



One State Of Mind

An Official Publication of  
Arizona State Credit Union  
2355 W. Pinnacle Peak Road  
Phoenix, AZ 85027  
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1021 N. Highway 89, Suite 106

COTTONWOOD  
601 W. State Route 89A

FLAGSTAFF  
321 S. Beaver Street  
5200 N. Highway 89

GILBERT  
2277 W. Guadalupe Road  
2721 S. San Tan Village  
Parkway, Suite 104

GLENDALE  
4701 W. Thunderbird Road  
8285 W. Union Hills Drive,  
Suite 106

PAYSON  
104 E. Highway 260, Suite C

PHOENIX  
1812 W. Monroe Street  
2355 W. Pinnacle Peak Road

PRESCOTT  
550 E. Gurley Street  
1335 Gail Gardner Way

PRESCOTT VALLEY  
7111 Pav Way

SAFFORD  
280 W. Main Street

SCOTTSDALE  
13610 N. Scottsdale Road,  
Suite 1

SEDONA  
140 Coffee Pot Drive, Suite E101

TEMPE  
301 E. Orange Street

TUCSON  
777 S. Alvernon Way  
6464 N. Oracle Road  
1001 N. Park Avenue

Signs Bill-  
Joins Credit Union



Guiding and Protecting  
Annual Report 2008



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**Rose Mofford:**

The Honorable Rose Mofford, former governor of Arizona, is a founding member of Arizona State Credit Union. Governor Mofford was a key supporter of the formation of the Credit Union and was instrumental in spreading the word with both elected officials and state employees at all levels. In 1951, when the Credit Union was formally established, Governor Mofford continued to lend support to the Credit Union by personally signing up state employees for credit union membership.

Serving as chair of our board, Governor Mofford's contributions helped shape the course for the Credit Union. Her past and continuing dedication to the State of Arizona and its residents, represents the strength, longevity and commitment that defines Arizona State Credit Union today.

**A Message from the President/CEO**

The best way to measure the value of an organization is in tough times. While others are backing away, Arizona State Credit Union has stepped up to help our members. We continue to lend, when others have not; we have worked hard to help those struggling to pay their loans; we have reached out to members offering tools to manage limited budgets; and we have created forums to facilitate the "people helping people" philosophy.

Our Credit Union has helped many members stay in their homes and keep their vehicles. We have provided emergency lines of credit and restructured loans across the state. Our new HelpingAZ.com website is designed to allow those impacted by job loss and layoffs the opportunity to network with the common goal of assisting each other. We know we can't solve our nation's economic problems, but we can make a difference right here in Arizona.

This is the most difficult economic cycle many of us have ever seen in our lifetimes. You should know that credit unions did not participate in offering subprime loans, and are not driven by corporate greed, which has nearly brought the banking system to an end. As not-for-profit financial cooperatives with an unpaid volunteer board of directors we are focused on member service, not profit for profit's sake.

We are safe, solid and secure. We are well capitalized and offer ethical loan products and government insured deposits. Our standards have not changed, but like everyone else we have had to suffer the effects of our nation's economy.

Steps are being taken to assure that the Credit Union is well positioned to continue to meet our members' needs. Process improvements are being researched and implemented to assure that we are getting the best value across the organization. We have paid no merit wage increase in 2009 and no corporate incentives for 2008. In addition, we have shifted some employees to busier areas rather than hire additional staff. Travel and conference costs have been substantially reduced and we will continue to monitor our progress and take appropriate steps to keep the Credit Union on a steady course.

Our operating results for 2008 reflect the impact of our recessionary times, causing us to report an \$18.6 million loss for the year. This was caused by two factors: the inability of borrowers to repay loans and a \$13.7 million reduction in earnings caused by the actions of the Credit Union's federal regulator, NCUA. While we have made good loans to good people, rising unemployment has made it impossible for some to repay their loans. We also increased the funds that we set aside to cover these losses in the future as a precautionary measure.

In January all credit unions were notified by the federal regulatory agency, National Credit Union Administration (NCUA), that they would be assessed a fee to replenish the credit union industry's share deposit insurance fund. In addition, we would be required to reduce the value of investments we hold in Corporate Credit Unions. For Arizona State Credit Union, this created an additional \$13.7 million loss for the year 2008. While we disagree with this regulatory action and have advocated for alternatives to this rule, we must comply.

It is important to note that our core business remains strong and the Credit Union saw gross revenues increase by 12% while expenses only increased by 5.8%. Deposits increased by 15% and loans grew by 14% during 2008. Assets rose by 14%, reaching \$1.3 billion at year end.

As this report is being prepared I am pleased to report that we are on track for a return to profitability in the first quarter of 2009. While we can't predict the impact of economic conditions, I can tell you that we are taking every step to assure that your credit union remains safe and sound.

While many lenders dropped out of the market in 2008, we originated nearly 900 first mortgage loans for \$156 million. We provided the funding to assist more than 6,500 members with the purchase of a new or used vehicle, which totaled \$155 million. We continue to support our members' needs and are proud of our resolve to keep lending available in Arizona.

Creating member value is always our goal and during 2008 these efforts remained our top priority. We received a number of regional and national honors during the year including the Louise Herring Award for Philosophy in Action. This honor was in recognition of our efforts to help small savers with our *YourSavings* account. Additionally, we have received awards for ethical practices, maintaining a high quality workplace and we're recognized as Arizona's number one credit union by *Ranking Arizona: The Best of Arizona Business*.

We broadened our base of accessibility as we opened branches in Gilbert and Chino Valley and launched Mobile Banking services. Investing in the future of our state, we offered scholarships and grants to students and graduates from all Arizona colleges and universities.

Arizona State Credit Union is standing strong on a foundation of nearly 60 years of solid, conservative, and responsible traditions. We are operated by members, for members and our common interest drives us forward in creating a partnership for financial success.

Looking forward to 2009, we see continuing economic challenges, but we are optimistic that steps being taken on the national level will positively impact our local and regional economic climate. In the meantime, Arizona State Credit Union remains safe, solid and secure and will continue to reach out to meet our members' needs.



David E. Doss  
President/CEO



## Report from the Chair

To understand the present we must look at the past. Arizona State Credit Union was founded in 1951 by a group of State of Arizona employees seeking to join together to provide each other with the benefits of a financial cooperative. They knew the importance of saving, responsible borrowing and strong conservative financial practices. They worked together to help each other meet their financial goals.

Today, as we deal with the uncertainty of these difficult economic times, we can easily see the value of those founding principles. If our nation's financial services industry had been guided by our values we might be facing a much different economic climate.

Even though we are still faithful to our roots, we have not remained in the past. Your credit union has grown and expanded dramatically and this year reached \$1.3 billion in assets. When we began we did not offer mortgages, checking accounts or certificates of deposit. Today we operate 21 offices across the State of Arizona with every type of lending to serve your needs.

We provide a robust electronic banking channel and offer the most up-to-date access services available. Maintaining solid core values does not mean we are resigned to remaining in the past.

Your board of directors is dedicated to keeping your credit union safe, solid and secure. We are pleased to follow in the footsteps of our founding members like The Honorable Rose Mofford, who served as chair of our board and later Governor of Arizona. We are grateful to Governor Mofford and many other long time members who set the course for where we are today.

Another visionary who remains an active member is R.C. Robertson, a past President of Arizona State Credit Union, who celebrates 50 years of service to the credit union industry this year. R.C. not only helped guide your credit union, but lead efforts to establish the National Credit Union Share Insurance Fund, which secures deposits at credit unions across the country.

To stay true to their vision we must keep an eye on the future and look for ways to continue to be relevant in the lives of our members. The dramatic changes in our economy will require us to adopt new business models necessary to not only survive, but flourish as we emerge from the recession. Just as our founders saw the value of the credit union, we must see the way to extend that value into the future.

These are uncertain times and many of the changes we face both today and into the future will come from government regulation. I want to assure you that your board of directors and our management team are actively engaged in advocating for your credit union within our state and at the national level. As Congress considers new laws and regulations that impact our ability to serve our member-owners, we must have a voice. Working together with our elected officials, we will continue to seek solutions in the best interest of our members.

Arizona State Credit Union is well prepared to face 2009 as it builds on the accomplishments of its past. While we have faced many challenges over the years, we have always emerged even stronger. History proves both the validity of our values and our ability to not only survive, but grow.

Thank you for your membership and continued support of Arizona State Credit Union. We are rich in resources, ingenuity and hard-working people; we are one Arizona, standing on a solid foundation of proven success that will assure a bright future in the years ahead.



Marquetta White  
Chair

## Board of Directors



From left to right;  
top to bottom:  
Quentin Bogart;  
Frank Felix;  
Douglas Martin, Treasurer;  
Ray O'Connor;  
Connie Ohanesian, Secretary;  
Shane Siren;  
Joseph C. Smith;  
Sam Wheeler, Vice Chairman;  
Marquetta White, Chair.

## Senior Management Team



From Left to Right;  
Front Row:  
David E. Doss,  
President/CEO;  
Dyan Mashman,  
SVP Chief Information Officer;  
Michael Emanuelli,  
EVP Organizational Development.  
Second Row:  
Paul B. Stull,  
SVP Marketing;  
Bryan Nielsen,  
SVP Administrative Services;  
Chuck Anderson,  
EVP Commercial Lending;  
John Carson,  
EVP Chief Financial Officer;  
Robert Gibboni,  
SVP Risk Management;  
Dean Vigfusson,  
EVP Retail Banking.





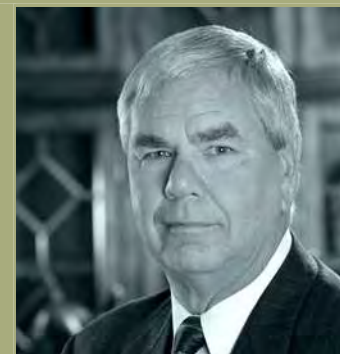
From left to right;  
top to bottom:  
Jon Borge;  
Hal Folette;  
Martha N. Rozen, Chair;  
not pictured:  
Colleen Carmean;  
Sarah Click.

Your Supervisory Committee volunteers are appointed by the Board of Directors. The Committee is charged with protecting our Members' interests and ensuring that the assets of our credit union are safeguarded.

These responsibilities are accomplished through an annual financial audit and a review of the system of internal controls. Under the direction of the Supervisory Committee, a national CPA firm with recognized expertise in Generally Accepted Accounting Principles and the credit union industry completed its certified audit of the financial statements. Within the scope of their review, the CPA firm also makes recommendations on internal controls and procedures.

The Arizona State Department of Financial Institutions and the National Credit Union Administration jointly completed a regulatory examination of the Credit Union as of June 30, 2008. The examination includes reviews of areas of potential risk and recommends improvements to internal procedures and controls.

Martha N. Rozen  
Chair



Douglas Martin  
Treasurer

Our current economic climate has had an impact on all financial institutions. Arizona State Credit Union recognized an \$18.6 million loss for the year ended December 31, 2008. This loss is directly attributed to some of our members' inability to repay loans, rising unemployment, and a \$13.7 million regulatory assessment required to fund the National Credit Union Share Insurance Fund and additional write downs in investments at Corporate Credit Unions.

Corporate Credit Unions are the organizations that natural person credit unions, like Arizona State Credit Union, turn to for payment processing and investments. They, like many other organizations, were negatively impacted by investments in securities tied to the mortgage market.

Arizona State Credit Union is considered well capitalized by our federal regulators, the National Credit Union Administration (NCUA), at 7.49% and has more than \$90 million in reserves to withstand any future losses. Our core earnings are strong and we saw positive trends in many areas during the year. Assets grew by 14%, increasing to \$1.3 billion in 2008. Loans grew 14% or \$941 million and deposits saw a 15% increase, totaling \$1.1 billion at the end of 2008.

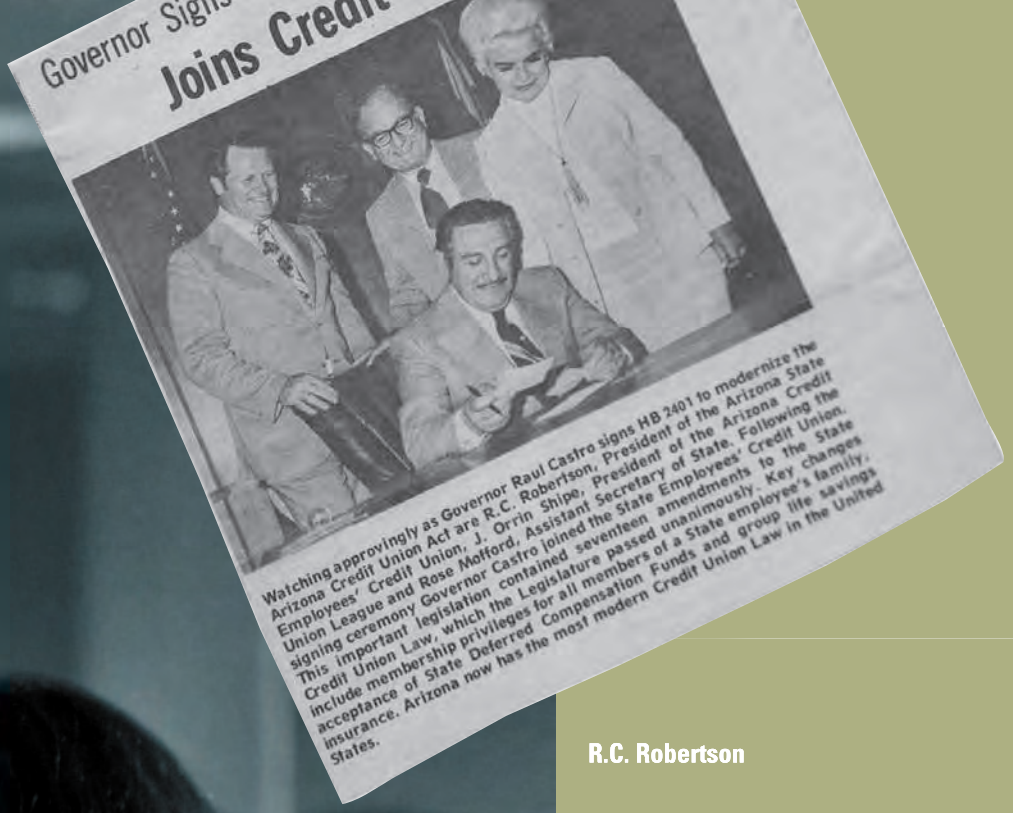
The Arizona State Department of Financial Institutions and the NCUA receive detailed financial information from Arizona State Credit Union on a quarterly basis to measure our strength and net worth. Together with our independent auditing firm and the Credit Union's management team, we continually monitor financial performance.

During 2008 the deposit insurance limits were increased to \$250,000 per individual account holder by the National Credit Union Administration, which is backed by the full faith and credit of the United States Government. These increased limits may be combined to effectively provide several million dollars of deposit insurance to your accounts.

I am pleased to report to you that your Credit Union is safe, solid and secure.







### R.C. Robertson

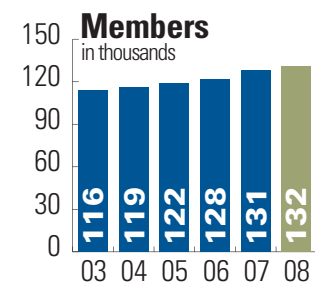
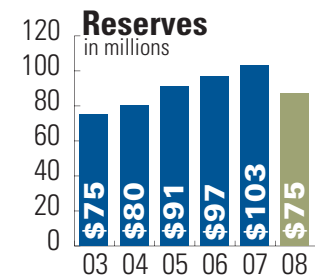
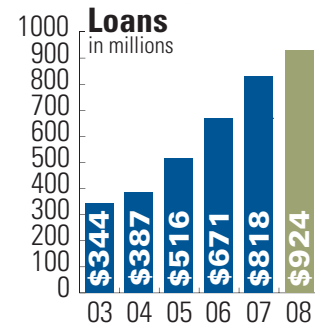
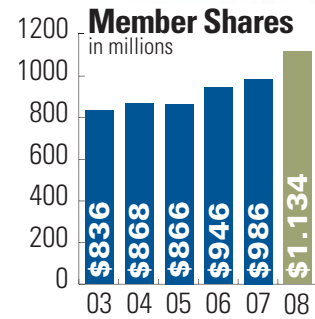
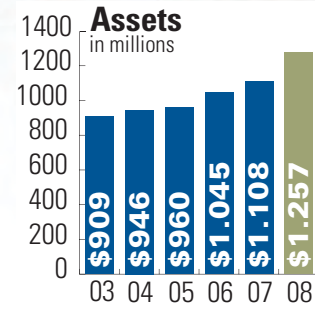
A credit union visionary, R.C. Robertson, past president of Arizona State Credit Union, celebrates 50 years of service to the credit union industry this year. Robertson has had many accomplishments over the course of his career including his driving efforts in establishing the National Credit Union Share Insurance Fund, which secures deposits at credit unions across the country. He was recognized as one of "Arizona's Most Influential Business Leaders" by the *Business Journal*, and was a recipient of the Credit Union Executives Society's "Executive Leader of the Year." Robertson was also later inducted

into the society's Hall of Fame. Not only was R.C. a strong proponent of the credit union industry, but he was a leader who recognized the dedication and member service that associates at Arizona State Credit Union continue to exemplify. By looking to the past for guidance through R.C. Robertson's visions, the Credit Union continues to keep an eye on the future. Just as our founders saw the value of the credit union, we will continue to look forward and find ways to extend that value to members.

R.C. Robertson, former President of Arizona State Credit Union, visits with members Ryan and Erica Mullavey.



## Financial Statements



### STATEMENT OF FINANCIAL CONDITION (unaudited)

	2008	2007
<b>ASSETS - December 31</b>		
Cash and cash equivalents	\$79,307	\$62,384
Investments	186,419	152,984
Loans, net of allowance for loan losses	924,366	817,774
Accrued interest receivable	4,865	4,993
Property and equipment, net	51,233	50,314
NCUSIF deposit	2,830	8,753
Other assets	9,137	10,893
<b>Total Assets</b>	<b>\$1,258,157</b>	<b>\$1,108,095</b>

### LIABILITIES AND MEMBERS' EQUITY

Accrued expenses and other liabilities	\$13,818	\$4,187
Borrowed funds	35,000	15,313
Members' share accounts	1,133,845	985,749
Members' equity, substantially restricted	75,494	102,846
<b>Total Liabilities and Members' Equity</b>	<b>\$1,258,157</b>	<b>\$1,108,095</b>

### STATEMENT OF INCOME (unaudited)

	2008	2007
<b>Interest income:</b>		
Loans to members	\$58,219	\$51,373
Investments	9,598	14,767
<b>Total Interest Income</b>	<b>\$67,817</b>	<b>\$66,140</b>
<b>Interest expense:</b>		
Dividends on members' shares	25,757	25,155
Interest on borrowed money	1,443	3,269
<b>Total Interest Expense</b>	<b>\$27,200</b>	<b>\$28,424</b>
<b>Net Interest Income</b>	<b>\$40,617</b>	<b>\$37,716</b>
<b>Provision for loan losses:</b>		
Net Interest Income After Provision For Loan Losses	\$18,566	\$32,814
<b>Non-interest income:</b>		
Fee income and service charges	19,151	18,049
Net gains (losses) on Sale of Securities	530	(1,890)
<b>Total Non-Interest Income</b>	<b>\$19,681</b>	<b>\$16,159</b>
<b>Operating expenses:</b>		
Compensation and benefits	23,364	21,986
Office operations	9,509	9,212
Office occupancy	3,495	2,833
NCUA stabilization expenses	13,653	
Other expenses	6,848	6,849
<b>Total Operating Expenses</b>	<b>\$56,869</b>	<b>\$40,880</b>
<b>Net Income</b>	<b>(\$18,622)</b>	<b>\$8,093</b>

One State of Mind®