



**SACRAMENTO**  

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**CREDIT UNION**

**2003**

**ANNUAL REPORT**

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## Board of Directors' and President's Report

The California business climate is perpetually shifting, with 2003 being a year of even greater challenge. Financial institutions were faced with the residual effects of prior years' corporate governance scandals. Uncertainties over the Iraqi war, coupled with the unprecedented interest rate environment and its ensuing risks, continued to weigh heavily on consumer confidence throughout the year. To fuel economic recovery, Congress enacted additional reductions in personal income tax, and the Federal Reserve lowered interest rates at mid year. Significant monetary and fiscal stimuli were in place, and most forecasters anticipated a step-up in the pace of economic activity. Although the economy appears to have turned the corner, much progress needs to be made before our country's labor and capital resources are fully utilized.

In spite of all these challenges, Sacramento Credit Union's financial performance continued to be among the top ranks of the industry. Independent and government regulatory agencies confirmed the soundness of the operation with no exceptions, granting the highest ratings possible. Unlike much of corporate America, credit unions are structured as cooperatives and as such are not susceptible to the "greed factor". Most notably, we do not raise capital through the issuance of stock. Thus, there exists no temptation for the abuse of executive stock options, no stock prices to manipulate, and no quarterly expectations to be met at the cost of altering the books. Not only are credit unions safe, but they are also sophisticated enough to keep pace with a dynamic economy and consumer demand. Your Board of Directors and the management team continue to lead Sacramento Credit Union with the utmost level of integrity and sound business principles, while simultaneously offering innovative products and services to add value to your financial well being.

Sacramento Credit Union remains true to the driving forces of its core corporate values and mission. We take great pride in demonstrating our commitment to both members and employees, as well as achieving the financial results. The stage has been set to provide members their best value and best safety with Sacramento Credit Union as their best financial friend.

Submitted by: Carole Hopwood  
Chairperson, Board of Directors

Jerrold A. Kinlock  
President/CEO



## Secretary-Treasurer's Report

Net earnings for the fiscal year ended September 30, 2003, were \$3,199,890, equivalent to 122 basis points on average assets of \$260 million. Return on assets (ROA) dipped \$117,077, or 24 basis points, with average assets increasing \$32 million over the prior fiscal year. ROA of 122 basis points proved a strong performance despite the obstacles presented by the lowest interest rates in four decades. ROA has surpassed 100 basis points during 16 of the last 17 fiscal years.

Sacramento Credit Union's financial performance has been exemplary for the last 17 fiscal years. Assets have grown at an average rate of 12.75%. With average ROA of 136 basis points, net worth has grown at an average annual rate of 16.87%. Net earnings and net worth continue to grow more rapidly than assets. At the end of fiscal 2003 net worth represented just over 10.00% of total average assets, well in excess of the 4.46% Risk Based Net Worth requirement per the National Credit Union Association Call Report.

Obstacles confronted during fiscal 2003 were agonizingly similar to those of fiscal 2002. That is, loan demand remained sluggish. Additionally, asset yield was ravaged by extensive payoffs by members in their attempts to refinance at the lowest market rates in nearly 45 years.

In order to minimize the drop in interest margin, cost of funds was successfully trimmed without encountering dividend rate sensitivity of depositors. As a result of the strategy to cut cost of funds, the credit union managed to offset \$1.02 of every \$1.49 in lost yield on assets, thereby limiting the loss in interest margin to \$0.47. The drop in interest margin was in turn mitigated by an 18.40% decrease in provision for bad debt, along with no real increase in net operating expenses.

Submitted by: Les Brown  
Secretary-Treasurer, Board of Directors



## Lending Report

Sacramento Credit Union experienced flat loan growth during fiscal year 2003. While the credit union funded \$65 million of consumer loans and \$48 million in residential first mortgage loans during the fiscal year, it received an unprecedented amount of loan pay offs, primarily due to members' refinancing their homes and paying off consumer debt. Total loans outstanding as of September 30, 2003, were \$189,140,338.

The credit union's Residential Lending Department continued to take advantage of the strong Sacramento area real estate market. To manage the interest rate risk associated with holding fixed rate mortgage loans, the credit union routinely sells mortgages to a number of investors, including CUNA Mutual Mortgage Company, PHH Mortgage Company and the Federal National Mortgage Association. These loans are not included in the total amount of loans outstanding.

While the dollar amount of loan charge-offs inched up, the overall quality of the loan portfolio remains strong. Loan charge-offs net of recovery were 0.90%.

<u>Loan Type</u>	<u>Percent of Portfolio Mix</u>	<u>September, 2002</u>	<u>September, 2003</u>	<u>Percent Change</u>
Secured	54.79%	\$123,429,179	\$103,635,136	( 16.04%)
VISA	2.64%	\$ 5,673,853	\$ 4,988,848	( 12.07%)
Signature	1.06%	\$ 2,951,513	\$ 1,996,797	( 32.35%)
Mortgage*	41.51%	\$ 57,099,955	\$ 78,519,557	37.51%
Total	100.0%	\$189,154,500	\$ 189,140,338	( 0.01%)

\*Does not include loans sold to investors.

Submitted by: Jim Kelly  
 Vice President, Lending



## Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2003 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, 2003, are as follow:

### Key Financial Performance Comparison Fiscal Year Ending September 30, 2003

<u>Performance Category</u>	<u>September 2003</u>	<u>September 2002</u>	<u>\$ Change</u>	<u>% Change</u>
Assets	\$277,054,160	\$244,276,273	\$32,777,887	13.4%
Net Loans	\$187,093,681	\$187,477,858	(\$ 384,177)	( 0.2%)
Member Deposits	\$248,564,590	\$218,871,888	\$29,692,702	13.6%
Net Capital	\$ 27,150,881	\$ 23,943,796	\$ 3,207,085	13.4%
Asset Yield	\$ 15,175,759	\$ 16,663,428	(\$ 1,487,669)	( 8.9%)
Less Cost of Funds	\$ 4,512,117	\$ 5,534,433	(\$ 1,022,316)	(18.5%)
Gross Spread	\$ 10,663,640	\$ 11,128,994	(\$ 465,354)	( 4.2%)
Less Net Operating Expense	\$ 5,902,556	\$ 5,898,301	\$ 4,255	0.1%
Less Provision Bad Debt	\$ 1,561,194	\$ 1,913,726	(\$ 352,532)	(18.4%)
Net Income per NCUA	\$ 3,199,890	\$ 3,316,967	(\$ 117,077)	( 3.5%)

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**