



2016 ANNUAL REPORT

# SHARING OUR PROSPERITY





# CEO REPORT

Jeff Meshey

CEO JEFF MESHEY HELPS FIT CHILDREN IN NEED WITH NEW SHOES AT A DESERT SCHOOLS COMMUNITY GIVING EVENT FOR ASSISTANCE LEAGUE OF PHOENIX

With the help of our members, employees, and volunteers, 2016 was a banner year for Desert Schools Federal Credit Union. We saw a 1.6% ROA (up from 1.07% last year), increased consumer and business deposits to more than \$3.4 billion combined, and ended the year with a net worth ratio of 11.93%. According to the National Credit Union Association (NCUA), a net worth ratio above 7% is considered well capitalized, which translates to a successful and productive financial institution. With these strong gains, we can deliver even more benefits to our members in 2017.

**\$63.7M**

Net income

With regard to lending, Desert Schools originated over \$1B in new loans in 2016, soaring past our budget goal of 6.9%, for an increase of 14.3%. New homeowners were able to save up to \$500 off their home

appraisals, while taking advantage of mortgage rates that are still at record lows. Refinancing proved to be a popular option. Homeowners saved an average of \$1,200 per year by refinancing a mortgage, while our Auto-Three-fi™ program resulted in a total savings of over \$1M for members who refinanced

**2,139**

Members refinanced their homes

More than 1,500 members were able to start making improvements to their homes or pay for family necessities by taking out a Home Equity Line of Credit at our low promotional rate. We also encouraged new business consumers by introducing the Business Express Loan, which provides local business owners with the funds required to purchase supplies, increase personnel, and manage short-term needs. In turn, business deposits increased by 22.7%.

*“Our employees are an integral component of our success here at Desert Schools, and their satisfaction is one of our top priorities.”*

We are honored to have been named one of *Phoenix Business Journal's* Top 10 Places to Work in the extra-large company category for the fifth year in a row. Companies are chosen for this prestigious award based on independently conducted employee satisfaction surveys, and I am pleased to know that our staff continues to feel appreciated. We look forward to sharing many more years of success with you and with our members.

Warmly,





Dr. Claudette M. Gronski

# CHAIRMAN REPORT

former Desert Schools CEO Susan Frank left behind a lasting legacy of personalized service and community advocacy. We plan to continue putting the needs of our members and the community first as we move ahead with exciting changes in 2017.

***“As we work together toward a future of shared prosperity, the rewards will continue to grow.”***

This year, we will be opening two new state-of-the-art branches at Moon Valley and Kierland. We are also implementing upgrades for our mobile and online banking systems, as well as enhancements for our business members.

The concept of Shared Prosperity extends beyond our members to the community we serve. In 2016, we raised 2.5 million dollars for local organizations with the help of our dedicated members, employees and business partners. I'm also proud to announce the official creation of The Desert Schools Foundation, which will enable Desert Schools to extend our giving efforts and bring us even closer to the community that we have served for over 75 years.

I want to extend a special thank you to our volunteer board and supervisory committee, and to the employees and members who have supported us in this time of growth and change. You are the core of our business; the heart and soul that enable Desert Schools to continue giving back. We are poised for a successful and rewarding 2017, and we look forward to sharing our continued prosperity with you.

*Dr. Claudette Gronski*

Chairman

Since Desert Schools was founded in 1939, we have helped our members achieve their personal and financial goals. The more our members partner with us for life's big purchases and decisions, the more we are able to give back to them and to our community. It's an idea we call Shared Prosperity: when members succeed, we all succeed.

In 2016, we welcomed 4,700 new members, introduced a new business loan option and officially launched the Relationship Rewards program. With Relationship Rewards, members receive loan discounts, fee waivers and other benefits for building their connection with Desert Schools.

The stronger these relationships become, the more we all prosper. In its inaugural year, Relationship Rewards saved our members over 1.2 million dollars. As we work together toward a future of shared prosperity, the rewards will continue to grow. With her retirement in 2016,



# DESERT SCHOOLS AND SUBSIDIARIES FEDERAL CREDIT UNION

## Consolidated Statements of Financial Condition

	Year ended December 31,	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$216,207,786	\$438,808,734
Investment securities		
Trading	1,568,512	1,313,405
Available-for-sale	1,027,065,612	1,183,057,295
Held-to-maturity	814,366,524	488,281,509
Loans held-for-sale	15,699,363	9,140,158
Loans to members, net of allowance for loan losses	1,760,654,150	1,534,907,522
Accrued interest receivable:		
Loans	3,743,653	3,355,503
Investments	8,538,800	7,897,715
Other real estate owned and other assets in liquidation	7,646,317	6,371,950
Federal Home Loan Bank (FHLB) stock	42,930,000	42,693,800
Prepaid and other assets	14,931,620	12,642,515
Mortgage servicing rights	9,684,212	9,962,621
Property and equipment	68,204,663	69,017,325
NCUSIF deposit	32,820,698	30,483,215
<b>Total assets</b>	<b>\$4,024,061,910</b>	<b>\$3,837,933,267</b>

## LIABILITIES AND MEMBERS' EQUITY

<b>Liabilities</b>		
Members' shares and savings accounts	3,455,398,082	3,178,824,009
Borrowed funds	50,000,000	205,000,000
Postretirement healthcare liability	5,770,976	4,900,215
Defined benefit pension liability	6,666,356	7,365,356
Accounts payable and other accrued liabilities	43,645,852	35,283,361
<b>Total liabilities</b>	<b>\$3,561,481,266</b>	<b>\$3,431,372,941</b>

## MEMBERS' EQUITY - SUBSTANTIALLY RESTRICTED

Regular reserve	29,788,065	29,788,065
Undivided earnings	451,314,891	387,584,999
Accumulated other comprehensive loss	18,522,312	10,812,738
Total members' equity	462,580,644	406,560,326
<b>Total liabilities and members' equity</b>	<b>\$4,024,061,910</b>	<b>\$3,837,933,267</b>

# DESERT SCHOOLS AND SUBSIDIARIES FEDERAL CREDIT UNION

## Consolidated Statements of Earnings

Year ended December 31,

	<b>2016</b>	<b>2015</b>
<b>INTEREST INCOME</b>		
Loans to members	\$60,779,189	\$55,181,373
Investments	54,124,644	45,844,453
<i>Total interest income</i>	<i>\$114,903,833</i>	<i>\$101,025,826</i>
<b>INTEREST EXPENSE</b>		
Members' share and savings accounts	5,520,168	5,136,571
Borrowed funds	10,477,371	6,597,726
<i>Total interest expense</i>	<i>\$15,997,539</i>	<i>\$11,734,297</i>
Net interest income	98,906,294	89,291,529
<b>PROVISION FOR LOAN LOSSES (RECAPTURE)</b>	(2,093,780)	(2,947,919)
Net interest income after provision for loan losses	101,000,074	92,239,448
<b>NON-INTEREST INCOME</b>		
Fees and service charges	77,176,332	74,415,006
Gains on sales of loans	9,531,423	8,870,066
Sales of insurance and investment products	5,841,586	5,368,941
Gains on capitalization of mortgage servicing rights	3,237,185	3,314,648
Loan servicing fees	4,240,727	4,127,514
Gains on disposition of other real estate owned (OREO) and other assets in liquidation	668,302	782,441
Other miscellaneous income	141,265	68,008
<i>Total non-interest income</i>	<i>\$100,836,820</i>	<i>\$96,946,624</i>
<b>NON-INTEREST EXPENSES</b>		
Compensation and benefits	82,825,041	89,041,165
Office operations	31,140,130	34,141,480
Occupancy	9,619,256	9,204,439
Member education and marketing	7,265,059	7,266,031
Professional and outside services	3,139,002	4,613,926
Operating expenses	2,743,768	2,855,605
Loan servicing	874,790	1,020,554
Losses on disposition of investment securities	499,956	510,419
<i>Total non-interest expenses</i>	<i>\$138,107,002</i>	<i>\$148,653,619</i>
<b>NET INCOME</b>	<b>\$63,729,892</b>	<b>\$40,532,453</b>

# 2016 ACCOMPLISHMENTS

In 2016, we worked to serve both our members and our community through the following:

## WE HELPED OUR MEMBERS PROSPER

**\$1,253,650**

In loan discounts with Relationship Rewards

**5,688**

Members refinanced their auto loans

**\$1,366,735**

In savings with auto refinancing

We introduced the concept of Shared Prosperity, where strengthening our relationship with our members allows us to give back even more.

We delivered financial planning, insurance, and document-preparation services to hundreds of our members through Desert Schools Financial Services, LLC.

## WE GAVE BACK TO OUR COMMUNITY

**\$10,538**

Raised through the Hunger Awareness campaign

We provided all Maricopa County teachers with free access to The Money Side of Life™ financial education materials for the 2016-2017 school year.

**\$2.5M**

In total funds raised

**50,000**

Meals packed for St. Mary's Food Bank

**1,366**

Toys raised during holiday toy drive

**\$22,094**

Awarded in prizes through contests