

# 2017 ANNUAL REPORT





**Smart**  
Solutions.

**Simple**  
Banking.

**Personal**  
Interactions.

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Pima Federal Financial Plaza

# The Board of DIRECTORS



James Kisner  
Board Chairman



David Bosman  
Vice Chairman



Pedro Nájera  
Treasurer



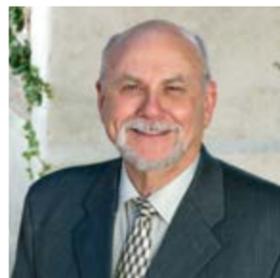
Linda Kennedy  
Secretary



Tim Dunne  
Board Member



David Finerson  
Board Member



James Knoff  
Board Member



Jason Larter  
Associate Board Member



Lisa Parke  
Associate Board Member

# The MANAGEMENT

**President/Chief Executive Officer**  
Eric Renaud

**SVP/Chief Lending Officer**  
Cindy Campano

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

**SVP/Chief Risk Officer**  
Laura Ward

**SVP/Chief Operating Officer**  
John Parillo

**Vice President of Branch Administration**  
Celyna Cervantes

**Vice President of Consumer Lending**  
Danny Smith

**Vice President of Finance**  
Antonio Dias

**Vice President of Home Loans**  
Adam Stewart

**Vice President of IT**  
Robert Dutcher

**Vice President of Operations & Digital Banking**  
Leah Friedenber

# The COMMITTEES

## Supervisory Committee

Victor Thornton, *Chair*  
Linda Dhaemers  
David Finerson

Michael Klinicki  
Ron Parker  
Van Elrod (alternate)

## Asset & Liability Committee

Pedro Nájera, *Chair*  
David Bosman  
Cindy Campano  
Tim Dunne

David Finerson  
Angi Griffin  
James Kisner  
Eric Renaud

## Credit Review Committee

Linda Kennedy, *Chair*  
Cindy Campano  
John Davis  
Ramon Gonzalez

Rudy Ingersoll  
Eric Renaud  
Danny Smith



2017 Golf Classic, Golf Club at Dove Mountain

## 2016 Annual MEETING MINUTES

**M**r. James Kisner, Board Chair, opened the April 18, 2017, Pima Federal Credit Union Annual Meeting at 6:35 p.m. He thanked all members who were in attendance and the credit union employees and volunteers for another exceptional year. Eric Renaud, President and CEO, was introduced to discuss the state of the credit union.

Mr. Renaud began his report by stating he was grateful for the commitment from members, volunteers, and employees this past year. He thanked the employees who organized the annual meeting and those who volunteered to work the event. He also recognized the Tucson University Park Hotel staff members. He continued, noting that Pima Federal is a member owned financial cooperative that continues to help members build their financial dreams using locally sourced deposits to fund local loans. Pima Federal is committed to providing its members with smart solutions that are relevant, simple banking, and interactions that are genuine and personal. This past year Pima Federal celebrated 65 years of helping others and is now serving close to 56,000 members at year-end.

Mr. Renaud provided an overview of the Balance Sheet, stating that it reflects the lives and activities of members at different stages. He highlighted growth in 2016 and growth

in the past two years combined stating deposit growth was \$24.4 million in 2016 and \$45.2 million in the past two years combined, net loan growth was \$27.3 million in 2016 and \$60.2 million in the past two years combined, and equity growth was \$2.9 million in 2016 and \$6.7 million the past two years combined. Net income declined in 2017 compared to the past two years, as loan losses increased. Mr. Renaud stated that 2016 was a period of building and investing in Pima Federal, and equity remains strong. He reported on five-year trends, share/deposit composition, and the 5-Star rating given to the credit union for 40 consecutive quarters from Bauer Financial, an independent rating agency.

Mr. Renaud provided statistics from the Member Survey that showed an increase in member loyalty; 84% of members surveyed said they are loyal members of Pima Federal. Net promoter score was 64%; overall 75% of members surveyed were identified as promoters and are likely to promote Pima Federal to family and friends. Lastly, the repurchase conversion rate was 85%; it would be extremely likely that those members would again purchase an account or service from Pima Federal. Mr. Renaud stated that these are strong results and he thanked members for taking part in the survey. Community outreach within the organization was highlighted to include the 2016 Golf Classic that continues to

be a success since 2013 raising \$262,000 overall. Proceeds from the Golf Classic help teachers from Amphi, Marana, Flowing Wells, and Sunnyside school districts purchase school supplies for their classrooms.

The IFLY Youth Program that was introduced at last year's annual meeting is essential to the credit union's financial literacy program and has been a success with a new program being added later in 2017.

Mr. Renaud provided an overview of products and lending solutions offered by the credit union and shared the many member enhancements implemented in 2016. He then ended his report with highlights from the September 2016 grand opening of the Steam Pump Financial Center located in Oro Valley. He stated that the financial center is the first of its kind for Pima Federal offering a unique service model that balances both technology and personal member service. The other locations will see the same type of enhancements in the future. Mr. Renaud turned the meeting back to the Chairman of the Board.

Mr. Kisner reiterated the significance of the youth program that helps teach financial literacy and he recognized the employee volunteers that have spent many hours in the community teaching financial literacy to children of all ages. He expressed pride in the 2016 Golf Classic which raised \$50,000. He thanked Pima Federal employees for volunteering over 2,700 hours in 2016 and for making a difference in the community. He then officially opened the Formal Business Meeting at 7:25 p.m.

Mr. James Kisner, Chairman, asked for a motion to approve the April 19, 2016 Annual Meeting Minutes as printed. A

motion was made by Ms. Linda Kennedy seconded by Tim Dunne and the motion carried. Mr. Kisner asked if there was any Old Business and there was none. He then reintroduced Eric Renaud to deliver the Treasurer's Report.

Mr. Renaud asked to have the Treasurer's Report approved as printed on page 8 of the Annual Report.

The Chairman introduced Victor Thornton, Supervisory Committee Chair. Mr. Thornton asked to have the Supervisory Committee Report approved as printed on page 9 of the Annual Report.

The Chairman introduced Linda Kennedy, Credit Review Committee Chair. Ms. Kennedy asked to have the Credit Review Committee Report approved as printed on page 10 of the Annual Report.

The Chairman introduced Harold Semrock, Loan Committee Chair. Mr. Semrock asked to have the Loan Review Committee Report approved as printed on page 11 of the Annual Report.

The Chairman asked for a motion to approve the Annual Report as printed. A motion was made by Ms. Linda Kennedy seconded by Mr. Dave Finerson and the motion carried.

The Chairman announced the results of the 2017 elections stating that Ms. Linda Kennedy and Mr. James Knoff were re-elected to the Board by acclamation to a three year term.

Being that there was no New Business or further discussion, the Chairman adjourned the meeting at 7:33 p.m.



CEO, Eric Renaud, and the 2017 Education Award recipients

# A message from **OUR CHAIRMAN & PRESIDENT/CEO**



James Kisner  
Chairman of the Board



Eric H. Renaud  
President &  
Chief Executive Officer

**P**ima Federal Credit Union retains a long history of providing member value as a financial cooperative chartered to provide thrift and credit to the communities it serves. The credit union's success is demonstrated through growth in membership, growth in assets under management, equity, and of course a strong brand and reputation in the communities served. Through the years, we have grown and become more sophisticated in the way we deliver services to our members; however, one constant remains – our commitment to helping our members and their families.

Pima Federal ended 2017 with \$512.6 million in assets; growth of \$25.8 million year-to-year and a strong capital ratio of 10.77%. In addition, membership grew by 3.2%, resulting in 57,062 members at year-end. The credit union once again received a 5-star rating from Bauer Financial.

During this past year, Pima Federal was committed to enhancing our value proposition of providing smart solutions, simple banking, and personal service. First, and most significantly, the credit union opened the new Continental Ranch Branch in the growing community of Marana in mid-December 2017.

Second, Pima Federal continued to significantly improve service across member channels. We introduced an amazing

menu of consumer loan benefits including the option for 90 days to first payment, a rate reduction simply for enrolling in automatic payments, and the ability to sign your closing documents electronically. The credit union also updated its overdraft protection program for even more member convenience. Additionally, we transitioned to a more robust mobile app in order to provide a modern platform to achieve a relevant, frictionless and simple member experience.

Third, in an effort 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 at various branches. Beyond working directly with students in the classroom, Pima Federal's IFLY (Improving the Financial Literacy of our Youth) committee helped to promote our special high yield youth accounts, good grades programs, and education awards through other community events in order to create excitement around financial education and saving. The Home Buying seminars, which included speakers from our Home Loans team and local realtors, were held throughout the year to educate potential buyers on what to expect in today's market with our ultimate roadmap to home buying.

Finally, Pima Federal Credit Union is more than about earnings and strong capital, it is also about serving. In 2017, our employees have volunteered over 2,800 hours in the community, taught financial literacy to over 1,360 students, and donated over to \$120,000 in sponsorships and donations to organizations that directly benefit the communities in which we serve. Through new membership donations, Pima Federal was able to contribute a total of \$20,840 to Friends of the Pima County Public Library, the Children's Museum, and Literacy Connects thereby increasing membership with these non-profits. As a member-owned financial cooperative, Pima Federal is, at its core, all about giving back to our communities. Not only are we proud about how many hours we serve, we are particularly proud that just about 80% of our employees participated in giving back to the community. The 5th annual Pima Federal Golf Classic alone raised \$55,000

for local teachers, bringing our total contribution to \$317,000 since inception. Through our partnership with Tucson Values Teachers, we distributed over 1,100 gift cards to teachers to assist them in purchasing supplies for their classroom.

On behalf of our entire organization, we are grateful to our Board of Directors and Committee Members for their continued dedication to the credit union. As members, you elect these individuals to represent your best interest, and they continue to fulfill this critical duty for your financial cooperative.

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 are dedicated to providing you, our members, with service excellence at each and every 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.



CEO, Eric Renaud, accepts the 2017 Large Business of the Year award presented by the Greater Oro Valley Chamber



2017 Marana Holiday Festival and Tree Lighting



Pima Federal volunteer staff at the 5th annual Pima Federal Golf Classic

# Treasurer's REPORT

The financial strength of your member-owned financial cooperative continued to strengthen through 2017, improving on several measures year-over-year.

Year-end 2017 assets totaled \$512.6 million, an increase of \$25.8 million from year-end 2016. The growth in total assets was provided by share (deposit) growth of \$26.8 million, resulting in a 2017 year-end share (deposit) balance of \$433.8 million.

Capital, as defined by the NCUA, grew \$3.8 million resulting in a regulatory capital ratio of 10.76%. Total capital adjusted for unrealized gain/(loss) of securities and a valuation adjustment for the defined benefit pension plan grew \$3.2 million, resulting in a capital ratio of 9.86%.

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 2017 with a ratio of 70.11%, meaning that for every dollar on deposit, the credit union lent \$0.70 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 6.75% and shares grew 6.58%, both measures are in-line with growth experienced in the industry.

Our credit union completed the year earning \$3.8 million on total assets of \$512.6 million, resulting in a return on asset ratio of .76%. The results in 2017 were an improvement over 2016, where net income was \$2.9 million on total assets of \$486.8 million, with a return on asset ratio of .60%.

After several years of declining net interest income, the yield on loans and investment began to increase in 2017. Loan yields, although rising, had not yet been strong enough to support an increase in dividend paid on shares (deposits). As we progress into 2018, it is expected that dividend rates will finally begin to trek upwards, increasing from historic low levels. The Board and Management will carefully evaluate our credit union's ability to increase share (deposit) rates, taking advantage of increasing loan yield to provide the means.

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 hopes and dreams.

Pedro Nájera, *Treasurer*



Pima Federal was a proud sponsor of the 2017 UA Wildcats Homecoming game

## Supervisory COMMITTEE REPORT

The Supervisory Committee is established by the Title 1, Section 1761 of the Federal Credit Union Act and is appointed by the Board of Directors. 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 the internal controls are in place to protect the assets of the credit union and its members. The committee also determines whether Pima Federal 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 the CPA firm of 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 (CLA) to perform internal audits and other compliance audits.
- ▶ Developed an annual internal audit plan working along with Risk Management, and obtaining input from its audit firm, the Board of Directors and Management, with special emphasis on areas of higher risk.

In summary, based on the various reports of the two certified public accounting firms, regulatory examinations, internal reviews, meetings with credit union's management and members of the Risk Management 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 and Management for their support and cooperation throughout the year. I also want to thank our members for their trust in the credit union.

Sincerely,

Mr. Victor Thornton  
Mr. Dave Finerson  
Mr. Mike Klinicki  
Mr. Ron Parker  
Mrs. Linda Dhaemers  
Mr. Van Elrod - Alternate



Golfers on the driving range at the 2017 Golf Classic



Proud 1<sup>st</sup> place recipients of the Dora Maxwell and Desjardin Awards

## Credit Review **COMMITTEE REPORT**

**T**he 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, 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 2017, as a percentage of loans, the delinquency ratio was .46% versus .34% in 2016, while the year-to-date net charge-off ratio was .76% versus .87% in 2016. 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*



Youth Saver enjoying the 2016 Annual Meeting with the Berenstain Bears



Pima Federal and AZ Assurance volunteers doing their part to keep our local parks clean

## Asset & Liability **COMMITTEE REPORT**

**T**he Board Asset and Liability Committee (ALCO) consist of Board members selected by the Chair, the President/CEO, SVP/Chief 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. After the recent years of low interest rates, the committee is carefully considering different strategies that will allow the credit union to be responsive to interest rate movements. The committee actively monitors growth, interest rate risk, asset mix/quality, regulatory requirements, and dividend policies.

The Board Asset & Liability Committee is pleased to report that Pima Federal continues to operate with a very strong capital, liquidity, and earnings sufficient to support growth in assets.



Enthusiastic volunteers at the Diaper Bank of Southern Arizona



I Am Pima honorees on the field at the Pima-sponsored UA football game



Providing financial literacy to students at Legacy Traditional School

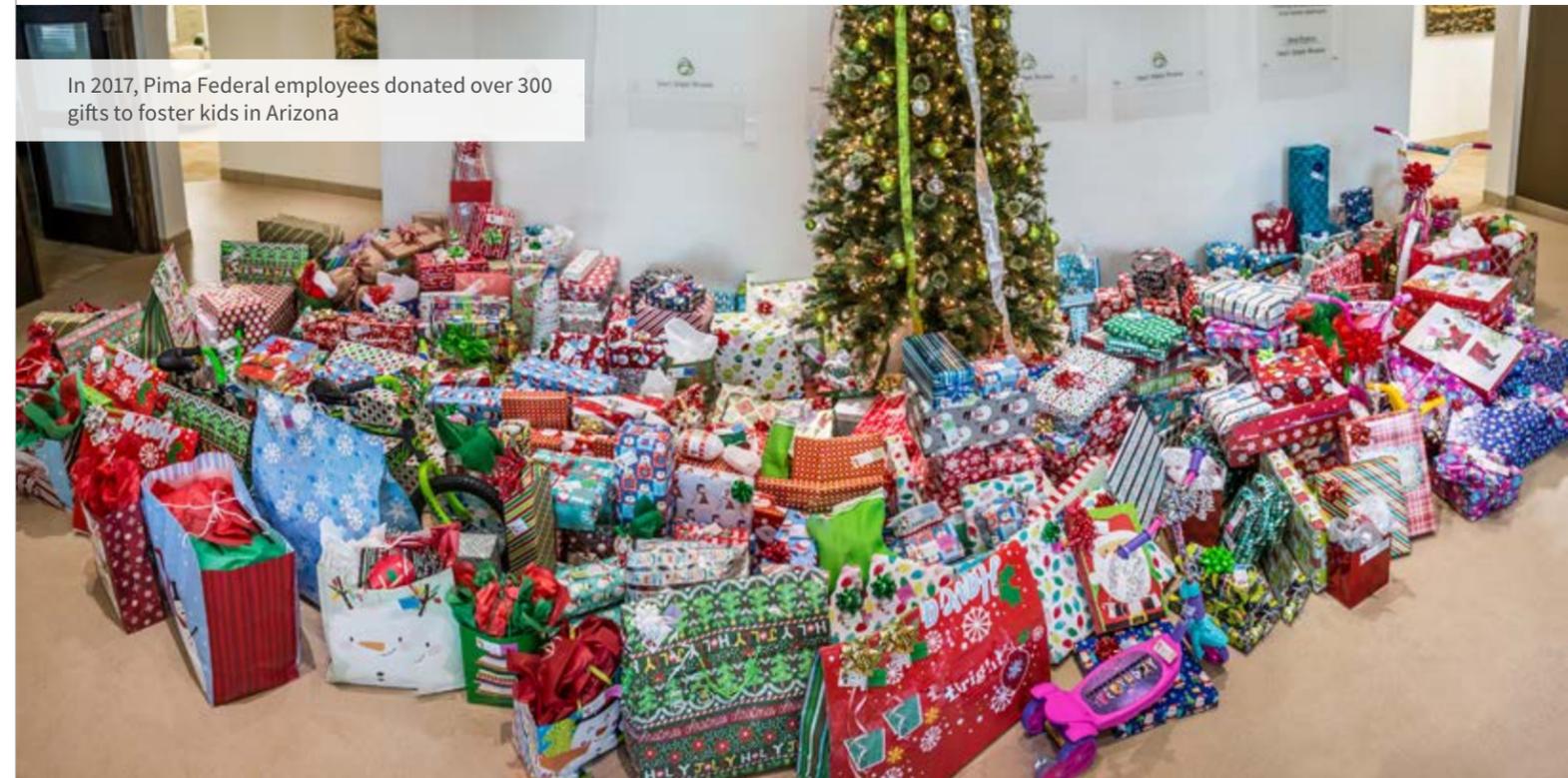
# 2017 BALANCE SHEET

|  | December 31, 2017    | December 31, 2016    | December 31, 2015    |
|--|----------------------|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |                      |
| Loans to Members   | \$305,692,876        | \$286,379,677        | \$258,649,105        |
| Less: Allowance for Loan Losses                          | 3,248,911            | 3,105,425            | 2,558,175            |
| Net Loans Outstanding                                    | 302,443,965          | 283,274,252          | 256,090,930          |
| Cash and Investments                                     | 178,011,545          | 171,136,372          | 184,344,041          |
| Land and Buildings & Furniture and Equipment             | 20,444,964           | 20,890,816           | 19,002,171           |
| NCUSIF Deposit   | 4,310,888            | 3,898,016            | 3,739,231            |
| All Other Assets   | 7,387,694            | 7,559,068            | 2,942,593            |
| <b>Total Assets</b>                                      | <b>\$512,599,056</b> | <b>\$486,758,525</b> | <b>\$466,118,966</b> |
| <b>LIABILITIES</b>                                       |                      |                      |                      |
| Total Member Shares/Deposits                             | 433,775,504          | 406,992,235          | 382,565,831          |
| Notes Payable  | 20,000,000           | 25,000,000           | 32,500,000           |
| Accounts Payable and Other Liabilities                   | 8,277,897            | 7,376,635            | 5,194,299            |
| <b>Total Liabilities</b>                                 | <b>\$462,053,401</b> | <b>\$439,368,871</b> | <b>\$420,260,130</b> |
| <b>CAPITAL</b>   |                      |                      |                      |
| Undivided Earnings and Regular Reserves                  | 55,191,308           | 51,405,960           | 48,536,189           |
| Other Comprehensive Income & Investment Market Valuation | (4,645,653)          | (4,016,305)          | (2,677,353)          |
| Total Capital  | \$50,545,655         | \$47,389,655         | \$45,858,836         |
| <b>Total Liabilities &amp; Equity</b>                    | <b>\$512,599,056</b> | <b>\$486,758,525</b> | <b>\$466,118,966</b> |

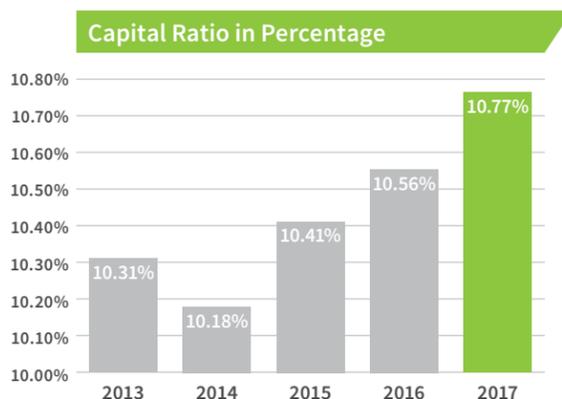
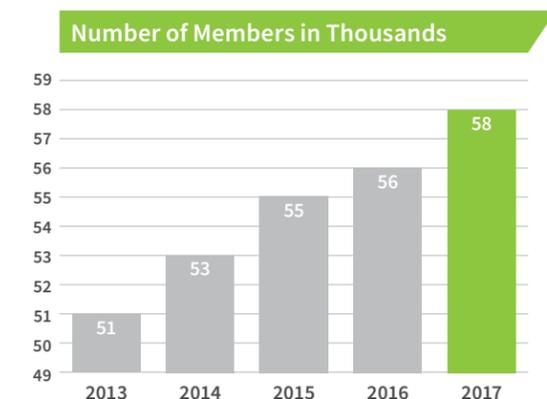
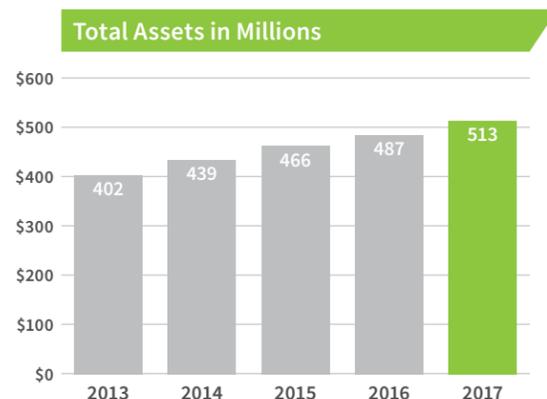
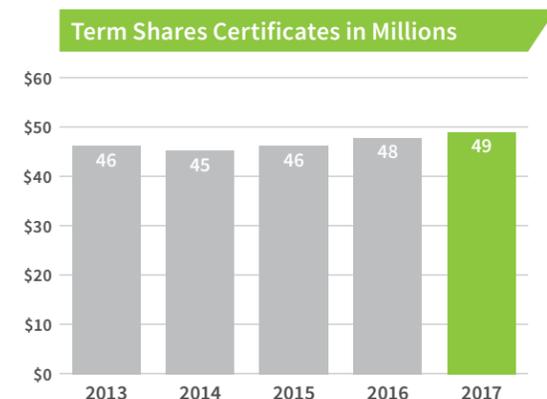
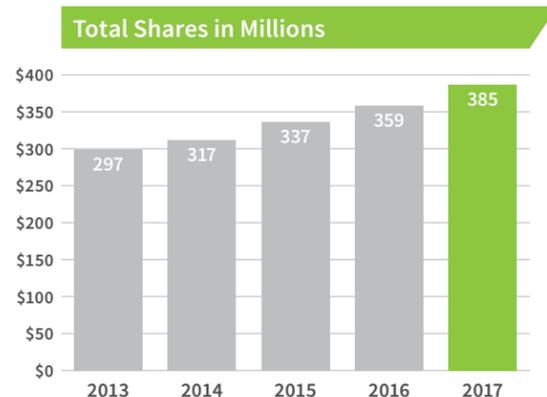
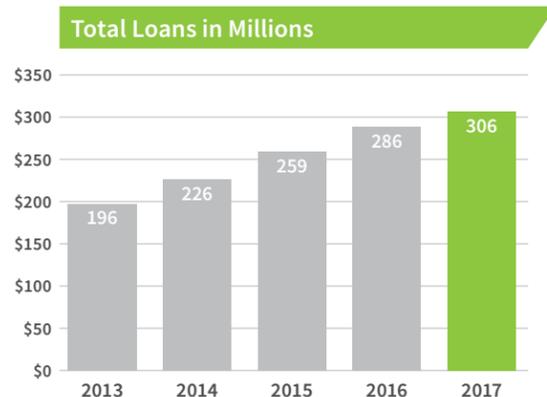
# 2017 INCOME STATEMENT

|                                | 2017               | 2016               | 2015               |
|--------------------------------|--------------------|--------------------|--------------------|
| Interest on Loans              | \$14,028,124       | \$13,694,143       | \$12,794,489       |
| Interest on Investments        | 3,619,859          | 3,327,225          | 3,909,806          |
| Total Interest Income          | 17,647,984         | 17,021,368         | 16,704,295         |
| Dividend Expense               | 773,318            | 678,065            | 635,193            |
| Funds Purchased                | 234,669            | 118,192            | 60,764             |
| Total Interest Expense         | 1,007,988          | 796,256            | 695,957            |
| Net Interest Income            | 16,639,996         | 16,225,112         | 16,008,338         |
| Provision for Loan Loss        | 2,400,700          | 2,923,848          | 1,801,774          |
| Net Interest Income after Prov | 14,239,296         | 13,301,263         | 14,206,564         |
| Fee & Other Income             | 9,343,816          | 8,779,480          | 7,933,114          |
| Operating Expense              | 19,797,763         | 19,210,973         | 18,273,157         |
| <b>Net Income</b>              | <b>\$3,785,348</b> | <b>\$2,869,771</b> | <b>\$3,866,521</b> |

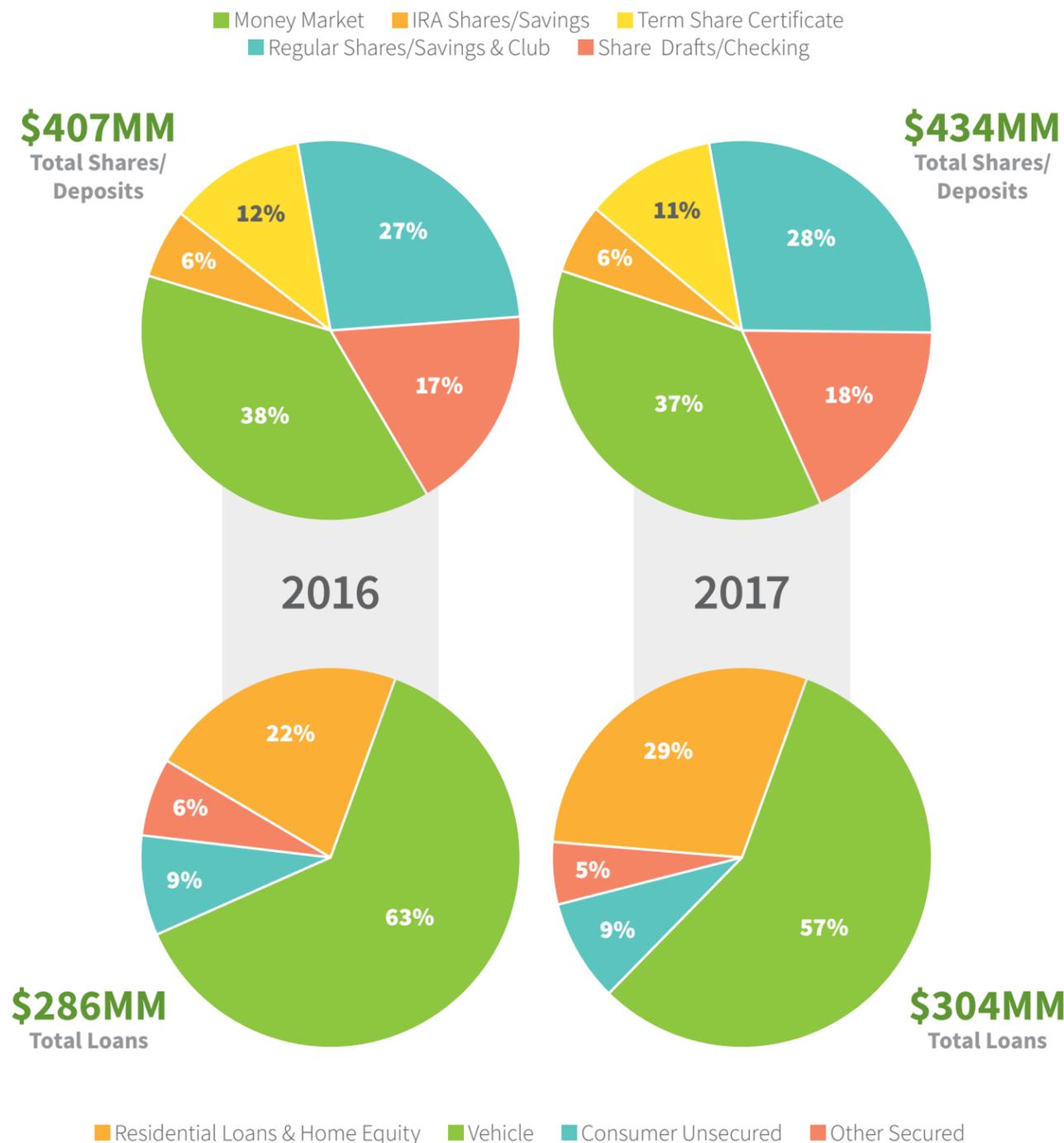
In 2017, Pima Federal employees donated over 300 gifts to foster kids in Arizona



# 5-Year FINANCIAL TRENDS



# Share COMPOSITION



# Loan COMPOSITION

# 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

# CONTACT US

520.887.5010

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

@pimafederal on   



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**April 2018**