

2018

ANNUAL REPORT

 **arizona** CREDIT
central UNION

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2 MANAGEMENT REPORT

3 SUPERVISORY COMMITTEE REPORT

4 CREDIT COMMITTEE REPORT

5 2018 FINANCIALS

7 ABOUT ARIZONA CENTRAL

9 BRANCH LOCATION & HOURS

Larry Pfeiffer	Chair
Mark Denke.....	Vice Chair
Ted Dwyer	Treasurer
Sandra Watts	Secretary
Stephanie McQuillan	Director
Brian Raczynski	Director
Patrick Huston	Director

SUPERVISORY COMMITTEE

Veronica Piotrowski	Chair
Kyle Hallstrom	Member
Johna Burke	Member

STRATEGIC MANAGEMENT TEAM

Todd A. Pearson	President & CEO
Greg Harden	Executive Vice President & CFO
Janet Moodie	Senior Vice President & COO
Justin Whitesides	Senior Vice President, CAO & General Counsel
Bronwyn Medley	Vice President & CMO
Kathy Pluhowsky	Vice President, Financial Resolution
Yvette Clay	Vice President, Lending
Mike Neill	Vice President, Finance & Accounting

BRANCH LOCATIONS & HOURS

Branch Locations

Phoenix
2020 N. Central Ave., Suite 100

Glendale
6901 W. Bell Rd.
5552 W. Glendale Ave.

Chandler
1805 W. Chandler Blvd.

Tempe
3350 S. Price Rd.

Tucson
2150 W. Ina Rd.

Flagstaff
2521 N. West St.
1948 S. Woodlands Village Blvd.

Show Low
4451 S. White Mountain Rd., Suite D

Plus
More than 5,600 branches nationwide through the CO-OP Shared Branching Network

ATM Locations

2020 Lobby
2020 N. Central Ave., Phoenix
(cash dispense only)

Arrowhead Hospital
18701 N. 67th Ave., Glendale
(cash dispense only; near cafeteria)

West Valley Hospital
13677 W. McDowell Rd., Goodyear
(cash dispense only; near cafeteria)

Wickenburg Community Hospital
520 Rose Lane., Wickenburg
(accepts deposits; near cafeteria)

Plus
Nearly 30,000 surcharge-free CO-OP ATMs nationwide!

Contact Us

Call or go online
(602) 264-6421 or toll free at 1-866-264-6421 | azcentralcu.org

Hours of Operation

Mon, Tue, Thur, Fri **9 a.m. - 5:30 p.m.**
Wed **10 a.m. - 5:30 p.m.**

Via Phone Only Support & Lending Departments

Sat **10 a.m. - 2 p.m.**



Company NMLS #485260



Locations nationwide • www.co-opsharedbranch.org • 1-888-SITE-CO-OP

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ANNUAL REPORT 2018



MANAGEMENT REPORT

ANNUAL REPORT 2018



FINANCIAL FOCUS

The overall U.S. economy grew at an annual rate of 3.0% in 2018, compared to 2.5% in 2017. Economists feel confident that the United States will continue with a positive economic expansion in 2019, building on the record tenth year expansion set in 2017. Since World War II, the average economic expansion cycle has lasted about five years. The last three expansions lasted an average of 94 months or eight years — and the long term average for economic growth rate is 3.3%. So even though we continue to set records for length of expansion, the U.S. is starting to see a new normal emerge for GDP growth rates. The most recent forecast by the Federal Reserve Open Market Committee (FOMC) for future GDP growth is 2.3% for 2019, 2.0% in 2020, and 1.8% in 2021.

The FOMC continued the process of normalizing interest and instituted the balance sheet reduction program that was released by the FOMC in 2017. After three Federal funds rate increases in 2017, the FOMC raised rates four more times in 2018, ending the year with a federal funds target rate range of 2.25% to 2.50%. Economists, as well as FOMC members, are mixed on future rate increases in 2019. Official statements detail that any future rate increases will be data dependent. Long term federal funds targets in the 3.0% to 3.5% range are still in place.

Arizona Central continued to benefit from a continual improving economy with total assets increasing by approximately \$20 million in 2018 — slightly higher than the increase of \$17.5 million in 2017. Deposit growth continued its growth trend in 2018 by increasing approximately \$13.6 million. Lending was also strong in 2018, with the loan portfolio totaling \$401.4 million and a 90.0% loan to share ratio at year-end 2018 — compared to a loan portfolio totaling \$341.1 million and a 78.9% loan to share ratio at year-end 2017.

Arizona Central's financial picture continued an upward trend during 2018 surpassing the \$500 million mark for the first time in August — ending the year with net income of \$1.5 million and a year-end capital ratio of 8.3%.

MEMBER FOCUS

Our member focus for 2019 is to leverage a 'high-tech' and 'high-touch' strategy; providing flexibility in service delivery, based on a member's desired method of managing their finances. We are also providing educational materials to help our members defend against fraudsters and protect the integrity of their non-public information.

Member engagement has reached an all-time high, demonstrating that our strategies are fulfilling our vision to provide simple solutions to meet their individual needs.

The quest continues to improve efficiencies and excellent service delivery. We are grateful for our members' continued confidence and support of our credit union.

COMMUNITY FOCUS

Volunteerism and community engagement continue to be an integral part of our culture. In 2018, we had 2,231 volunteer hours at 269 events staffed by 222 unique volunteers. Our team is bringing their friends and family to these events which allows expansion of our reach across communities.

We continue to support Cancer Support Community AZ through our annual Golf Benefit by raising \$75,000 this past year. We also donated almost \$27,000 to Credit Unions for Kids and supported Ryan House fundraisers and events for almost \$15,000 in 2018.

This year, we have launched a financial education program at Kachina Elementary School — located in the Peoria School District. We will be sponsoring the Piggy Bank Program for grades 1-8, teaching good savings and wise spending habits.

Respectfully submitted,

Larry Pfeiffer, Chair
Todd Pearson, President/CEO

SUPERVISORY COMMITTEE REPORT

ANNUAL REPORT 2018

The volunteers of the Supervisory Committee are appointed by the Board of Directors to watch over members' interests in Arizona Central Credit Union. Each year we review the Credit Union's records to ensure staff carried out their duties responsibly and that Arizona Central was properly operated, while maintaining all required documentation and conforming to all applicable laws, regulations, and internal policies.

To assist in these duties, we rely on external auditors and internal staff whose responsibility is to report to us on the adequacy of the Credit Union's internal controls over various areas of the Credit Union's operations. In addition, the Committee retained Doeren Mayhew CPAs and Advisors, a national CPA firm with recognized expertise in the credit union industry, to verify members' accounts and perform an opinion audit based on the Credit Union's financial statements.

Doeren Mayhew concluded that the financial statements present fairly, in all material respects; the financial position of Arizona Central Credit Union as of December 31, 2018. It also concluded that results of Arizona Central's operations and cash flows are in accordance with accounting principles generally accepted in the United States.

Based on Doeren Mayhew's report, the reports of other external auditors and staff reports, the Supervisory Committee has concluded that Arizona Central remains compliant with all applicable policies, laws, and regulations. We would like to thank the Board of Directors and the members of Arizona Central Credit Union for the privilege of serving them.

Respectfully submitted,

Veronica Piotrowski, Supervisory Committee Chair

COMPARISON TABLES

ASSET GROWTH

2016	\$460,414,398
2017	\$477,821,086
2018	\$497,872,823

DEPOSIT GROWTH

2016	\$418,116,590
2017	\$432,504,624
2018	\$446,121,950

MEMBER SERVICES & BENEFITS

ANNUAL REPORT 2018

- Member Share Accounts
- Simple & Money Market Checking Accounts with Visa® Check Cards
- Money Market Savings Accounts
- Certificates & IRAs
- Health Savings Accounts
- You-Name-It Savings Accounts
- New & Used Vehicle Loans
- Credit Union Advantage & AutoSMART
- Lines of Credit
- Signature Loans
- Mortgages & Home Equity Loans
- Visa® Gold, Classic & Secured Credit Cards
- Quik Money Card (ATM-only card)
- Business Savings, Checking, Credit Cards & Loans
- Commercial Real Estate Loans
- eBRANCH Mobile Deposit
- Online Money Management Tool
- Easy Pay & Funds Transfer
- Mobile Banking, SMS Banking & Mobile Apps
- Payroll Deduction & Direct Deposit
- Central Phone Banking
- CO-OP Shared Branch Network
- CO-OP Surcharge-Free ATM Network
- eBRANCH Online Banking & Bill Pay Services
- Mechanical Breakdown Protection & GAP Policies
- MEMBER'S CHOICE™ Borrower Security
- Central Financial Services*
- Auto & Homeowner's Insurance through TruStage™
- Roadside assistance with Member's Roadside Advantage™
- Life Insurance through Voya® Financial Partners
- Monkey Money Savings Program (12 years old & younger)
- CU Succeed Savings Program (13-17 years old)
- Free Notary Public Services
- 24-Hour Depository
- Vacation & Travel Discounts

*Investment adviser representative and registered representative of, and securities and investment advisory services offered through Voya Financial Advisors, Inc. (member SIPC).

Central Financial Services is not a subsidiary of nor controlled by Voya Financial Advisors. Voya Financial Advisors is not an affiliate of Arizona Central Credit Union.

Not NCUSIF Insured | Not a Deposit of a Credit Union | May Lose Value | Not Credit Union Guaranteed | Not Insured by Any Federal Government Agency



ABOUT US

ARIZONA CENTRAL

Arizona Central Credit Union is a not-for-profit, full-service, financial institution that is locally owned and operated by its members. With almost 58,000 members and over \$500 million in assets, we have proudly served Arizona since 1939.

We operate nine, full-service branches throughout the Greater Phoenix area, Tucson, Flagstaff and Show Low, and offer access to more than 5,600 branches nationwide through the CO-OP Shared Branching Network. Our members also have access to nearly 30,000 surcharge-free ATMs nationwide through the CO-OP Network.

At Arizona Central Credit Union, employee satisfaction and retention are the foundation of our commitment to exceed our members' expectations. We realize that we are stronger together and want to thank you, our members, staff and volunteers, for your loyal and ongoing support.

Member satisfaction, customized solutions and convenience continue to be the foundation for launching new products and delivery channels ensuring we meet the needs of our **diverse membership.**

ANNUAL REPORT 2018



7th Annual Golf Tournament benefiting the Cancer Support Community of Arizona. November 2018.

CREDIT COMMITTEE REPORT

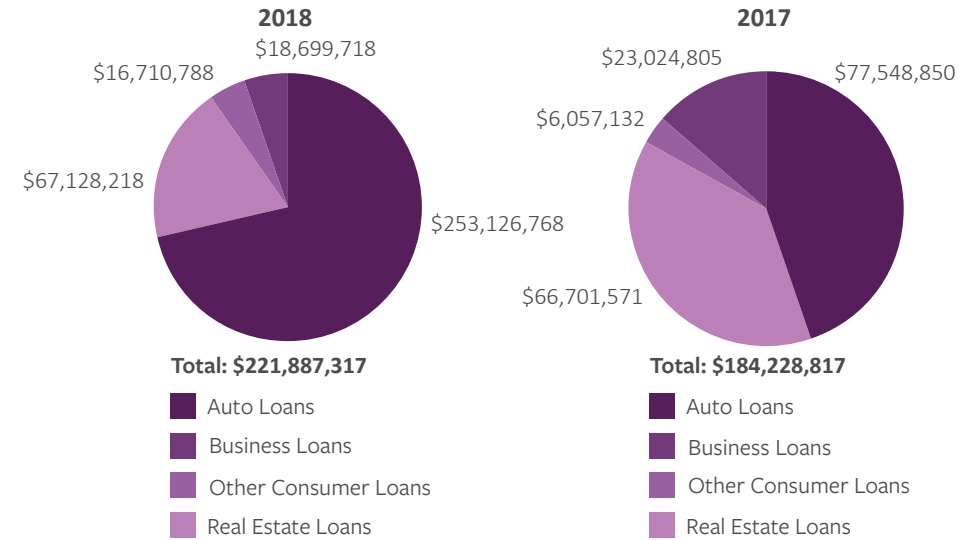
ANNUAL REPORT 2018



In 2018, we exceeded our loan goal and established a record high loan portfolio that generated essential interest income. A count of 6,696 loans were funded, helping members borrow over \$221 million. The year end loan portfolio closed at \$401.3 million, an increase of 17.7% over the previous year.

COMPARISON CHARTS

TOTAL NEW LOAN ORIGINATIONS



Our committee is purposeful and dedicated to reviewing economic trends affecting our portfolio and ensuring a thorough lending administration including monitoring of loan quality and credit risk management practices. While loan balances increased an average of \$42.6 million from 2017 to 2018, the average delinquency ratio improved by seven basis points when comparing both years respectively. As we move into 2019, we continue to focus on maintaining a growing loan portfolio and making safety and soundness a priority. Compliance, profitability and efficiency are driving our strategies to best meet our members' needs.

Respectfully submitted,
Yvette Clay, Credit Committee Chair

FINANCIAL CONDITION STATEMENT

ANNUAL REPORT 2018

ASSETS	2018	2017
Loans: Net Allowance for Loan Losses	\$397,558,361	\$337,332,311
Total Loans Held for Sale (HFS), Cash & Accounts Receivable	\$7,154,618	\$7,263,292
Corporate Capital & Other Investments	\$2,083,100	\$2,220,000
Corporate Account Deposits & Certificates	\$1,837,837	\$27,922,990
Marketable Investments	\$37,405,098	\$51,387,488
Fixed Assets	\$29,998,666	\$29,381,547
Accrued Interest, Prepaid & Other Assets	\$17,474,801	\$19,720,019
NCUSIF Deposit	\$4,360,342	\$4,213,439
Total Assets	\$497,872,823	\$477,821,086
LIABILITIES		
Total Payables	\$13,363,124	\$6,987,630
Total Member Deposits	\$446,121,950	\$432,504,623
Total Liabilities	\$449,485,075	\$439,492,253
Members' Capital	\$38,387,748	\$38,328,833
Total Liabilities & Members' Equity	\$497,872,823	\$477,821,086

INCOME STATEMENT

ANNUAL REPORT 2018

TOTAL INTEREST INCOME	2018	2017
Interest on Loans	\$19,978,492	\$17,700,056
Interest on Investments	\$1,699,493	\$2,040,896
Total Interest Income	\$21,677,934	\$19,740,952
TOTAL DIVIDENDS & INTEREST EXPENSE		
Dividends & Interest Expense	\$1,043,913	\$1,134,850
Net Interest Income	\$20,634,022	\$18,606,102
Provisions for Loan Losses	\$3,101,144	\$2,794,665
Net Interest Income After Provisions	\$17,532,877	\$15,811,437
NON-INTEREST INCOME		
Fees & Charges	\$4,935,566	\$5,167,167
Other Non-Interest Income	\$7,133,998	\$6,821,680
Gain/(Loss) on Inv. & F/A	(\$224,725)	(\$293,535)
Total Non-Interest Income	\$17,532,877	\$11,695,312
NON-INTEREST EXPENSE		
Compensation & Benefits	\$12,249,360	\$11,105,164
Occupancy	\$5,592,284	\$5,080,986
Operations	\$5,759,108	\$6,015,452
Marketing	\$1,518,192	\$1,352,869
Professional Fees	\$232,840	\$275,540
NCUA Share Insurance	\$0	\$0
Other Non-Interest Expense	\$2,502,042	\$2,333,840
Total Non-Interest Expense	\$27,853,826	\$26,163,851
Net Income	\$1,523,840	\$1,342,898