



**SACRAMENTO**  

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**CREDIT UNION**

**2002**

**ANNUAL REPORT**

**800 H STREET  
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## **Board of Directors' and President's Report**

For financial institutions, 2002 was a challenging year. The Federal Reserve Chairman made unprecedented rate cuts, plummeting rates to a 40 year low. This atmosphere tested asset liability management industry wide, as net interest rate margins were squeezed. As rates remained low, mortgage lending was strong for refinancing and in new home purchases for Sacramento Credit Union.

Sacramento Credit Union has prospered, doing so by virtue of keeping the best traditions of service and value. We see the interest of our members, their dreams of financial security, and keep that in mind, rather than seeing people as a point of profit. Yet, we must operate in the most regulated and constricted environment of all financial institutions. Your Board of Directors and the management team of the credit union focus our resources to balance growth with current earnings for the purpose of operating a safe and sound credit union that promotes fiscal health.

The Board of Directors and the management team identified key opportunities to expand our market share. The first mortgage program yielded \$51 million of funded real estate loans, generating \$500,000 of other income to the organization's operation. The credit union exceeded its goals in every category of product volume and product quality. Moving forward, this is considered to be a critical offering, to which a continued commitment will be made. Member deposits increased 16.00% during the year, demonstrating member confidence and confirming that the credit union continues to offer state of the art delivery channels, as well as traditional, personalized service.

Your Board of Directors' governance of the credit union's operations continues to be validated by state regulatory agencies and independent certified public accountants. It is our commitment to sustain financial growth and add value, while at the same time improve the financial well being of the members we serve.

Submitted by: Jan Reeves  
Chairperson, Board of Directors

Jerrold A. Kinlock  
President/CEO



## **Secretary-Treasurer's Report**

Net earnings for the fiscal year ended September 30, 2002, were \$3,316,967, equivalent to 145 basis points on average assets of \$228 million. Return on Assets (ROA) grew \$672,652, or 9 basis points, and average assets increased by \$32 million over the prior fiscal year. ROA of 145 basis points was very strong performance. ROA has exceeded 100 basis points in 15 of the last 16 fiscal years.

Sacramento Credit Union's financial performance has been noteworthy for the last 16 fiscal years. Assets have grown at an average rate of 12.60%. With average ROA of 136 basis points, net capital has grown at an average annual rate of 18.70%. Net earnings and capital have grown at a more rapid pace than assets. At the end of fiscal 2002 net capital represented just under 10.00% of total assets.

The credit union's financial performance for fiscal 2002 exceeded expectations, given the collapse of market interest rates and the sluggish economy. One major reason for this success was the ability to maintain the level of lending that has enabled the organization to prosper over the years. Throughout fiscal 2002 the ratios of loans to shares and loans to deposits remained at healthy levels of 91.30% and 81.60%, respectively. In addition, cost of funds was kept in line with market rates. As a percentage of assets, operating expenses decreased for the fourth consecutive fiscal year, averaging 377 basis points.

Submitted by: Nick Bastunas  
Secretary-Treasurer, Board of Directors



## Lending Report

Sacramento Credit Union maintained solid loan growth during fiscal year 2002. Total loans outstanding as of September 30, 2002, were \$189,154,500, a net increase of \$17,838,046, or 10.40%, over September 30, 2001. Moderate demand for auto loans and home equity lines of credit continued.

In its first full fiscal year of operation, the credit union's Residential Lending Department took advantage of the booming Sacramento area real estate market. Over \$21 million in residential first mortgage loans were funded. To avoid the risk associated with holding fixed rate mortgage loans, the credit union entered an agreement with CUNA Mutual Mortgage Company for the purchase of these types of loans.

Loan quality remained sound, with loan charge-offs net of recovery at a constant 0.74% of loans outstanding.

<u>Loan Type</u>	<u>Percent of Portfolio Mix</u>	<u>September, 2002</u>	<u>September, 2001</u>	<u>Percent Change</u>
Secured	65.3%	\$123,429,179	\$111,342,263	10.9%
VISA	3.0%	\$ 5,673,853	\$ 6,044,129	( 6.1%)
Signature Mortgage*	1.5%	\$ 2,951,513	\$ 4,504,422	( 34.5%)
	30.2%	\$ 57,099,955	\$ 49,425,640	15.5%
Total	100.0%	\$189,154,500	\$171,316,454	10.4%

\*Does not include loans sold to CUNA Mortgage Company.

Submitted by: Jim Kelly  
Vice President, Lending and Collections



## Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2002 annual audit of the credit union's financial statements. Their examination included a study and evaluation of Sacramento Credit Union's accounting systems, procedures, internal controls and other auditing procedures sufficient to provide assurance that the financial statements are accurate.

The comparative highlights from the credit union's financial statements for the 12 month period ending September 30, 2002, are as follow:

### Key Financial Performance Comparison Fiscal Year Ending September 30, 2002

<u>Performance Category</u>	<u>September 2002</u>	<u>September 2001</u>	<u>\$ Change</u>	<u>% Change</u>
Assets	\$244,276,273	\$217,130,013	\$27,146,260	12.5%
Net Loans	\$187,477,858	\$170,145,332	\$17,332,526	10.2%
Member Deposits	\$218,871,888	\$195,033,883	\$23,838,005	12.2%
Net Capital	\$ 23,943,796	\$ 20,609,369	\$ 3,334,427	16.2%
Asset Yield	\$ 16,663,428	\$ 15,839,242	\$ 824,186	5.2%
Less Cost of Funds	\$ 5,534,433	\$ 7,247,458	(\$ 1,713,025)	( 23.6%)
Gross Spread	\$ 11,128,994	\$ 8,591,784	\$ 2,537,210	29.5%
Less Net Operating Expense	\$ 5,898,301	\$ 4,952,735	\$ 945,566	19.1%
Less Provision Bad Debt	\$ 1,913,726	\$ 994,733	\$ 918,993	92.4%
Net Income per NCUA	\$ 3,316,967	\$ 2,644,316	\$ 672,651	25.4%

The Supervisory Committee meets periodically with management and independent accountants to review the work of each and to satisfy itself that each person properly discharges his or her responsibilities.

Additionally, the Committee has reviewed and examined various internal credit union policies and procedures throughout the year. It is the opinion of the Committee that Sacramento Credit Union properly discharges its financial responsibilities and that it has continued its growth and development as a solid financial institution.

Submitted by: Gene Webb  
 Chairperson, Supervisory Committee



## LOCATIONS

**Elk Grove**                      **9160 East Stockton Boulevard, #120**

**Fair Oaks**                      **8100 Madison Avenue**

**Sacramento**                      **800 H Street**  
**3660 Bradshaw Road**  
**2255 Watt Avenue, #10**