

2015 ANNUAL REPORT

DESERT SCHOOLS
FEDERAL CREDIT UNION



CHAIRMAN'S REPORT

Thanks to our members, dedicated staff and volunteers, 2015 was an exceptional year for Desert Schools Federal Credit Union. We achieved some significant financial goals, including an ROA of 1.07%, a Statutory Net Worth of 10.87%, and substantial increases in consumer and business deposits.

On the lending side, we exceeded our projections with more than \$1 billion in new loan originations. More importantly, we helped almost 3,000 families enjoy homeownership; saved members \$5 million in home loan interest through refinancing; provided over \$1.7 million in auto refinancing rebates; and helped more than 22,000 members get loans to achieve their goals.

In addition to providing financial solutions for our members, we also successfully implemented an upgrade to our banking system. We made this change in September to allow us to provide real-time transactions and balance updates, additional details on account statements, simplified member transactions, and functionality to support future technology. Thousands of hours were spent planning, testing and training to ensure that this conversion caused minimal member service disruptions. We're very proud of our employees and their commitment to this project, and their service to members before, during and after the launch.

Although our new operating system was the focal point of our process improvements this year, we also implemented hundreds of others changes (big and small) to increase efficiency and streamline functions. In 2016, we'll continue to focus on exceptional experiences, while maximizing our resources. By improving our overall efficiency, we help strengthen our credit union and create more opportunities to give back to our members.

Our dedicated employees allow us to serve and succeed, and we were pleased to see high internal satisfaction ratings from employees, as well as recognition from the Phoenix Business Journal. In 2015, Desert Schools was named one of the Top 10 Places to Work in the extra large company category. We are especially proud of this accomplishment, as this survey compares us to many national for-profit businesses. We have appeared in the top five of this list for the past four years, and were the highest ranked locally-based organization.

Lastly, the Board and Supervisory Committee would like to acknowledge and congratulate CEO Susan Frank on her upcoming retirement. Susan has served in this role since 1999, and was the first female president of a credit union with assets over \$1 billion. Her accomplishments are too many to list here, but her greatest contribution is her commitment to serving members and our community. She truly focuses on putting people first, and she will continue to support the credit union and its community efforts as part of her future plans. Thank you, Susan, for your service to all of us.



Dr. Claudette M. Gronski
Chairman

CEO REPORT

Focusing on service is the cornerstone of our culture, and 2015 was truly a year that highlighted our service commitment on multiple levels. This year, we implemented a new banking system to improve member service; introduced Relationship Rewards to provide more value to our members, and gave back to our community on a record level.

As we are owned entirely by our members, we know how important it is to have the tools and structure needed to deliver outstanding member service now and in the future. In 2015, we upgraded our banking system to allow us to provide more information for members, easier transactions and a simplified process for creating and modifying accounts.

Upgrading systems was the largest project ever tackled by Desert Schools, and we needed tremendous support from all of our employees. Our dedicated employees postponed time off, worked long days, and sacrificed time with their friends and families to ensure that our system upgrade created minimal service disruptions for members. We greatly appreciate their hard work and commitment, and we thank all of our members for their support during the process.

This year, we also looked to improve member service through the introduction of Relationship Rewards. Now, members who commit to using Desert Schools for their financial needs earn additional benefits, such as discounted services, lower loan rates and waived fees. As a financial cooperative, we depend on strong member relationships to continue to grow and succeed. When members choose us as their primary financial institution, they earn benefits and show their support as a member/owner of Desert Schools.

We understand that we need to be constantly adapting and improving to meet the needs of our members. Our commitment to service means that we'll continuously look for ways to serve members through technology improvements, streamlined service delivery, communication, staff training, and new or improved products and services.

In conjunction with member solutions, financial results, and employee engagement, community involvement is one of our four core organizational values. In 2015, we gave back more than \$1.8 million through grants, donations, scholarships, supply drives, gifts, employee contributions, fundraising and volunteer service. Much of what we contributed came directly from employees, and we are extremely proud that our staff is dedicated to serving our community, as well as our members.

On a personal note, I want to share the news of my retirement as the CEO of Desert Schools at the beginning of 2017. It has been my greatest honor to serve in this role for the past 17 years. Through member support and participation, Desert Schools has become the largest locally-based credit union in Arizona, with more than \$3.8 billion in assets. But more importantly, Desert Schools has become an employer of choice, a community advocate and a financial partner to improve the lives of our members.

Thank you to our volunteer board and supervisory committee, along with all of our employees and members. Your commitment continues to make Desert Schools focused on service, and it's been a privilege to work with you, and for you.



Susan C. Frank
CEO

DESERT SCHOOLS FEDERAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

Year ended December 31,

ASSETS	2015	2014
<i>Cash and cash equivalents</i>	\$ 438,808,734	\$ 436,769,814
Investment securities		
Trading	1,313,405	1,188,706
Available-for-sale	1,183,057,295	1,061,463,517
Held-to-maturity	488,281,509	561,527,733
Loans held-for-sale	9,140,158	26,228,215
Loans to members, net of allowance for loan losses	1,534,907,522	1,304,383,879
Accrued interest receivable:		
Loans	3,353,452	3,091,886
Investments	7,899,766	6,496,624
Other real estate owned and other assets in liquidation	6,371,950	7,459,727
Federal Home Loan Bank (FHLB) stock	42,693,800	49,115,000
Prepaid and other assets	7,933,286	7,061,377
Mortgage servicing rights	9,962,621	9,952,777
Property and equipment	73,726,554	71,492,938
NCUSIF deposit	30,483,215	28,935,945
<i>Total assets</i>	<u>\$ 3,837,933,267</u>	<u>\$ 3,575,168,138</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Members' shares and savings accounts	\$ 3,178,824,009	\$ 2,924,573,637
Borrowed funds	205,000,000	235,000,000
Postretirement healthcare liability	4,900,215	5,007,816
Defined benefit pension liability	7,365,356	7,154,172
Accounts payable and other accrued liabilities	35,283,361	30,810,337
<i>Total liabilities</i>	<u>3,431,372,941</u>	<u>3,202,545,962</u>

Members' Equity - Substantially Restricted

Regular reserve	29,788,065	29,788,065
Undivided earnings	387,584,999	347,052,546
Accumulated other comprehensive loss	(10,812,738)	(4,218,435)
Total members' equity	<u>406,560,326</u>	<u>372,622,176</u>
<i>Total liabilities and members' equity</i>	<u>\$ 3,837,933,267</u>	<u>\$ 3,575,168,138</u>

DESERT SCHOOLS FEDERAL CREDIT UNION AND SUBSIDIARIES

Consolidated Statements of Earnings

Year ended December 31,

	2015	2014
<i>Interest Income</i>		
Loans to members	\$ 55,181,373	\$ 52,390,146
Investments	45,844,453	39,110,561
<i>Total interest income</i>	<u>101,025,826</u>	<u>91,500,707</u>
<i>Interest Expense</i>		
Members' share and savings accounts	5,136,571	5,386,705
Borrowed funds	6,597,726	6,483,893
<i>Total interest expense</i>	<u>11,734,297</u>	<u>11,870,598</u>
<i>Net interest income</i>	89,291,529	79,630,109
<i>Provision For Loan Losses (Recapture)</i>		
Net interest income after provision for loan losses	<u>(2,947,919)</u>	<u>(8,090,241)</u>
<i>Non-Interest Income</i>		
Fees and service charges	77,745,821	80,620,786
Gains on sales of loans	8,870,066	8,670,815
Sales of insurance and investment products	5,368,941	4,574,567
Gains on capitalization of mortgage servicing rights	3,314,648	3,151,310
Loan servicing fees	4,127,514	3,947,983
Gains on disposition of other real estate owned (OREO) and other assets in liquidation	782,441	1,280,239
Other miscellaneous income	68,008	—
<i>Total non-interest income</i>	<u>100,277,439</u>	<u>102,245,700</u>
	<u>192,516,887</u>	<u>189,966,050</u>
<i>Non-Interest Expenses</i>		
Compensation and benefits	89,041,165	85,567,698
Office operations	34,141,480	31,916,368
Occupancy	9,204,439	8,980,746
Member education and marketing	7,266,031	6,376,236
Professional and outside services	4,613,926	3,618,242
Amortization of mortgage servicing rights	3,330,815	2,960,579
Operating expenses	2,855,605	2,541,726
Loan servicing	1,020,554	965,215
Losses on disposition of investment securities	510,419	4,647,291
Losses on disposition of assets	—	4,663
<i>Total non-interest expenses</i>	<u>151,984,434</u>	<u>147,578,764</u>
<i>Net income</i>	<u>\$ 40,532,453</u>	<u>\$ 42,387,286</u>

2015 ACCOMPLISHMENTS

In 2015, Desert Schools worked to serve not only our members, but also our community through the following:

- *Helped nearly 3,000 members become homeowners*
- *Provided new consumer loans to 22,000 members*
- *Helped HARP eligible members save \$5 Million in interest payments per year*
- *Acted as one of the leading certified document preparation service providers in the state of Arizona*
- *Had well over 350 members and non-members attend our Medicare workshops sponsored by Desert Schools Financial Services*
- *Provided 1% Cash Back paid to 7,131 members for \$1,712,788*
- *Introduced Relationship Rewards for members*
- *Launched new desertschools.org site with increased functionality*
- *Delivered financial planning, insurance, and document preparation services to hundreds of members through Desert Schools Financial Services, LLC*
- *Raised nearly \$900,000 for Phoenix Children's Hospital and the Valley of the Sun United Way*

