an 85% increase compared to the prior year. Mr. Knoff then asked to have the Treasurer's Report approved as printed on page 8 of the Annual Report.

The Chairman introduced Mr. Victor Thornton, Supervisory Committee Chair. Mr. Thornton stated the financial condition and internal controls and procedures of the Credit Union are sound and he thanked management, the Board, and all volunteers for an excellent year. Mr. Thornton 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 that the delinquency ratio ended at .67% an increase of .21% compared to the previous year while the net charge-off ratio decreased slightly at .75%. She recognized staff for their continued service and commitment to finding solutions for members. Ms. Kennedy asked to have the Credit Review Committee Report approved as printed on page 10 of the Annual Report.

Next, Mr. Dave Bosman, Nominating Committee Chair, announced that due to no more than one person having been nominated for each seat up for election, Mr. Tim Dunne, Mr. Pedro Nájera, and Mr. Dave Finerson were re-elected to the Board by acclamation to a three-year term. Mr. Jason Larter was elected to the Board by acclamation to a two-year term, and Ms. Lisa Parke was elected to the Board by acclamation to a one-year term.

The Chairman asked if there was any New Business and there was none. He then asked for a motion to approve the 2018 Annual Report. A motion was made, seconded, and the motion carried.

The Chairman introduced Mr. Eric Renaud, President/CEO. Mr. Renaud welcomed everyone to the 67th Annual Meeting. He thanked the Board, Supervisory Committee, and the Credit Review Committee volunteers. He expressed his sincere

appreciation to the management team and employees for being instrumental in making 2018 a phenomenal year, and he thanked the outstanding staff at the Marriott for their great service.

Mr. Renaud spoke about the necessity to evaluate the economic landscape, market interest rates, local employment, field of membership, and many other factors throughout each year. It is then up to management to evaluate the balance sheet structure, embedded credit risk, income opportunities, expense profile, and human capital to determine the next steps in the execution of the overall strategy. Management and employees have become increasingly disciplined focusing on the primary goal of providing enhanced member-value, smart solutions, simple banking, and personal interactions with each member.

Mr. Renaud then reiterated how 2018 was an exceptional year for Pima Federal. Total assets reached \$551 million, total shares reached nearly \$489 million, while Regulatory Capital reached \$61.9 million. The Credit Union ended the year with a 11.22% capital ratio. Total member deposits increased nearly \$82 million since the end of 2016. Total assets would have grown in equal proportion, however, the balances in notes payable were paid off, decreasing the size of the balance sheet by that amount. Between December 2016 to December 2018 total loans to members increased from \$286 million to \$347 million, an increase of \$61 million. Ideally, this was fully funded by the growth in deposits.

The Credit Union achieved record level earnings of \$6.7 million. This is nearly 2.5 times the earnings from 2016. With a strong presence in the community and offering the types of products and services that were in high demand, growth was inevitable. Between 2017-2018, the management team addressed operational inefficiencies and examined products and services that didn't yield a benefit holistically to the membership. Having reduced unnecessary expenses, freed up resources to expand products and services that benefited the greater proportion of the membership. Member enhancements included the elimination and or the lowering of many fees, an increase to deposit rates at various times throughout the year, a new website and upgrades to the mobile app, and the opening of the Continental Branch in Marana.

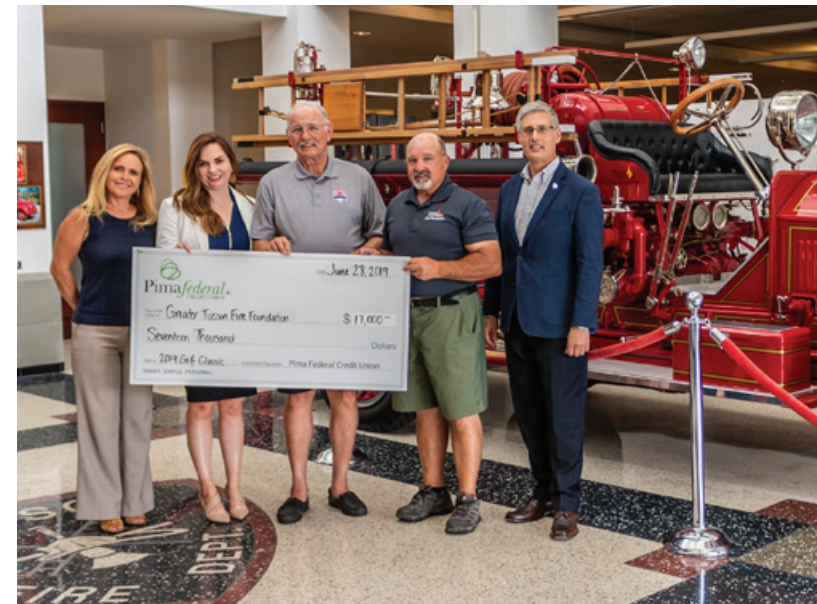
Mr. Renaud highlighted the new business lending channel. He stated this new product line combined with the strong demand and growing portfolio of home loans has allowed the Credit Union to diversify the credit risk and interest rate risk embedded in the loan portfolio. Loan growth with all

channels combined was very strong at 13.52%. In addition, a Home Loan Construction program was developed, and numerous Home Buying and Adult Financial Literacy Seminars were held at various locations.

Mr. Renaud ended his report noting the awards won by the Credit Union in 2018 and the continuation of community support to over 83 organizations, and 2,100 hours volunteered by Pima Federal employees. He announced the change in beneficiaries for the upcoming Golf Classic in 2019 and reported having raised \$367,000 total since 2013. Lastly, he was excited to announce the opening of a Sahuarita / Green Valley branch coming in 2019.

Mr. Renaud reintroduced, Mr. James Kisner, Chairman of the Board. The Chairman introduced Mrs. Jane Evans, wife of Pima Federal's founder Richard Evans. He thanked her, the members, and staff for having attended the annual meeting.

The Chairman then 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.



Pima Federal presented checks to each of the beneficiaries from our 7th Annual Golf Classic: Greater Tucson Fire Foundation (top), Literacy Connects (middle), and Southern Arizona Law Enforcement Foundation (bottom).

A Message from OUR CHAIRMAN & PRESIDENT/CEO

The momentum created in 2018 was carried into 2019 with full force, resulting in another great year for your credit union. Our commitment to our members and the greater community remained strong and is demonstrated through our financial success and support for our community.

The management team continued to manage operating expense and increase revenue; strengthening the cooperative, and improving the value of services provided to you, our member-owners.

The following are notable achievements to this end:

- ▶ Increased dividends paid to members 101% year over year.
- ▶ Maintained the lowest and fewest fees among peers.
- ▶ 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.
- ▶ Offered new deposit products and credit cards for business members.
- ▶ Opened a new branch in Sahuarita in July.

Pima Federal ended 2019 with record earnings of \$8.8 million, and assets of \$600.6 million, ending the year with a strong capital ratio of 11.72%. Additionally, membership grew by 3%, resulting in 62,323 members at year-end. The credit union once again received a 5-star rating from Bauer Financial.

In demonstrating our commitment to financial education and readiness, the credit union provided financial education workshops for students ranging from kindergarten to college. The credit union also provides access to online “gamification” financial literacy tools to local schools and the general membership. These programs can be accessed from our website. Our teams have also provided Home Buying seminars and Residential Construction loan programs, which included speakers from our Home Loan team, local realtors, and other industry professionals.

Beyond working directly with students in the classroom, Pima Federal provides exciting and valuable youth accounts and education scholarships. In 2019, we awarded a total of \$10,000 to five graduating seniors. Our Youth Savings Account provides a financial reward for good grades and offers a high dividend rate on savings.

Your credit union’s commitment to volunteerism is strong. In 2019, 70% of our employees volunteered over 1,700 hours impacting over 80 charitable organizations, taught financial literacy to just over 1,700 students, and provided over \$165,000 in sponsorships and donations to organizations that directly benefit the communities in which we serve.

Additionally, the 7th annual Pima Federal Golf Classic raised \$51,000 for three local charities, bringing our total contribution to \$418,000 since inception. Literacy Connects, Greater Tucson Firefighter Foundation and Southern Arizona Law Enforcement Foundation each received \$17,000 from the event. Each of these entities provide a valued service to our community and we are pleased to be able to support their mission.

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, and together we can make 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

Pima Federal HOLIDAY DONATIONS

In the spirit of giving during the holiday season, each of our departments and branches donated \$250 to a local organization of their choice. We’re excited to support the following organizations who focus on varying causes within our community:



Total Donated
\$5,750



ANGEL HEART
PAJAMA PROJECT



Post 30
Springerville, AZ





Treasurer's REPORT

The financial strength of your member-owned financial cooperative continued to improve through 2019, increasing in several key measures year-over-year.

Year-end 2019 assets totaled \$600.7 million, an increase of \$49.2 million from year-end 2018. The growth in total assets resulted from an increase of \$12 million in Equity and \$32.7 million in share (deposit) balances, closing the year at \$521.3 million.

Capital, as defined by the NCUA, grew \$8.5 million resulting in a regulatory capital ratio of 11.72%. Total capital adjusted for unrealized gain/(loss) of securities and a valuation adjustment for the defined benefit pension plan grew \$12 million, resulting in a capital ratio of 11.47%.

The Loan-to-Share ratio is an indicator of our credit union's success in meeting member's 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 2019 at a ratio of 79.28%, an increase from 70.72% in 2018. This means that for every dollar on deposit, the credit union lent \$0.79 back out to the membership. Ideally, the greater the loan-to-share ratio, the better value the credit union provides to its membership. 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, costs from increased regulatory compliance, and other emerging threats. First and foremost, Pima Federal will invest its resources in ways to protect its future while serving member's needs.

Year-over-year, shares grew 6.7%, which is in-line with growth experienced in the industry. Loan balances grew 19.6%, significantly higher than the growth experienced in the industry. In 2019 Pima Federal funded \$199 million in loans to its members including \$70.7 million in mortgages, \$55.7 in vehicle loans and \$28 million in business loans.

Our credit union completed the year earning \$8.8 million in net income, a return on asset ratio of 1.58%. This is an increase from \$6.7 million, or a 1.25% return in 2018.

With the earnings success attained by Pima Federal Credit Union in 2019, the Board and Management carefully evaluated our credit union's ability to increase share (deposit) rates, thereby sharing its earnings with members. As a result, the amount of dividends paid to members in 2019 more than doubled over 2018.

Pima Federal Credit Union is financially strong and will continue to offer competitive products and services to its membership. As always, the credit union continues to be a steadfast provider and resource for its members. Thank you very much.

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. 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 owner-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 and 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 other audit firms to perform other oversight activities and regulatory compliance reviews.
- ▶ Developed an annual internal audit plan working with the Compliance Department, and obtaining input from the audit firms, the Board of Directors and Management.

In summary, based on the various reports of public accounting firms, regulatory examinations, internal reviews, meetings with credit union's management and members of the Compliance Department, the Supervisory Committee believes the credit union is performing appropriately to sustain a safe and secure future; and is well managed with a strong commitment to serving the membership. We encourage you to contact us with any question or comment about our findings.

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 owner-members for their trust in Pima Federal Credit Union.

Victor Thornton, *Chair*



Pima Federal Executives and Board of Directors attended the Mountain West Credit Union Association's Star Gala (left) where Pima Federal Credit Union was awarded the 2019 Credit Union of the Year Award (right).

Asset & Liability COMMITTEE REPORT

The Asset and Liability Committee (ALCO) is composed of five Board members appointed by the Board Chair in addition to the President/CEO, SVP/Chief Retail Lending Officer, SVP Commercial Lending, SVP Branch Administration and SVP/Chief Human Resources & Marketing Officer with support from the Accounting/Finance team. It is chaired by the Board Treasurer.

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 consider changes in interest rates, economic trends, market demands, and regulations.

The ALCO is committed to ensuring that the credit union maintains sufficient capital levels, while providing value to the membership. As we again experience 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 committee is pleased to report that Pima Federal Credit Union continues to operate in a very strong capital and liquidity position, with earnings sufficient to support growth in assets.



2019 Pima Federal Education Award recipients: (top left to right) Rosalia Garcia, Samantha Madrid, Janelle Peña, (bottom left to right) Tereza Rascon, and Samantha Reynolds.



Credit Review COMMITTEE REPORT

The Credit Review Committee meets on a quarterly basis and is comprised of three volunteers and five 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.

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, commercial credit risk ratings, and underwriter performance. The committee also works with management to monitor economic trends and the potential impact to members.

At year-end 2019, as a percentage of loans, the delinquency ratio was .58% versus .67% in 2018, while the year-to-date net charge-off ratio was .81% versus .75% in 2018. The net charge-off ratio, although higher in 2019 than 2018, reflects an

increase in credit union members facing financial difficulties. The Credit Union continues to be there for those members that want and need assistance.

Additionally, the Credit Union has seen success in growing 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*







2019 BALANCE SHEET

	December 31, 2019	December 31, 2018	December 31, 2017
ASSETS			
Loans to Members	\$414,633,615	\$347,018,444	\$305,692,876
Less: Allowance for Loan Losses	3,810,230	3,332,699	3,248,911
Net Loans Outstanding	410,823,385	343,685,745	302,443,965
Cash and Investments	154,885,049	176,528,408	178,011,545
Land and Buildings & Furniture and Equipment	19,347,728	19,533,037	20,444,964
NCUSIF Deposit	5,035,721	4,573,145	4,310,888
All Other Assets	10,569,466	7,100,790	7,387,694
Total Assets	600,661,349	\$551,421,125	\$512,599,056
LIABILITIES			
Total Member Shares/Deposits	521,275,449	488,617,080	433,775,504
Notes Payable	-	-	20,000,000
Accounts Payable and Other Liabilities	10,512,080	5,942,590	8,277,897
Total Liabilities	\$531,787,530	\$494,559,670	\$462,053,401
CAPITAL			
Undivided Earnings and Regular Reserves	70,418,527	61,882,275	55,191,308
Other Comprehensive Income & Investment Market Valuation	(1,544,708)	(5,020,820)	(4,645,653)
Total Capital	\$68,873,819	\$56,861,455	\$50,545,655
Total Liabilities & Equity	\$600,661,349	\$551,421,125	\$512,599,056

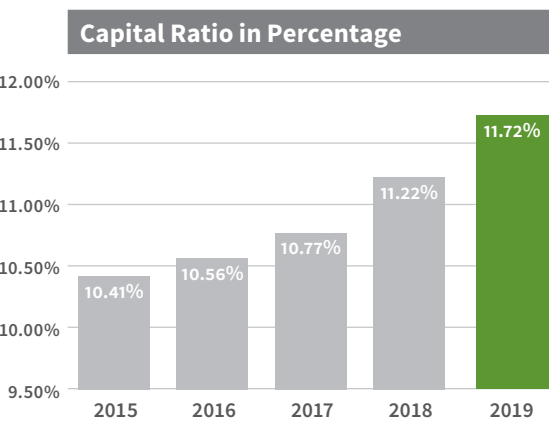
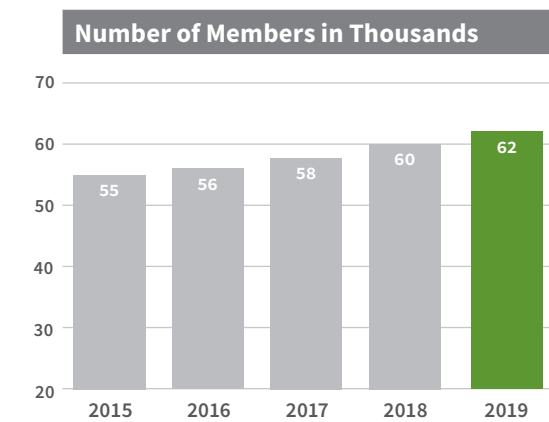
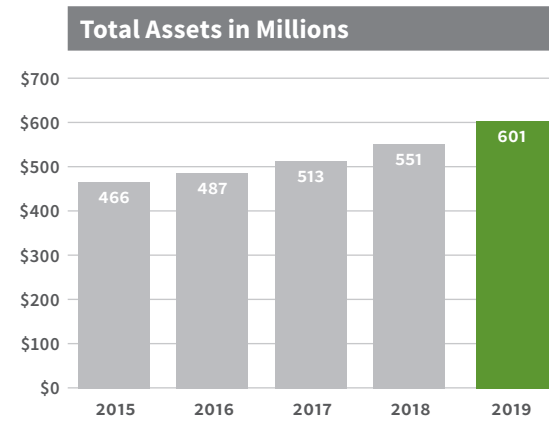
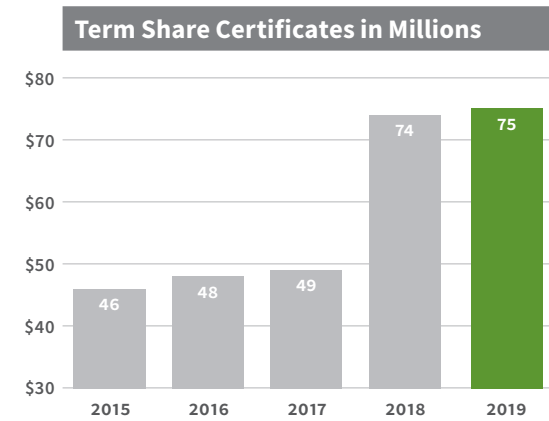
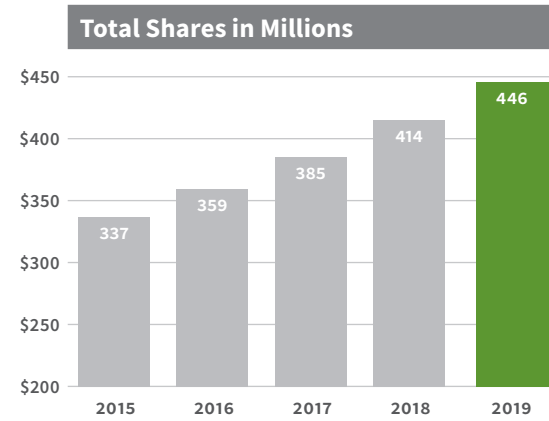
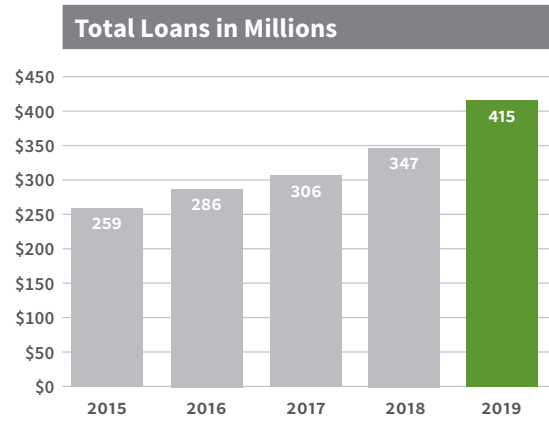
2019 INCOME STATEMENT

	2019	2018	2017
Interest on Loans	\$19,372,152	\$16,064,432	\$14,028,125
Interest on Investments	4,678,805	4,056,727	3,619,859
Total Interest Income	24,050,957	20,121,159	17,647,984
Dividend Expense	2,883,283	1,436,901	773,319
Funds Purchased	2,268	268,585	234,669
Total Interest Expense	2,885,550	1,705,486	1,007,988
Net Interest Income	21,165,406	18,415,673	16,639,996
Provision for Loan Loss	3,459,025	2,509,990	2,400,700
Net Interest Income after Prov	17,706,381	15,905,683	14,239,296
Fee & Other Income	10,160,844	10,078,958	9,343,816
Operating Expense	19,111,152	19,293,674	19,797,764
Net Income	\$8,756,073	\$6,690,967	\$3,785,348

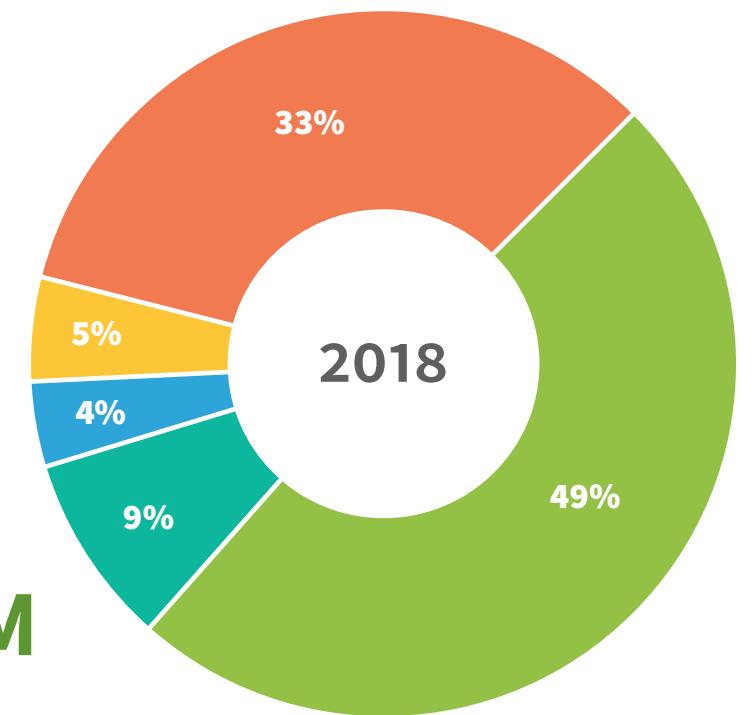
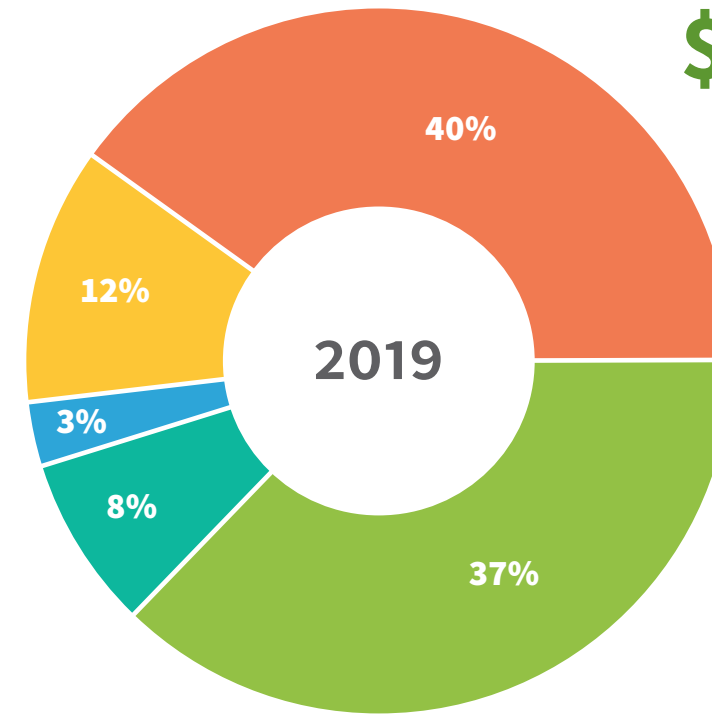
2019 COMMUNITY IMPACT

 Golf Classic Proceeds/ Contributions \$51,000	 Education Awards/ Scholarships Provided \$10,000	 Volunteer Hours 1,743	 Organizations Supported 89
 Pima Shares Community Giving \$34,000	 Number of Students Taught Directly by Pima over 1,700	 Students taught through Banzai Sponsorship 1,000	

5-Year FINANCIAL TRENDS



Loan COMPOSITION



- RESIDENTIAL LOANS & HOME EQUITY
 ■ VEHICLE
 ■ CONSUMER UNSECURED
- MEMBER BUSINESS LENDING
 ■ OTHER SECURED

LOCATIONS

Stone

3730 N. Stone Ave., Tucson, AZ 85705

Thornydale

6510 N. Thornydale 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

Sahuarita NEW LOCATION

18767 S. Nogales Hwy, Suite 115, Green Valley, AZ 85614

Springerville

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


Home Loan Center

6840 N. Oracle Rd., Tucson, AZ 85704

CONTACT US

520.887.5010

pimafederal.org

@pimafederal on   

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April 2020

