

ANNUAL REPORT 2006




Arizona
STATE
CREDIT UNION

One State Of Mind

**A Message from the
President/CEO**



David E. Doss
President/CEO

A handwritten signature in black ink that reads "David E. Doss". The signature is fluid and cursive, matching the printed name above it.

Arizona State Credit Union has seen a very noticeable transformation during the past year. We have grown in both loans and deposits, increased our offering of products and services and implemented a fresh new look and image for our brand. We believe these changes are a reflection of you, our loyal members who have supported us for 56 years.

Arizona State Credit Union serves the people of Arizona. We connect Arizonans like no other credit union. Our new look and image is an important part of that connection. We have brought the images and colors of the State into our offices and tied them all together with the theme, One State of Mind.

For the associates of Arizona State Credit Union, One State of Mind is a symbol of our focus on serving our members. We also look to these words to symbolize the cooperative nature of a credit union, with its members working together to benefit each other. Additionally, it defines our geographic ability to bring people together.

We are proud of our new look and the way we serve our State. Service is important to us and we constantly monitor our service levels to assure high quality. This year we conducted a comprehensive member survey and found that 96% of our members are satisfied or very satisfied with Credit Union services.

Our financial results were highlighted by the achievement of assets in excess of \$1 billion dollars. This represents steady progress and a 23% increase from only four years ago when assets totaled \$852 million. Deposits grew to \$946 million in 2006—a 9% increase over 2005. The Credit Union continues to provide highly competitive savings dividends, returning \$18.6 million to our members in 2006—an \$8 million increase over 2005.

Arizona State Credit Union was recognized as the number one credit union lender in loan growth by “American Banker” magazine. We are proud of providing \$386 million in new real estate, auto and other financing to our members in 2006. Total loans increased by 29%, net of the allowance for loan losses, reaching an all time high of \$671 million.

Members saw many new ways to meet their credit needs during 2006. New products include first time home buyer programs, land loans, U-Invest student-parent mortgages and expanded fixed and adjustable real estate loans. New consumer credit products feature 100 month auto loans and the low payment option of Driving Sense auto loans.

Member service improvements in 2006 included increased call center service hours, free internet bill pay services, a new office on Gail Gardner Way in Prescott and improved technology to instantly issue new and replacement Visa Check Cards in our offices. Our Wealth Management services introduced an experienced team of financial consultants to assist members with financial planning, retirement and investment needs.

Our Business Banking services continued to grow during the year with more than 500 new accounts totaling \$4.8 million in deposits. Business lending also reached new records during the year with loans totaling \$51 million.

At Arizona State Credit Union, we do have One State of Mind. We work hard to make your financial dreams come true through outstanding service and value. Thank you for being a member and supporting the growth of our financial cooperative.

Report from the Chairman



Joseph Smith
Chairman

A stylized, handwritten signature of Joseph Smith in black ink.

In just a few short years your Credit Union has seen significant growth. In 2006, we reached the \$1 billion asset level. While this number is impressive, it is truly a multitude of accomplishments behind the number that create a solid foundation for growth at Arizona State Credit Union.

Providing for the growing financial needs of our members both today and in the years to come is one of the most important functions of your Board of Directors. Keeping up with day-to-day developments in the financial services industry is quite a task, but when you have to anticipate years into the future, the job becomes even more difficult.

We also must balance the addition of new products and services with our ability to deliver them to our members. Some members prefer to visit our branches and others use our electronic delivery systems. Both deserve our attention.

In 2006 we opened a new branch location in Prescott at Gail Gardner Way; at the same time we improved our internet banking and bill pay services. It was also the year we began the process of building a new corporate headquarters, which will provide a home for the Credit Unions operations and administration for years to come.

The new corporate facility will open this fall and is located at I-17 and Pinnacle Peak Road in Phoenix. The location will bring together operations which are now split between two locations. The resulting efficiency and the ability of the building to provide a long term solution to our growing space needs makes sense both today and into the future.

The future also depends on our associates who work hard to serve you every day. I can assure you that we have a very dedicated and enthusiastic staff that is truly committed to providing you with outstanding service. This year Arizona State Credit Union was voted the best of Arizona's credit unions in a poll conducted by "Arizona Business Magazine." I know this honor could not have been achieved without our dedicated staff and your support.

Providing for our members growing financial needs is always a priority. It is the foundation of accomplishments during recent years that allow us to grow with our members. We know that the support of our member-owners is the reason for our success. I can assure you that we are well positioned to meet your needs today and in the years ahead.

Board of Directors

Frank Felix, Director; Joseph Smith, Chairman; Connie Ohanesian, Director; Sam Wheeler, Vice Chairman; Quentin Bogart, Secretary; Marquetta White, Director; Douglas Martin, Director; Ray O'Connor, Director; Shane Siren, Treasurer.



Supervisory Committee Report

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 in April 2006. The examination includes reviews of areas of potential risk and recommends improvements to internal procedures and controls.

Martha N. Rozen
Chairman

Treasurer's Report



Shane Siren
Treasurer

Shane Siren

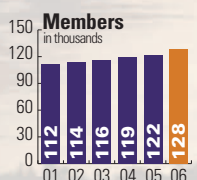
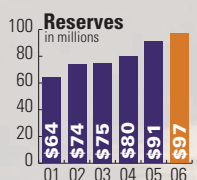
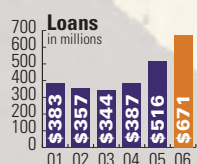
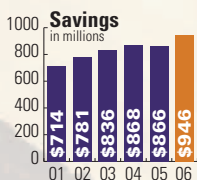
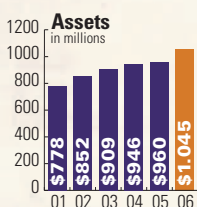
Arizona State Credit Union ended the year 2006 reaching a new milestone by exceeding \$1 billion in assets. We ended the year with \$1.045 billion in assets, \$946 million in deposits, and \$671 million in loans outstanding net of the allowance for loan losses. Deposits increased by \$79.4 million and loans increased by \$157 million.

Many new lending products were introduced to better serve our credit union members, resulting in the substantial increase in the amount loaned during the year. In conjunction with the rollout of our new branding campaign, special deposit products were offered, giving existing members and new members the opportunity for increased benefits from their deposit relationships with us. The special deposit products promotion was very successful as reflected in deposit balance increases and membership growth.

Return on assets for the year was .85%, which was excellent considering the extra cost of funds in dividends paid to our members. Our capital ratio at the end of the year was 9.54%, which is classified as well-capitalized by our regulators. The Arizona State Department of Financial Institutions and the National Credit Union Administration received detailed financial information from Arizona State Credit Union on a quarterly basis to measure our strength and net worth.

I am pleased to report to you that our credit union is strong and growing.

Financial Statements



STATEMENT OF FINANCIAL CONDITION

ASSETS - December 31

	2006	2005
Cash and Cash Equivalents	\$20,130,745	\$19,815,011
Investments	298,963,577	379,514,626
Loans, net of allowance for loan losses	671,219,701	514,106,150
Accrued interest receivable	4,723,593	3,750,827
Property and equipment, net	26,241,454	19,671,547
NCUSIF Deposit	8,096,847	8,047,444
Other assets	15,975,566	15,546,045
Total Assets	\$1,045,351,483	\$960,451,650

LIABILITIES AND MEMBERS' EQUITY

Accounts payable, accrued expense and borrowed funds	\$2,329,705	\$8,551,086
Members' share accounts	946,084,685	866,636,751
Members' equity, substantially restricted	96,937,093	85,263,813
Total Liabilities and Members' Equity	\$1,045,351,483	\$960,451,650

STATEMENT OF INCOME

	2006	2005
Interest income:		
Loans to members	\$39,502,612	\$26,209,219
Investments and cash	12,540,155	14,157,553
Total interest income	\$52,042,767	\$40,366,772
Dividend expense and other interest expense		
Member accounts	18,615,118	10,355,727
Net interest income	\$33,427,649	\$30,011,045
Provision for loan losses	2,373,817	854,442
Net interest income after provision for loan losses	\$31,053,832	\$29,156,603
Non-interest income	11,556,255	9,498,303
Net Unrealized Gains/(Losses) on Sale of Securities	(91,759)	28,342
Net operating income	\$42,518,328	\$38,683,248
Operating expenses:		
Compensation and benefits	18,128,827	14,353,281
Office operations	13,531,232	11,210,959
Office occupancy	2,412,724	2,230,470
Total operating expenses	\$34,072,783	\$27,794,710
Net income	\$8,445,545	\$10,888,538



One State Of Mind

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Phoenix, AZ 85005-6637
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OFFICE LOCATIONS
602-467-4081 / 1-800-671-1098
www.azstcu.org

MEMBER

Arizona Credit Union System
First Corporate Credit Union
Western Corporate Federal Credit Union
Credit Union National Association
CUNA Mutual Group
Filene Research Institute
World Council of Credit Unions



A.S.U.
Memorial Union/Lower Level

A.S.U. EAST / GATEWAY
18224 E. Williams Field Road

A.S.U. WEST
4701 W. Thunderbird Road

COTTONWOOD
601 W. Highway 89-A

FLAGSTAFF
321 S. Beaver Street
5200 N. Highway 89

GLENDALE
5859 W. Talavi Boulevard, Suite 100

GILBERT
2277 W. Guadalupe Road

PAYSON
104 E. Highway 260

PHOENIX
1812 W. Monroe Street

American Express (employees only)
20022 N. 31st Avenue
20002 N. 19th Avenue
18850 N. 56th Street

PRESCOTT
550 E. Gurley Street
1335 Gail Gardner Way

PRESCOTT VALLEY
7111 Pav Way

SAFFORD/THATCHER
280 W. Main Street

SCOTTSDALE
13610 N. Scottsdale Road, Suite 1

SEDONA
140 Coffee Pot Drive, Suite E101

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



