



**Bay Federal**  
CREDIT UNION

*Making a real difference*



Photo by Claire Rumpanos

2013 Annual Report

## A Letter from the Chairman and the President and CEO

This past year has been one of continued recovery for our community. Bay Federal Credit Union remains committed to doing its part by providing members with reliable transportation through competitively priced auto loans. We also support the local demand for home ownership with real estate loans, including affordable housing options like manufactured home financing and first time home buyers programs. In addition, Bay Federal expanded its credit card offerings and gave back over \$126,000 to members through a cash rebate program. We also assisted members in saving for their future by expanding our investment services program. As a member-owned financial cooperative, our 55,000 members truly impacted the financial health of our community by continuing to save and lend to one another, "people helping people".

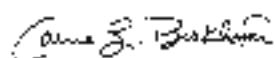
In 2013, the volunteer Board of Directors authorized an investment in the future of the Credit Union. We listened to members and have embarked on a three-year plan to bring new online products and services to the membership. This year we launched new services including mobile banking and remote deposit capture, and began to seek partners to bring new online products to the membership in 2014 and beyond. Financially, we continue to operate with fiscal strength. Net income at the end of 2013 was \$5.9 million. Bay Federal is considered well-capitalized with a 7.21% capital to asset ratio.

We wish to express our sincere appreciation to the entire membership, our employees, and our dedicated volunteers who serve on the Board of Directors and Supervisory Committee. Your support of this financial cooperative genuinely makes a real difference in the financial lives of those we serve, now and in the years to come.

Sincerely,



Dennis Osmer, Chairman



Carrie L. Birkhofer, President and CEO

## Supervisory Committee and Treasurer's Report

Bay Federal Credit Union's assets grew by 1.4%, ending 2013 at \$688 million. This growth was in the core areas of checking and savings accounts. The Credit Union posted earnings of \$5.9 million, and achieved the mark of becoming well-capitalized at 7.21%. These positive results were achieved due to non-interest income growth, closely managing operating expenses, and an increase in auto and mortgage lending. Due to lower loan delinquencies, the Credit Union realized a significant reduction in the provision for loan losses.

The Supervisory Committee secured the services of Orth, Chakler, Murnane and Company to perform a certified financial audit of the Credit Union in 2013. The CPAs stated that the financial statements presented fairly the financial position of the Credit Union as of June 30, 2013. The Credit Union has remained diligent in its focus to improve internal controls and enhance risk management processes. The Credit Union enlisted industry experts for best practices, and also conducted audits which points to safety and security being adhered to in management's daily practices.

While the low interest rate environment has tempered deposit growth, positive trends were seen in the lending portfolio. The Credit Union continues to monitor exposure from losses, including mortgage loans, and has been successful in mitigating actual losses by continuing the home loan modification program to assist members in their time of need.

Bay Federal Credit Union is focused on providing exceptional and affordable financial services for the benefit of all of its members. We will continue to focus on growing profitably and with safety and security in mind for the collective future of our financial cooperative.

\* Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer (Member FINRA/SIPC) and SEC Registered Investment Advisor. Products offered through CFS: are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal. Investment Representatives are registered through CFS. Bay Federal Credit Union has contracted with CFS to make non-deposit investment products and services available to credit union members.



## Highlights from 2013

- Bay Federal Credit Union funded over \$109 million in local home loans.
- \$74 million in new and used auto loans were funded through our in-branch lending and partnerships with local auto dealerships.
- Our CFS\* Investment Services program assisted our members with investing over \$24 million for college and retirement savings, growing the assets under management to \$130 million. This is a 22% increase over 2012.
- 87% of members surveyed rated their overall service experience at Bay Federal Credit Union to be very good or excellent.
- 100% of our employees donated their time and money to assist local non-profit organizations for the 11th consecutive year.
- Bay Federal was honored with the coveted rating as the "Best Financial Institution" by readers of regional newspapers, including the Good Times, Press Banner, Santa Cruz Weekly and the Santa Cruz Sentinel.

## Making a Real Difference

Bay Federal Credit Union continues its long history of commitment and service to our community. In 2013, our employees and members raised over \$70,000 for 37 local non-profit agencies. Our employees willingly gave their personal time, contributing a conservative estimate of over 3,500 volunteer hours. Bay Federal, as an organization, contributes to and volunteers for Second Harvest Food Bank, Children's Miracle Network and the Santa Cruz United Way through key partnerships. We provide in-kind contributions, volunteers, and fund-raising to lend a needed hand with the goal of making a real difference in children's lives.

In addition to our volunteer service, our passion for improving our community is exhibited through our efforts in financial education. Bay Federal's roots in education run deep, as we began as Santa Cruz County Teacher's Federal Credit Union in 1957. During 2013, our dedicated team members provided 83 classroom presentations, reaching nearly 1,800 students and 90 adults on topics such as budgeting, saving for college, understanding credit scores and using credit responsibly.

Beyond our classroom initiatives, we also offered:

- **Free Materials for Schools and Teachers.** Local teachers received over 900 copies of financial education instructional materials for their students in K-12 classrooms.
- **Professional Financial Counseling.** Nearly 400 individuals received free financial counseling services last year through Bay Federal's partnership with Balance Financial Fitness.
- **Free Resources.** Timely financial news, money-saving tips, and fraud alerts are always available in Bay Federal branches, at [www.bayfed.com](http://www.bayfed.com), and in every edition of our BayWatch newsletter.
- **Youth Accounts.** Over 10,000 children, teens, and young adults ages 0-22 are learning to save money and use financial services wisely without monthly fees through our Youth and Student Account programs.

As we look ahead to 2014, Bay Federal Credit Union will continue to be an active partner to support non-profit agencies and financial education initiatives in our community.

*"Our passion for improving our community is exhibited through our efforts in financial education."*

## Discover, Learn, Engage

We invite you to learn more about how we are making a real difference year-round. Follow us on Facebook, Twitter, LinkedIn, Instagram or visit our website at [www.bayfed.com](http://www.bayfed.com). Feel free to share valuable financial education tips and community engagement information with your family and friends!



## Statement of Income

For the year ending December 31, 2013 (unaudited)

### Interest Income

Interest on Loans .....	\$22,278,290
Interest on Investments .....	<u>1,817,124</u>
Total Interest Income.....	24,095,414

### Interest Expense

Dividends and Interest .....	2,144,893
Interest on Borrowed Money .....	<u>2,482,809</u>
Total Interest Expense .....	4,627,702

Net Interest Income.....	19,467,712
Provision for Loan Loss .....	<u>365,470</u>

Net Interest Income Net of Provision.....	19,102,242
Non-Interest Income .....	11,394,958

### Operating Expenses

Compensation and Benefits .....	14,651,414
Operations .....	3,683,641
Occupancy .....	1,491,692
Other Expenses.....	<u>4,759,534</u>
Total Operating Expenses.....	24,586,281
Net Income .....	<u>\$5,910,919</u>

## Statement of Financial Condition

As of December 31, 2013 (unaudited)

### Assets

Member Loans (net).....	\$432,235,131
Cash .....	10,635,271
Investments .....	217,051,990
Land, Building and Equipment .....	13,475,205
Other .....	<u>14,591,471</u>
Total Assets .....	<u>\$687,989,068</u>

### Liabilities, Deposits and Equity

Notes Payable .....	\$60,000,000
Other Liabilities .....	8,933,384
Member Deposits .....	570,861,777
Equity .....	<u>48,193,907</u>
Total Liabilities, Deposits and Equity ..	<u>\$687,989,068</u>



# Minutes from March 26, 2013 Annual Meeting

## Chairperson's Report

Chairman Osmer called the meeting to order at 6:00 PM and welcomed staff, volunteers, and members to the Annual Meeting. A quorum was established and the prior year's Annual Meeting minutes were approved. Osmer introduced the Board of Directors and Supervisory Committee and acknowledged the expertise they bring to Bay Federal.

Osmer expressed gratitude to serve and is proud of the support Bay Federal provides to the local community. Educational outreach, loan modifications and financial support programs helped to ease some of the financial burdens faced by many members. The Board of Directors and Supervisory Committee have a deep commitment to the financial well-being of the membership and will continue to work towards making a real difference in the financial lives of members.

## President and Chief Executive Officer's Report

The Credit Union experienced robust loan growth and funded \$83 million in local home loans and over \$22 million in auto loans. Net income exceeded \$4.02 million and the capital ratio improved to 6.57%. The Annual Member Survey revealed 85% of members surveyed noted their overall service experience to be very good or excellent.

Technology advancements included the introduction of a mobile banking app, text banking and remote check deposit. New ATMs offer envelope free deposits, check images on receipts, and enhanced security features. Investment Services assisted members with investing over \$12.5 million.

For 10 consecutive years, 100% of all employees have participated in community support activities. Birkhofer thanked staff for the pride they have for Bay Federal and thanked the volunteers for their dedication in ensuring the operational and financial health of the Credit Union.

## Supervisory Committee Report

Chairperson Pat Pfremer introduced members of the Supervisory Committee who are appointed by the Board of Directors. They volunteer their time and expertise to ensure the stability of the Credit Union, oversee internal controls, and work with Internal Audit as well as outside CPAs. In 2012, the Committee secured the services of Orth, Chakler, Murnane and Company to perform a certified financial audit of the Credit Union. OCM determined the June 30, 2012 financial statements were accurately presented. The Committee continues to work on enhancing risk management procedures and improving internal controls. Committee activities throughout the year proved the management team is diligent in upholding Credit Union policies and procedures.

Committee member Phil Kidder's resignation was acknowledged and Pfremer thanked him for 37 years of service to the Credit Union.

## Election Results

Chairperson Pfremer announced the results of the annual Board of Directors election. The Nominating Committee nominated two incumbents for two open positions. Having received no petitions from the membership, the following nominees have been re-elected to three year terms: Dennis Osmer and H. Duane Smith. Congratulations!

## Scholarship Presentations

Osmer presented three student members with \$1,000 education scholarships. Dawn Wingert was a winner of the \$500 Mac McCormac Employee Scholarship.

## Adjournment

At 6:45 p.m., the meeting was adjourned.  
Susan Riddle, Recorder



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## Board of Directors

**Dennis Osmer**  
Chairman

**H. Duane Smith**  
Vice Chairman

**Sheila Joyce Kellerman**  
Treasurer

**Kathleen L. Bodmer**  
Secretary

**Bob Bugalski**  
Director

**Jessica Dixon**  
Director

**Ivonne J. Guzman**  
Director

**Michael Leung**  
Director

**Jim Phillips**  
Director

**Jordan Ciliberto**  
Associate Director

**Julie Haff**  
Associate Director

**Piret Harmon**  
Associate Director

**Danny Keith**  
Associate Director

## Supervisory Committee

**Patricia J. Pfremer**  
Co-Chairperson

**Suzanne Shaug**  
Co-Chairperson

**Richard Mills**  
Committee Member

**Bob Bugalski**  
Board Liaison

## Executive Team

**Carrie L. Birkhofer**  
President and CEO

**Cameron Haste**  
EVP, Chief Operations Officer

**Tonée Picard**  
EVP, Chief Development Officer

