



2014
ANNUAL REPORT



CHAIRMAN'S REPORT

We commemorated a major milestone in 2014: 75 years of providing exceptional financial solutions to our members and our community. And we did it together, with our members, employees and management team. What began in 1939 among a small group of teachers pooling their resources together into \$100 in net assets has become the largest locally based financial institution in Arizona, and a leading member of the incredible community we serve.

We capped off these 75 years of achievement with a remarkably successful performance. Our 2014 net income was \$42 million, surpassing our goal by over 30%. We achieved an ROA of 1.16%, exceeding our goal of .95%. Our statutory net worth of 10.54% is very strong, and an improvement over 2013, which was itself an exceptional year for Desert Schools and its members.

In this already memorable year, we were also able to expand our service offerings to a greater number of people. We heard the requests of our members and made it a priority to enhance our interactive, mobile and internet-based capabilities, which resulted in an increase in online account openings. We also saw loan growth of 4.6%, the first year of positive growth since the recession.

Just as we invest in our community, our employees invest in themselves. Collectively, they committed more than 20,000 hours in Momentum training, which takes their service skills to the next level, and enhances their overall performance. In the process, they boost their job satisfaction as well, raising Desert Schools' ranking to 2nd place in the extra-large organization category for Best Places to Work, as named by the Phoenix Business Journal.

As successful as 2014 has been, we anticipate another exciting year in 2015. We will complete our Core operating system conversion, which will streamline our processes and make us even more responsive and robust. We will establish a new Relationship Rewards program to give our members added benefits and valuable perks. We will enhance our business products, and will introduce two new credit card options from American Express—a travel rewards card and a cash rewards card.

The coming year will also see a high-profile initiative of reinvesting in our member channels, with branch remodels, relocations and brand new branch locations. We'll enhance the overall member experience with the launch of an all-new website, and will upgrade our mobile banking capabilities, including incorporating the ApplePay digital payment system.

As we move forward into the new year, we will continue to pursue our goals with our vision always in mind, to provide exceptional member experiences through financial solutions that make lives better. There really could be no higher aspiration.



Michael J. Konen
Chairman

CEO REPORT

To say this was a very special year for Desert Schools would be quite an understatement. We celebrated our 75th Anniversary in partnership with the community we love, and we turned in one of our best financial performances ever. Most importantly, we were able to give back in a meaningful way, through a yearlong initiative we called Shine On.

Shine On put the spotlight on the community-giving efforts of Desert Schools and other community organizations in the Valley, pledging \$1 million in time, talent and cash contributions. I'm delighted to report we exceeded that goal in all five categories of Shine On giving:

- Grants to 20 Valley causes, totaling \$205,000
- Employee Volunteering with charitable organizations throughout the Valley, contributing nearly 5,500 hours valued at \$119,667
- Donations, both monetary and in-kind, totaling \$399,403
- Community Outreach, including efforts around school supply drives, scholarships, holiday giving and our Teacher Boot Camp, resulting in \$171,120 in giving.
- Fundraising for Phoenix Children's Hospital and the Valley of the Sun United Way, amounting to \$855,000 for these outstanding organizations.

In total, Shine On gave \$1,750,190 back to the community we care about so much, nearly doubling our goal. You can read more about this incredibly successful program at ShineONAZ.org.

During this, our anniversary year, we were able to contribute through additional community outreach programs that benefited children and adults in all parts of the Valley:

- Delivered 145 financial literacy classes to 4,533 junior and senior high school students through the free Money Smart program
- Worked with multiple non-profit partners to teach financial literacy skills to 1,583 adults through 119 workshops

While it has been a banner year, we expect even greater things to come in 2015. We will continue Shine On as a means of enhancing and communicating our community giving efforts. We expect to launch the Desert Schools Foundation to extend our legacy of giving. And we plan to revise and develop new financial literacy curricula for high school students, teachers and adults.

Our members, employees and management team have every reason to be proud of our accomplishments in 2014. As we begin our next 75 years, we look forward to future success that will prove to be a lasting asset to our community.



Susan Frank
CEO

DESERT SCHOOLS FEDERAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	Year Ended December 31,	
	2014	2013
ASSETS		
<i>Cash and cash equivalents</i>	\$ 436,769,814	\$ 289,432,229
Investment securities		
Trading	1,188,706	3,668,999
Available-for-sale	1,061,463,517	868,493,624
Held-to-maturity	561,527,733	630,422,942
Loans held-for-sale	26,228,215	41,997,967
Loans to members, net of allowance for loan losses	1,304,383,879	1,233,309,309
Accrued interest receivable	9,588,510	9,796,497
Property and equipment	71,492,938	65,114,106
Share insurance deposit	28,935,945	28,011,549
FHLB participation stock	49,115,000	27,730,000
Mortgage servicing rights	9,952,777	9,382,324
Other real estate owned and other assets in liquidation	7,459,727	7,096,191
Other assets	7,061,377	7,260,757
<i>Total assets</i>	<u>\$ 3,575,168,138</u>	<u>\$ 3,221,716,494</u>
LIABILITIES AND MEMBERS' EQUITY		
<i>Liabilities</i>		
Members' shares and savings accounts	\$ 2,924,573,637	\$ 2,788,178,537
Borrowed funds	235,000,000	90,000,000
Postretirement healthcare liability	5,007,816	4,221,132
Defined benefit pension liability	7,154,172	12,109,075
Accounts payable and other accrued liabilities	30,810,337	28,733,674
<i>Total liabilities</i>	<u>3,202,545,962</u>	<u>2,923,242,418</u>
<i>Commitments and Contingent Liabilities</i>	-	-
<i>Members' Equity - Substantially Restricted</i>	<u>372,622,176</u>	<u>298,474,076</u>
<i>Total liabilities and members' equity</i>	<u>\$ 3,575,168,138</u>	<u>\$ 3,221,716,494</u>

DESERT SCHOOLS FEDERAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Earnings

Year Ended December 31,

	2014	2013
Interest Income		
Loans receivable	\$ 52,390,146	\$ 57,237,620
Investment securities	39,110,561	30,639,421
Total interest income	<u>91,500,707</u>	<u>87,877,041</u>
Interest Expense		
Interest and dividends on members' shares and savings accounts	5,386,705	6,213,998
Interest on borrowed funds	6,483,893	1,528,980
Total interest expense	<u>11,870,598</u>	<u>7,742,978</u>
Net interest income	79,630,109	80,134,063
Provision For (Recapture of) Loan Losses	<u>(8,090,241)</u>	<u>(8,510,872)</u>
Net interest income after provision for (recapture of) loan losses	87,720,350	88,644,935
Non-Interest Income		
Gains on sale of loans	8,670,815	13,563,784
Gains on capitalization of mortgage servicing rights	3,151,310	4,728,574
Gains on sales and disposition of other real estate owned	1,280,239	1,627,426
Loan servicing fees	3,947,983	3,573,674
Fees and charges	85,195,353	84,304,478
Total non-interest income	<u>102,245,700</u>	<u>107,797,936</u>
Non-Interest Expenses		
Compensation and benefits	85,567,698	76,716,487
Office operations	31,916,368	31,604,928
Occupancy	8,980,746	8,680,372
Member education and marketing	6,376,236	7,951,776
Loan servicing	2,541,726	5,476,428
Professional and outside services	3,618,242	4,452,653
Operating expenses	965,215	1,473,504
Amortization of mortgage servicing rights	2,960,579	3,251,348
Losses on sales of investment securities	4,647,291	252,841
Losses on disposition of assets	4,663	27,746
TCCUSF and NCUSIF premium assessment	-	2,240,924
Total non-interest expenses	<u>147,578,764</u>	<u>142,129,007</u>
Net Earnings	<u>\$ 42,387,286</u>	<u>\$ 54,313,864</u>

\$ 855,000

Fundraising

For Phoenix Children's Hospital and
the Valley of the Sun United Way



\$ 399,403

Donations

In our community

4,533 students

Youth Program Financial Education

145 presentations



5,500

Number of employee

Volunteer hours

