



Chairman's Message

In 2006, credit unions found themselves in a period of slow member and balance sheet growth. We are no exception to this trend. Deregulation giving greater access to consumer choice, external economic factors, stiff competition with wealthy resources and an aging Vermont population requires innovation and differentia-

tion to sustain our momentum in the marketplace.

Credit unions are still a small player in the financial services arena. Nationally, credit unions hold under 6% of the combined \$12.2 trillion of assets in banks, thrifts and credit unions. In Vermont, state credit unions hold almost 7% of total assets.

On the lending side, the engine that drives the credit union model, 16.7% of this market was held by credit unions as of June 2006. Credit unions represent 2.3% of all mortgage originations and 3.0% of the credit card market share. As you can see there is tremendous opportunity for credit unions to serve more of our members' and consumers' savings and borrowing needs. But how?

Like Vermont, our membership base is aging. The average age of our member is now 45 years old. Vermont State employees are aging as well with 46 years being the average age. If lending is the engine that gives us the ability to serve our members, we must have members with borrowing needs. These are people typically age 20-to-35 years old. Right now, only 14% of our membership is in this age category. That is not sustainable to support our 42,000 membership base. We must attract new members.

At the end of 2006 there were 623,000 people living in Vermont and only 18% are between the ages of 20-to-35 years old. That percentage has been stagnant for the past five years. I can guarantee you that every other credit union and bank in Vermont are vying for the same thing — to attract these Vermonters as new customers or members. Our goal is to increase awareness and educate people about our not-for-profit financial cooperative as an alternative to traditional banking.

As we move forward into 2007 we will keep working to find ways to offer you the best dividend rates, lowest loan rates and lowest fees. Your Board believes that growth — more member participation — is the key ingredient to accomplishing these things. Our decisions will continue to be based on removing obstacles and exploring opportunities that help us achieve greater member participation.

While balancing the many complexities that can bring success for our members, we'll continue to focus on differentiation and collaboration, which we also believe brings value to our members. In 2006, we became a cooperative member of the CO-OP Financial Services Network which provides access to 25,000 surcharge-free ATMs around the nation and over 40 ATMs in Vermont. We've expanded our Vermont Fuel Buying Association program to give more members the opportunity to pool their resources to purchase home heating resources for less. We've given members the option to collaborate with their credit union to reduce or avoid fees altogether through a variety of Member Choice Plans, based on the member's participation in our cooperative. And we are a rare credit union that still operates under the broadest principles of the democratic process, as evidenced by the name change decision which resides with our voting members. We'll look for more ways to demonstrate the cooperative philosophy is alive and well in the years ahead.

Looking back, we've had challenges and your Board has made decisions and recommendations to combat those challenges. We exist to improve the well being of our members. So for every member who relied on us as a financial resource in 2006, we can boast a success amidst our challenges.

Thank you for your participation and your trust in the 11 people you've elected to guide our Credit Union and protect our members. We look forward to being in a position to help one member at a time for another 60 years.

Respectfully Submitted,
M. Jerome Diamond

Treasurer's Report

The Credit Union continued to focus on balancing the diverse needs of our members while maintaining a healthy and financially strong Credit Union in 2006. At the same time we continue to focus on the Credit Union philosophies of minimizing profits while maximizing member value.

Rates in the market place for both deposits and loans continued to increase in 2006, primarily as a result of the Federal Open Market Committee increasing the federal funds rate from 4.25% as of December 2005 to a rate of 5.25% by mid year. An economic challenge that the Credit Union faced in 2006 was the inversion of the yield curve. This occurs when short term rates are increased while long term rates fall. This reduces the incentive to invest excess funds long term to increase yield. This can result in decreased earnings when short term rates begin to fall. The Finance Committee of the Board works closely with Management to monitor the interest rate environment and adjust strategies accordingly.

During 2006 we maintained a 1.25% share dividend rate, which is one of the highest in the marketplace for a statement savings account. Our rates on term share certificates increased during the year and new terms were added to meet members investing needs. Our 7 month term, 7% interest rate, \$7,000 maximum investment term share certificate was one of our most popular products introduced this past year. Many new and existing members took advantage of this attractive and limited rate offer.

Loan rates also felt the upward pressure of market forces during the year as well. Although we adjusted our loan rates during the year due to these market forces, we continue to offer some of the lowest competitive rates in the market place.

Member deposits decreased \$7.8 million over the past year to a balance of \$307 million as of 12/31/06. The Credit Union experienced a shift in member deposits from the traditional share account to term share certificates. Term share certificate bal-

ances increased by \$22.7 million in 2006. The average yield on term share certificates increased from 2.95% in 2005 to 3.88% in 2006. The Credit Union paid out higher dividends to members in 2006 than in 2005. Members received an additional \$1.1 million dividends in 2006. This in spite of the fact that deposit balances were lower in 2006 than in 2005.

Members' loan balances increased from \$261 million at 12/31/05 to \$277 million at 12/31/06. The increase in loans of \$16 million during the year came primarily from real estate secured loans, which increased \$10.7 million, and vehicle secured loans, which increased \$3.1 million. The percentage of loans to shares increased from 83% as of 12/31/05 to 90.5% as of 12/31/06.

Our financial position continues to be strong. Net income for 2006 was \$676,000. Operating expenses in 2006 was \$12.7 million, which was \$454,000 below budget for the year. Our net worth as a percentage of total assets increased to 10.41% as of 12/31/06, well above our target of 9%. Our net worth, or capital, position allows the Credit Union to continue to provide competitive loan and deposit rates.

Your Board and Management anticipate that 2007 will be another challenging year for managing the financial affairs of the Credit Union. We will work together to meet the financial goals that we have set for the organization. We appreciate the opportunity from the membership to continue to serve them.

Respectfully submitted,
Paul Hill, Jr., Treasurer

Statement of Financial Condition

	2006	2005
Cash and Cash Equivalents	\$ 9,340,211	\$ 2,873,126
Investments	\$ 39,716,032	\$ 66,354,996
Loans to members, net of the allowance for loan losses	\$ 276,991,183	\$ 261,020,880
Loans held for sale	\$ 1,423,643	\$ 1,027,032
Property and equipment	\$ 9,590,091	\$ 10,419,863
National Credit Union Share Insurance Fund deposit	\$ 3,026,524	\$ 3,102,992
Other Assets	\$ <u>9,509,300</u>	\$ <u>13,121,745</u>
Total Assets	\$ <u><u>349,596,984</u></u>	\$ <u><u>357,920,635</u></u>

Liabilities and Equity

Liabilities	\$ 6,806,311	\$ 8,016,784
Borrowed Funds	\$ 0	\$ 531,206
Commitments and contingent liabilities	\$ 0	\$ 0
Members' shares	\$ 306,982,773	\$ 314,754,750
Equity		
Retained earnings, substantially restricted	\$ 36,384,216	\$ 35,707,795
Net unrealized gains (losses) on available-for-sale investments	\$ <u>(576,316)</u>	\$ <u>(1,089,899)</u>
Total Liabilities and Equity	\$ <u><u>349,596,984</u></u>	\$ <u><u>357,920,635</u></u>

Statement of Income

	2006	2005
Interest Income		
Interest on loans to members	\$ 15,376,897	\$ 13,492,457
Interest on investments and cash equivalents	\$ <u>2,094,580</u>	\$ <u>2,732,920</u>
	\$ 17,471,477	\$ 16,225,377
Interest Expense		
Dividends on members' shares	\$ <u>6,603,491</u>	\$ <u>5,449,004</u>
Net Interest income	\$ 10,867,986	\$ 10,776,373
Provision for loan losses	\$ <u>0</u>	\$ <u>0</u>
Net interest income after provision for loan losses	\$ 10,867,986	\$ 10,776,373
Non-interest income	\$ <u>2,590,991</u>	\$ <u>2,385,624</u>
	\$ 13,458,976	\$ 13,161,997
General and administrative expenses	\$ <u>12,782,555</u>	\$ <u>12,179,503</u>
Net Income	\$ <u><u>676,421</u></u>	\$ <u><u>982,494</u></u>

Supervisory Report

In accordance with the provisions of Title 8, Vermont Statutes Annotated, Chapter 221, Section 31306, the Supervisory Committee oversaw a comprehensive audit of the books and affairs of the Vermont State Employees Credit Union for the twelve months ending August 31, 2006, performed by McGladrey & Pullen, LLP, of Boston, Massachusetts.

We have reviewed the audited financial statements and supporting footnotes to the financial statements. The Committee has presented the results of the audit to the Board. The Committee is satisfied that the work of the audit firm is accurate and complete.

Credit Committee Report

Keeping with our mission statement focused on environmental responsibility, we will support organizations and programs whose objectives and actions contribute to a safe, clean and healthy environment for all. Just as we encourage our members to be as 'green' as possible by using electronic versus paper where available, we also encourage our members to make home improvements that will benefit them environmentally. We have seen an increase of over 50% in the origination of our Energy Improvement loan over 2005. Additionally we have partnered with Efficiency Vermont to finance energy improvements through their Home Performance with Energy Star program. This is a simple, low-cost way for our members to finance qualifying energy efficient projects by reducing the interest rate by 3.5%.

Consumer lending as a whole remained strong throughout 2006. The VSECU experienced a 21% increase in loan originations over 2005. A total of 7,283 consumer loans were disbursed in 2006. Used vehicle loans continue to out-pace all other lending categories. We disbursed 2,115 used vehicle loans for over 21 million dollars.

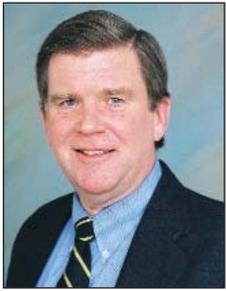
A copy of the opinion and financial statement audit report presented by McGladrey & Pullen is available upon request. Please contact the Credit Union for more information.

Respectfully submitted by the Supervisory Committee,
Normand Desrochers, Chairperson
Joseph Healy
Bertha Stygles

Overall housing market activity continued to slow through 2006 and the VSECU felt the affects of this slowing market. There were 944 mortgage loans totaling over \$66 million closed in 2006. This represents an 11.9% decrease over 2005 mortgage activity. However, home equity loans, which represent 620 of the 944 mortgage loans closed, increased 2.9% over 2005.

We are committed to providing the highest level of member service to our members. We will continue to offer competitive products and honest guidance to help members meet their borrowing needs.

Respectfully submitted by the Credit Committee,
Nellie Gillander, Chairperson
Richard Cron
Helen Weed



CEO's Message

At the Credit Union we have a saying: "Do what's right for the member." It is the foundation of our approach to member service. We are always striving to improve each member's experience; to listen; and to make doing business with us easy, trouble free and friendly. We also use that same saying when develop-

ing new products and distribution channels for our members. During 2006, we launched or expanded a number of services for our members, all of which we hope live up to our standard of being straight-forward, easily used and beneficial – in short, right for the member.

- **VBiz** – In the spring we introduced VBiz, business services for nonprofits and small businesses. VBiz was truly a giant leap forward for the Credit Union, enabling us to bring cooperative, non-profit products and services to this vital sector of the Vermont economy. As with our individual members, our goal for VBiz is to offer personal attention to nonprofit organizations and smaller businesses. More than 30 new products and services were developed to reach this new market.
- **Expanded Field of Membership** – We were excited to receive approval from the Vermont Department of Banking, Insurance, Securities and Health Care Administration to broaden our community charter to include Rutland County. Now anyone who lives or works in Rutland County is eligible to join our Credit Union.
- **The Co-op ATM Network** – These 43 surcharge-free ATMs can be found at most Cumberland Farms and 7-Eleven locations throughout Vermont. This is especially important for our members in areas where we do not have a branch presence, such as Newport, Bennington, Brattleboro and Springfield.

- **Extended Call Center Hours** – Convenience is important to our members, who are dispersed throughout the entire state. We spent time researching, analyzing and studying the feasibility of extending our Call Center hours to be more accessible for our members. We're pleased that you can now reach a Member Consultant by phone between 7:00am and 7:00pm during the week and from 9:00am to 1:00pm on Saturdays.
- **Enhanced Technology** – We upgraded our Bill Pay service to a much more comprehensive system. Protecting our members' information is critical and we implemented additional security features to our online services. E-commerce security can be inconvenient, even frustrating, but in an era when fraudulent activity is on the rise, we will continue to exercise the greatest care to secure your financial information and enable you to use our products and services with confidence.
- **Environmental Consciousness** – Finally, I want to mention an initiative that is important to our Board of Directors and to many, many Vermonters. This past year we issued our Environmental Mission Statement. In this statement, we made a clear commitment to find opportunities to promote environmentally sound choices for our employees and our members. We consider the environmental effect of our business decisions and how they affect our climate.

I thank our staff for creating and living up to our reputation of always doing what's right for our members. I encourage you to participate as fully as possible in our cooperative and to ask us how you and your family can benefit more from your membership in the VSECU. Please feel free to share your ideas and concerns with me at any time.

Respectfully Submitted,
Steven D. Post, CEO

Minutes of the 59th Annual Meeting of the Members of the Vermont State Employees Credit Union – March 27, 2006

The Fifty-Ninth Annual Meeting of the members of the Vermont State Employees Credit Union was held at the Barre Civic Center, Barre, Vermont, on March 27, 2006. Board President Jerry Diamond called the 59th Annual Meeting of the VSECU to order at 7:40 PM.

He began by thanking Governor James Douglas, Vermont Senate President pro tempore Peter Welch and Congressman Bernie Sanders for addressing the group and for their vocal and ongoing support of the credit union movement in Vermont and nationwide. He expressed his appreciation to everyone for their attendance at the meeting and also thanked the staff of the New England Culinary Institute for their hard work in preparing and serving an excellent meal. He then introduced the Volunteer Members of the Credit Committee, Supervisory Committee, and Board of Directors:

Credit Committee

Nellie Gillander, Chair
Richard Cron
Helen Weed

Supervisory Committee

Normand Desrochers, Chair
Joe Healy
Bertha Stygles

Board of Directors

Sarah Miller, Vice President	Agnes Hughes
Will Belongia, Treasurer	Robert Murphy
Randall Loso, Secretary	Allen Ploof
Kimberly Cheney	Brian Woods
Paul Hill, Jr.	

Determination of a Quorum:

Article 5; Section 1 of the VSECU Bylaws states that 1% of the membership must be present at the meeting in order to constitute a quorum. As of the meeting date, there were 41,429 members of the Vermont State Employees Credit Union and therefore 415 members needed to be present to officially conduct the business of the Annual Meeting. All members of the Credit Union were asked to stand to determine if there was a quorum. President Diamond noted for the record that 604 member tickets had been sold and that it appeared most were in attendance.

President Diamond declared that a quorum was present.

Proof of Notice of Annual Meeting:

President Diamond stated that, in accordance with Article 5; Section 2 of the VSECU Bylaws, notice of the meeting had been mailed to all members and posted in the offices of the Credit Union.

Appointment of Parliamentarian:

President Diamond proposed the meeting be conducted under Robert's Rules of Order and appointed Phil Cykon as Parliamentarian. There were no objections.

Reading of the Minutes of the 58th Annual Meeting:

President Diamond entertained a motion to dispense with the reading of last year's minutes and accept them as printed.

Cedric Smith moved to approve the 58th Annual Meeting Minutes, the motion was seconded by Robert Shattuck and carried.

Officer Reports and 2005 Annual Report:

President Diamond stated that copies of the 2005 Annual Report had been distributed prior to the meal at each place setting. The Annual Report contained written reports from the President, Treasurer, Supervisory Committee, Credit Committee, and the CEO.

President Diamond called for a motion to accept the reports as printed.

Reginald Welch moved to accept the Reports as printed. Eleanor Gaudette seconded the motion. The floor was then opened for discussion. There being no discussion, President Diamond called for a vote. The motion carried.

Election of Officers:

President Diamond then stated that, in accordance with the Bylaws, elections would be held for four three-year positions on the Board of Directors. The Bylaws specifically provide for two ways by which a member can be nominated to serve as Director: selection by the Nominating Committee or by submitting a petition to the Supervisory Committee. Nominations from the floor are not allowed.

President Diamond explained that the Nominating Committee is typically appointed by the President of the Board, but this year had been appointed by Board Secretary Randall Loso since both the President and the Vice President were up for reelection. He then recognized the three members who served on the Nominating Committee: Robert Shattuck, Chair of the Committee, Erica McNamara, and Thomas M. Coxon and thanked them for their work. The seven members the Committee had chosen to nominate for the four open Director positions were Sara de Osaba, M. Jerome Diamond, Alan Liptak, Sarah Miller, Robert Morgan, Donald Rockwell, and Judy Rosenstreich. President Diamond stated for the record that no petitions had been submitted to the Supervisory Committee this year. He noted that a complete list and brief biography of

the candidates had been mailed to each member household and that their names were printed on the front side of the Agenda, along with the Nominating and Supervisory Committees' Reports.

Also on the ballot this year was a question pertaining to amending the VSECU's Bylaws. President Diamond explained that a booklet detailing the proposed amendments had been mailed to each member household. He noted the Board had also hosted two informational meetings at which members were given the opportunity to ask questions regarding the proposed changes. Two members had called in for the meetings and one member had attended in person.

President Diamond then opened the floor to questions regarding the proposed Bylaw changes. A question was raised regarding Article VI, Sections 1 & 3. A member was curious why the age to become an elected or appointed volunteer of the Credit Union was increased from 16 to 18, but the age at which a member becomes eligible to sign a petition declaring their support of a candidate's nomination via the Supervisory Committee was not. President Diamond explained that the law does not allow a 16 or 17 year old to be a voting member of an elected or appointed body and said the Board felt it was important for all elected or appointed officials to be able to vote. There is no prohibition in the law that forbids members aged 16 or 17 from signing a candidate's petition, however. President Diamond said the Board felt it was important to expand the democracy of the Credit Union, and to forbid a 16 or 17 year old member from signing a petition when there was no statutory reason to do so would, in effect, reduce the democracy of the Credit Union.

Another member asked about Article VII, Section 5e, which requires the Board to establish a policy regarding member access to Credit Union information. The member wanted to confirm that the policy required by this section did not conflict with the USA PATRIOT Act. Manager Post explained that the Credit Union is required to comply with all governmental rules and regulations and that this policy would not affect that in any way. The policy would simply set forth what information relating to the Credit Union's operation a member may obtain.

No other questions on the proposed Bylaw amendments were asked and President Diamond continued his review of the voting process. Ballots had been distributed on February 27, 2006, to each member who was eligible to vote. Completed ballots could be cast by return mail or by dropping them into the ballot boxes located at each of the branches. In addition, any member present at the Annual Meeting who had not yet cast a ballot could do so. He asked members who had not voted and who wished to do so to raise their hands so a ballot could be brought to them. Several ballots were distributed and subsequently collected.

President Diamond said the Supervisory Committee would count the ballots on Tuesday, March 28, and would report the results of the voting within 48 hours. As soon as they were available, the results of the election would be posted in the lobbies of each of the branches and on the Credit Union's website.

President Diamond reported that the Nominating Committee had chosen Helen Weed as its nominee for the one open position on the Credit Committee. No petitions for the Credit Committee position had been submitted to the Supervisory Committee. Since there was only one nominee for the single open position, President Diamond called for a motion for the Secretary to cast one ballot in favor of Helen Weed to serve a three-year term on the Credit Committee.

Frank Miller moved to have the Secretary cast one ballot in favor of Helen Weed to serve a three-year term on the Credit Committee. The motion was seconded by Larry Wade and carried.

President Diamond declared the balloting closed and instructed the Supervisory Committee to proceed with the counting of the ballots and to report the results to the Board of Directors within 48 hours.

New Business:

President Diamond explained that, in previous years, the members were required to give their authorization in order for the Board to borrow funds on their behalf in the course of the regular operations of the Credit Union. The new statute limits the borrowing to 20% of assets and gives authority to the Board to authorize such borrowing. Thus, there was no need to vote this year or in future years on authorizing the Board to borrow on behalf of the members.

Other Business:

CEO Steven Post said that every year it seems someone retires from the Board of Directors. This year, it was Treasurer Will Belongia. Manager Post said that Treasurer Belongia could always be counted on to dig deep into the balance sheet and income statement. During the past two years Treasurer Belongia had been a superb keeper of the books whose expertise would most certainly be missed.

Manager Post presented Director Belongia with a plaque that read: "Presented to William T. Belongia, Director 2000 – 2006, Treasurer 2004 – 2006, in appreciation of your dedicated service and outstanding contribution to the Vermont State Employees Credit Union" and presented it to him.

President Diamond said he had something serious to discuss that he hoped would generate a lot of thought and dialogue among the members. He said the VSECU was unique, not only in its devotion to democracy, but also because it does not seek to make a lot of money, only enough to be well a capitalized, safe and sound institution. This is achieved by paying the highest dividends possible, charging the lowest loan rates possible, and providing varied products and services with the highest caliber of member service in the marketplace. But, there is a problem: as the average age of the VSECU's core members has increased, more people are saving and fewer are borrowing. It had been necessary to expand the field of membership in order to make more people eligible to join the Credit Union, especially younger people in their prime borrowing years. So, the field of membership was changed to include people who live or work in seven Vermont counties. Branches were built to provide access to the Credit Union's services for these new members.

Several years ago the Board proposed changing the name of the Credit Union and the membership said no. So, the Board followed the members' wishes and waged an intense marketing campaign intended to educate people that they could join the Vermont State Employees Credit Union without being a state employee. It hasn't worked. To this day at home shows in Burlington and throughout the state, people will come up to the VSECU booth and comment that they would like to join the Credit Union, but cannot since they are not a state employee. In order to overcome this hurdle, President Diamond said changing the name of the Credit Union to Credit Union of Vermont – Founded by Vermont's State Employees would eliminate the mental obstacle Vermonters have and will make it easier for the Credit Union to attract younger members who want to borrow money. Increased borrowing will lead to increased income, which can be paid out to members in the form of higher dividends.

President Diamond asked the members in attendance if they had any questions or comments. There were none. He encouraged members to call or email him if they had any questions or would like to discuss the proposal.

Door Prize Winners:

President Diamond introduced Recording Secretary Perry Thompson to oversee the drawings for the door prizes. Recording Secretary Thompson entertained the crowd as he drew the winning numbers and distributed the various prizes. The prizes and their winners were as follows:

Vermont Gift Basket, Barbara Bassette
Movie Lovers Gift Basket, Doris Jollotta
\$50 Mobil Gift Card, Brenda Pepin
Hunger Mountain Coop Gift Basket, Pat Bartlett
Gallon of Vermont Maple Syrup, Eunyoung Denny
Cabot Creamery, Lou Kingsbury
Vermont Teddy Bear, Carla Safford
Baseball Lovers Gift Basket, Stanley Osborne
City Market Gift Basket, Jeanne Pallotta

This year, the tickets of all the previous winners were put back into the box to make them eligible for the final three door prize drawings.

Third Prize – \$100 Mad River Glen Lift Tickets, Doris Jollotta
Second Prize – \$200 Oasis Day Spa Gift Certificate, Edson Pierce
First Prize – \$500 Cash, June Reilly
Super Prize – \$1000 Cash, Stephanie Quaranta

Adjournment:

A motion was made by Laurie Booth and seconded by Wallace Farnum at 8:30 PM to adjourn the Fifty-Ninth Annual Meeting. The motion received unanimous approval.

Respectfully submitted,
Perry H. Thompson, Recording Secretary

Approved:

M. Jerome Diamond, President
Randall Loso, Secretary
VSECU Board of Directors

Vermont State Employees Credit Union



Printed on
paper containing
post-consumer
material.
PLEASE RECYCLE