

## Chairman's Report for Annual Meeting

The year 2012 was a filled with significant challenges, focused change, and noteworthy accomplishments for TOPCU. Through the last several years, the Board's primary focus has been financial stability based on the unknowns of an unstable economy. Now known as the "Great Recession", the economic downturn created havoc in financial markets, local economies and the lives of many. Although there are still some lingering effects, superior leadership from senior staff and exceptional technical skills have helped TOPCU survive anew; and stronger than ever. In effect, our philosophy of survival has transformed into a vision of growth.

The Board unanimously endorsed this transformation, approving programs to provide members more streamlined access to funding while guaranteeing the security of your investments. This is evidenced in the remodel of the main branch, providing much needed updates and enriching your overall branch experience. TOPCU's new logo is designed to remember the tenants of past while projecting a vision of the future; a logo that truly crosses generational boundaries. The initiation of our new member credit card program is already proving to be fully embraced by our members.

A primary challenge the Board faced last year was the necessity to seek out a new President/CEO. During this search, the Board created a phased plan culminating in a CEO that is right for the times and can effectively project TOPCU's philosophy. Vern Babilon is, without question, the perfect fit. With his experience in member business lending, core service models, and a strong reputation as a community leader, he's already laying the foundation for TOPCU's future successes.

Community engagement is a key element to success. TOPCU continues to support a great deal of community organizations including the Greater Tucson Fire Foundation and Tucson Police Foundation. Staff and volunteers provide countless hours at many events including the GTFP Poker Run; Cops for Canines; the Unsung Heroes celebrations; and many more.

As my two-year term as Chairman comes to an end, I'm honored to be a part of this transformation and, as you can see, envision great things for the future. Through it all, our goal of supporting the members of TOPCU resonates in everything we do. If you'd like to be a part of this effort, or just want to chat, please don't hesitate to give me a call (520-954-3253) or send me an e-mail (rprater@topcu.org). My door is always open for you. Our ultimate goal is to make you feel like TOPCU is a place that exists because of and directly for you.



Richard Prater  
Chairman

## Volunteers

### Board of Directors

Bill Richards  
Bill Tilden  
Calvin Dacus  
Fred Cushman  
John Brady  
Mike McKendrick  
Richard Prater

### Supervisory Committee

Doris Rentschler  
Priscilla Lane  
Scott Carner

### ALCO Committee

Alan Merritt  
Anthony Pappas  
Thomas Sylvester

## Tucson Old Pueblo Credit Union

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[www.TOPCU.org](http://www.TOPCU.org)

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# 2012 Annual Report

## Report from the President and CEO

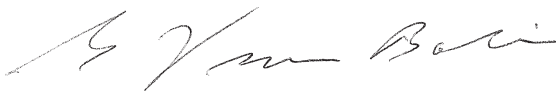
In 2012, the downturn in the local and national economy continued to impact TOPCU. As we worked diligently to assist our members through their difficult personal financial situations, federal regulatory requirements dictated that we expense a large amount of funds to cover possible future loan losses in addition to current loan losses. Though we showed a year-end loss of \$1,055,887, we had actually expensed an amount of \$1,322,933 for loan losses alone. Without this required loan loss expense, TOPCU would have shown positive income in 2012. Our ratio for past due loans is an impressive .59% which is a great deal lower than the industry average.

We remain financially strong with a net worth ratio classified as adequately capitalized. This strength is allowing us to invest in systems and infrastructure that will enable us to better serve our membership. As the year comes to a close we are finishing up the evaluation of new technologies. Mobile banking, mobile loan applications and improved internet access to your accounts are just a few of the items you can expect in the near future.

As the low interest rate environment continues to challenge TOPCU's bottom line, we persist in seeking ever greater efficiencies within our operations. We are proud that, even with staff reductions throughout the year, our employees continue to dedicate themselves to providing the highest possible service standards to every member. TOPCU's employees possess a high level of expertise and dedication, and continue to prove that they truly function as a winning team.

The TOPCU staff achieved yet another important accomplishment in 2012 with the introduction of a "no annual fee" credit card that comes complete with a rewards program and a very low introductory rate for the first 6 months the card is issued. The cards were first introduced in June and by the end of 2012, over 350 cards have been issued to members.

Looking ahead at the rest of 2013, TOPCU will continue to work toward greater operational efficiency and greater profitability—always in search of better ways to serve our members as well as the Tucson community at large.



G. Vernon Babilon  
President and CEO

## 2012 Financial Statement\*

Assets	2012	2011
Loans	\$68,061,974	\$76,734,528
Loan Loss Allowance	(1,880,912)	(1,640,667)
Cash and Cash Equivalent	11,266,821	5,055,062
Investments	48,722,813	46,261,784
Property and Equipment	4,602,436	4,557,963
Other Assets	2,509,973	2,546,857
<b>Total Assets</b>	<b>\$133,283,105</b>	<b>\$133,515,527</b>

Liabilities & Equity	2012	2011
Borrowed Funds	\$ 0	\$2,100,000
Liabilities	769,274	657,339
Savings Accounts	48,300,033	43,840,227
Checking Accounts	21,708,202	19,353,139
Money Market Accounts	25,001,380	26,393,133
Certificate Accounts	16,929,393	19,187,769
IRAs	11,672,212	12,013,841
Capital	8,902,612	9,970,079
<b>Total Liabilities</b>	<b>\$133,283,105</b>	<b>\$133,515,527</b>

Sources of Funds	2012	2011
Loans	\$4,041,317	\$5,041,310
Investments	667,547	660,504
Investment Services	184,894	163,827
Fees/Other Income	1,276,100	607,781
Non-Operating Income	89,948	781,918
<b>Total Income</b>	<b>\$6,259,806</b>	<b>\$7,255,339</b>

Allocation of Funds	2012	2011
Dividends	\$374,626	\$613,177
Interest on Borrowed Funds	1,560	3,586
Operating Expenses	5,510,027	5,650,519
Provision for Loan Loss	1,331,733	(367,134)
Net Income (loss)	(1,055,887)	1,354,201
Non-Operating Expense	97,747	990
<b>Total Allocations</b>	<b>\$6,259,806</b>	<b>\$7,255,339</b>

\*Unaudited financial statement as prepared by Tucson Old Pueblo Credit Union

## Report from the Supervisory Committee

The Supervisory Committee is a group of 3-5 volunteers, appointed and retained by the Board of Directors. The committee is responsible for conducting a comprehensive annual audit of the credit union to ensure its operations are sound and in compliance with regulatory guidelines. The Supervisory Committee is also responsible for investigating member complaints and employee grievances.

The Committee engaged an independent accounting firm through competitive bids (Turner, Warren, Hwang & Conrad, a Certified Public Accounting firm, Burbank, California), to audit the credit union's financial statements for the year ending December 31, 2012.

The Arizona Department of Financial Institutions (AZDFI) and the National Credit Union Administration (NCUA), the credit union insurer, also perform examinations each year to evaluate Tucson Old Pueblo Credit Union's financial condition and operations.

Starting in 2013, the Committee employs an external Certified Public Accounting firm (Clifton Larson Allen) specializing in auditing consulting services for credit unions to perform the annual audit plan and review the credit union's functions, practices and policies. Prior to this, the committee employed a full-time Director of Internal Audit to perform the annual audits and provide additional safeguards. The Director of Internal Audit reported to the Committee and the new external auditor reports directly to the Supervisory Committee. Based upon these audits together with annual AZDFI and NCUA examinations, Tucson Old Pueblo Credit Union is in sound financial condition as a result of having strong leadership from the Board of Directors, management, and a dedicated staff.

There are annual reviews of bylaws, policies and procedures, which are reviewed and ratified by the Board of Directors, to maintain sound credit union practices and other legal requirements.



Doris Rentschler  
Chair