



**SACRAMENTO**  

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**CREDIT UNION**  
*Invest in Sacramento*

**2007**

**ANNUAL REPORT**

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## Board of Directors' and President's Report

The Board of Directors and management team set the course for 2007 under a comprehensive business plan that would benefit the members and sustain the organization. The very nature of the financial services industry presents elements beyond our prediction or control. As the year unfolded, the direction and velocity of interest rate changes, along with housing pricing and demand, affected consumer confidence. These conditions made it incumbent upon the leadership team to focus on those issues within our sphere of influence.

With the approval of the Golden State Federal Credit Union membership and federal and state regulatory agencies, the merger with Sacramento Credit Union was completed at the end of the first quarter of 2007. The seamless conversion of accounts brought another \$20 million in assets, 3,000 members and an additional branch location to SCU. The merging members gained access to a broader range of financial services, technology and the retail branch network. Golden State Federal Credit Union member satisfaction was evidenced by 100% member retention.

Steps were taken to upgrade the infrastructure. While simultaneously completing the Golden State merger, the Arden Branch was relocated from the former Kai-Perm Sacramento Federal Credit Union site to a newly constructed building at Arden Way and Morse Avenue. This state of the art, high energy branch was designed with member convenience in mind. The former Golden State Branch on Franklin Boulevard was then remodeled under the SCU stamp. Web site capacity was expanded, while maintaining the highest levels of security available. Behind the scenes, the Board of Directors and Asset and Liability Committee worked diligently to manage interest rate risk and credit risk to maintain the safety and soundness of the organization.

A new suite of free checking products was introduced in 2007. The flagship account, Free Rewards Checking, is an innovative account available only at SCU in the Sacramento marketplace. The account paid an aggressive 6.01% APY for more than six months. The account is highly regarded by members. The management team was instrumental in the integration of our core systems to make this offering possible for SCU members.

Financial literacy is a national topic, brought to the local level by SCU. The credit union partnered with Balance, a consumer financial program, to bring free of charge to the membership, financial counseling expertise at various levels. Our Investment Services Department has presented educational workshops to assist in retirement planning and in acquiring wealth to address individual financial goals. Articles are published regularly in Moneymatters, the member newsletter, as well as on the web site, to assist in protecting your identity, improving your financial status and avoiding consumer pitfalls.

We take pride in our commitment to improve the financial well being of Sacramento Credit Union members. It is our ongoing goal to add value by saving you time, saving you money, earning you more money, providing convenience and giving you peace of mind. Through our Sales and Service Culture, we strive to bring these attributes to every member household.

Submitted by: Terry Tice, Chairperson, Board of Directors

Jerrold A. Kinlock, President/CEO



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## Secretary-Treasurer's Report

Audited net earnings for fiscal year ended September 2007 are \$2,300,816 or 69 basis points, down significantly compared to \$3,214,430 or 101 basis points for the prior fiscal year. Net worth increased 9%, identical to the 9% growth achieved during the prior twelve month period. The key ratio of net-worth-to-assets continues its ascent, rising to 13.5% from the 12.0% recorded September 30, 2006.

The upward trend in the net worth ratio reflects the behavior of two distinct measures of financial performance: growth in net earnings and growth in assets. In our case, the former has significantly outpaced the latter for the last four years. Upon comparing the average annual growth at the end of each month over the last 18 months, net worth has grown 9.3% but assets only 2.2%.

Given the long term need for balanced performance on both fronts, SCU has embarked on a new, unique method of stimulating deposits and assets and increasing wallet share. As a distinct alternative to the traditional brick and mortar approach to growth, in June 2007 SCU launched four new checking products as part of our rewards checking strategy. By fiscal year end, the portfolios contained \$14 million. Of the 1,675 account holders, about 25% were new to the credit union, representing 406 new members. The four new accounts pay a combined APR of just over 4%, priced roughly in line with higher paying short term certificates of deposit in the local competitive market. The key to the success of the strategy is cultivating fee and interest income from products and services cross sold to Rewards Checking account holders.

As a percent of assets, cost of funds for the current fiscal year edged up 53 basis points but was exceeded by a 57 basis point increase in interest income, resulting in a 4 basis point year over year gain in net interest margin. Positive change was realized as well in fee and other income, which climbed 7 basis points from 133 to 140. Reflecting the additional costs of the April 2007 merger with Golden State Federal Credit Union, operating expenses were up 17 basis points from 344 to 361. Merger related, at least 4 basis points are one time only expense.

Provision for bad debt, the final component of net earnings, increased to 26 basis points from virtually none during the prior fiscal year. After having taken into account all of the aforementioned components of net earnings, the SCU bottom line slid 32 basis points to 69 from the 101 recorded for the prior fiscal year. However, net worth remains very high.

Submitted by: Janet Reeves, Secretary-Treasurer, Board of Directors



## Lending Report

Sacramento Credit Union experienced a decrease in loan growth during fiscal year 2007. During this period, the credit union funded \$52 million in consumer loans and \$43 million in residential first mortgage loans, decreases of 54% and 25% respectively from the prior year. This decrease in loan production is a result of business decisions made by the credit union to curtail its indirect loan programs due to low profit margins, limited opportunities to increase member relationships and the deterioration of the residential real estate sector.

We expect consumer and real estate loan originations to remain a challenge in 2008. However, with the recent lowering of interest rates, we do see continued opportunities for direct home and auto loans. Our goal is always to offer members the most comprehensive selection of mortgage options. With recent approval as a direct lender by the Federal Housing Administration (FHA) and CalHFA, in addition to our relationship with the Federal National Mortgage Association (FNMA), we will continue to meet our goal by offering competitive products and rates during these turbulent times.

For the fiscal year ending September 30, 2007, net charge-offs as a percentage of average loans are 0.36%, a 12 basis point increase from the prior year. While the overall quality of the loan portfolio is strong, we do expect to see future increases in delinquencies and charge-offs, principally in our real estate loan portfolio due to the deterioration of property values caused by the large inventory of unsold homes in our market.

<u>Loan Type</u>	<u>Percent of Portfolio Mix</u>	<u>September 2007</u>	<u>September 2006</u>	<u>Variance</u>
Automobiles	50.5%	\$109,334,616	\$142,346,405	( 23.19%)
VISA & All Other	4.6%	\$ 9,952,695	\$ 8,799,648	13.10%
Commercial	0.9%	\$ 2,029,109	\$ 1,294,703	56.72%
Mortgage*	44.0%	\$ 95,283,230	\$109,678,567	( 13.13%)
Total	100.0%	\$216,599,650	\$262,199,323	( 17.37%)

\*Does not include loans sold to investors.

Submitted by: Jim Kelly, Vice President, Lending and Retail Operations



## Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2007 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 audited financial statements for the 12 month period ending September 30, 2007, are as follow:

### Key Financial Performance Comparison Fiscal Year Ending September 30, 2007

<u>Performance Category</u>	<u>September 2007</u>	<u>September 2006</u>	<u>Variance</u>	
Assets	317,111,018	327,169,201	( 10,058,183)	( 3.07%)
Net Loans	215,535,879	261,693,135	( 46,157,256)	(17.64%)
Member Deposits	271,307,915	285,539,026	( 14,231,111)	( 4.98%)
Net Capital	42,949,751	39,287,218	3,662,533	9.32%
Interest Income	18,327,401	15,717,828	2,609,573	16.60%
Less Cost of Funds	7,804,659	5,793,571	2,011,088	34.71%
Net Interest Margin	10,522,742	9,924,257	598,485	6.03%
Less Provision for Bad Debt	877,959	15,402	862,557	5600.29%
Add Non-Interest Income	4,626,978	4,205,703	421,275	10.02%
Less Operating Expenses	11,970,945	10,900,128	1,070,817	9.82%
Net Income	\$ 2,300,816	\$ 3,214,430	(\$ 913,614)	( 28.42%)

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: Mary Ann Bennett, Chairperson, Supervisory Committee



## LOCATIONS

**Elk Grove**

**9160 East Stockton Boulevard, #120**

**Fair Oaks**

**8100 Madison Avenue**

**Sacramento**

**3660 Bradshaw Road**

**800 H Street**

**3045 Arden Way, Suite 200**

**6121 Franklin Boulevard**

**Kaiser Hospital, 6600 Bruceville Road**