

2018 ANNUAL REPORT

CAPSTONE
FEDERAL CREDIT UNION

2018 EXECUTIVE REPORT

The Evolution of Credit Unions

How credit unions began and how they have evolved

Credit unions, member-owned, not-for-profit financial institutions whose purpose is to serve their members and communities, were first established in the U.S. in 1901. In 1934, credit unions were credited with serving their members consistently during the Great Depression. The World Council of Credit Unions was established in Madison, Wisc., in 1970.

The credit union system was threatened during the financial crisis of 2007-2009, but despite some credit unions failing during that time, at the end of 2010, there were 7,339 credit unions, with more than \$914 billion in assets and nearly 90.5 million members.

Today, while many credit unions accept members from all over, not just one organization or group, most of their priorities remain consistent with what they've always been: low fees, higher savings rates, and lower borrowing rates for members. Capstone doesn't need to generate profits for shareholders—we're here to benefit our members. That's why we say we're "built from a strong foundation"—that foundation is you!

In 2018, President Candice Landeros' sixth year leading Capstone FCU, we experienced another strong year financially.

Our continued emphasis on capital growth and increased loans is reflected by the fact that our total capital is the second highest it's been over the past five years. Loans are also at their second highest in five years, at \$14,707.

We believe our steady loan growth reflects our members' preference for working with us to get a loan, over any other entity. You know we have your best interests at heart, not to mention low interest rates and top-notch customer support.

Our operating income is in great shape, at \$1,210,315, after major growth last year in interest on loans, investment income, and miscellaneous income. Investment income increased last year, after a dip in 2017, from \$353,803 to \$410,392.

Our total liabilities and equity decreased by a small percentage: 3.69%.

After historic high growth in member shares in 2015 (7.96%), our numbers have declined slightly each year, including in 2018, but only by about \$1,000.

We continue to spend carefully on operations and keep our focus on supporting our members. Last year, we reduced our fees and charges by almost \$6,000 last year, and we decreased our loan servicing costs by \$13,722.

We feel our numbers illustrate Capstone Federal Credit Union's "strong foundation," and we look forward to another strong year of growth in 2019.

You can always count on Capstone FCU for great loan rates and customer service, so please continue to come to us when you need a loan. We'll continue to put you, our members, first, offering superb products and excellent member support.

Respectfully submitted,

Candice Landeros
President/CEO

Sherry Fordham, Chairman
Board of Directors

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee of the Capstone Federal Credit Union works in conjunction with the Board of Directors to monitor and review the Credit Union's accounting procedures. Our goal is to ensure that all fiscal operations are performed accurately and in compliance with the Credit Union's charter and federal regulations. Additionally, a Supervisory Committee representative is present at the monthly Board of Directors meetings and at special planning meetings called by the chairman.

To assist us in monitoring the Credit Union's fiscal activities, we retained the services of **Debra Jacobs-Robinson, a certified public accountant, for the audit period from September 30, 2017 – September 30, 2018.**

After carefully reviewing the audit examination reports, as well as the financial and accounting records of the Capstone Federal Credit Union, the Supervisory Committee is pleased to report that the Credit Union is financially strong, and its fiscal operations are performed accurately. The Credit Union is also in compliance with the Credit Union's charter, federal regulations, and sound business practices.

The Supervisory Committee and members of the Credit Union staff are following up on recommendations from each of the above reports.

On behalf of the Supervisory Committee, it has been a pleasure to serve the membership this past year.

Respectfully submitted,

Marva Neeley
Supervisory Committee Chairman

FINANCIAL STRENGTH

ASSETS	2018	2017	■ Increase ■ Decrease
Loans to Members	\$14,707,289	\$15,213,513	\$506,224
Less: Allowance for Loan Losses	99,692	50,880	48,811
Net Loans	\$14,607,597	\$15,162,632	\$555,035
Cash	285,251	260,145	25,106
Investments	19,687,142	20,539,713	852,571
Prepaid and Deferred Expenses	139,287	91,972	47,316
Fixed Assets (Net)	60,146	64,980	4,834
Accrued Income	51,530	55,936	4,406
Deposit: National CU Share			
Insurance Fund	328,887	343,620	14,733
Other Assets	855,747	877,640	21,893
Total Assets	\$36,015,588	\$37,396,639	\$1,381,050

LIABILITIES AND EQUITY

LIABILITIES

Accounts Payable	\$70,642	\$75,975	\$5,333
Notes Payable	3,075	3,033	42
Accrued Expenses	21,301	19,870	1,431
Other Liabilities	437	457	20
Total Liabilities	\$95,455	\$99,335	\$3,880

EQUITY

Shares of Members	\$32,304,547	\$33,626,090	\$1,321,543
Regular Reserve	1,328,218	1,328,218	0
Undivided Earnings	2,287,368	2,342,996	55,628
Total Equity	\$35,920,133	\$37,297,304	\$1,377,171
Total Liabilities and Equity	\$36,015,588	\$37,396,639	\$1,381,050

FINANCIAL STRENGTH

OPERATING INCOME	2018	2017	■ Increase ■ Decrease
Interest on Loans	\$607,125	\$574,230	\$32,895
Investment Income	410,392	353,803	56,589
Fees and Charges	43,119	48,800	5,681
Miscellaneous Income	149,679	98,059	51,620
Total Operating Income	\$1,210,315	\$1,074,892	\$135,423

EXPENSES

Compensation and Benefits	\$389,415	\$369,245	\$20,170
Travel and Conference	6,015	4,728	1,287
Association Dues	6,228	6,661	433
Office Occupancy	34,234	33,784	449
Office Operations	330,556	305,242	25,314
Education and Promotion	11,202	26,854	15,653
Loan Servicing	42,492	56,214	13,722
Professional and Outside Services	81,262	79,418	1,844
Provision for Loan Losses	110,701	10,023	100,678
Miscellaneous	17,107	16,800	307
Total Operating Expenses	\$1,029,211	\$908,970	\$120,241

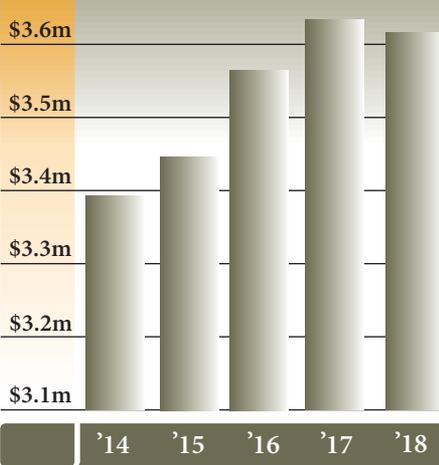
Dividends	78,859	51,108	27,751
Interest on Borrowed Funds	674	108	566
Total Expenses	\$1,108,744	\$960,186	\$148,559

Non-operating Gain (Loss)	0	18,241	18,241
Net Income	\$101,571	\$132,947	\$31,377

FIVE YEARS AT A GLANCE

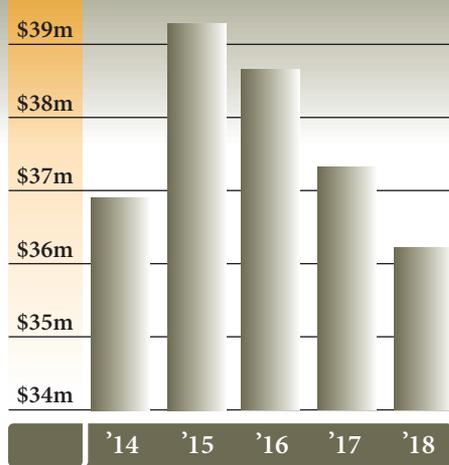
CAPITAL

millions of dollars / years



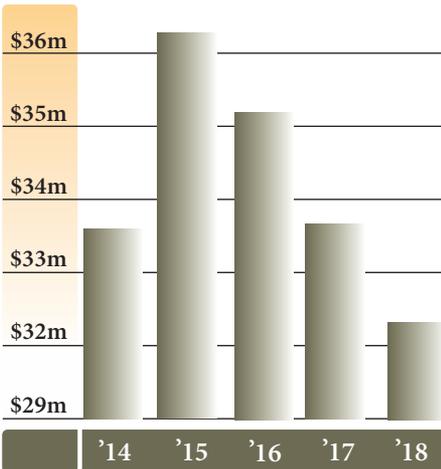
ASSETS

millions of dollars / years



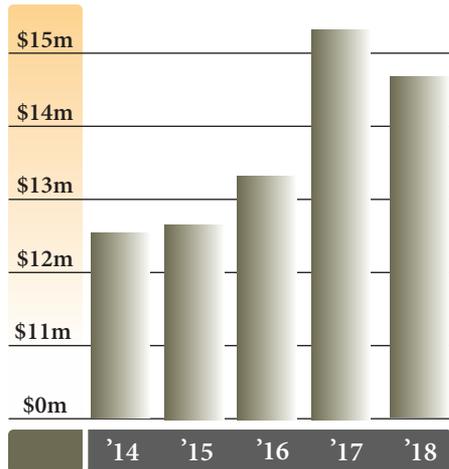
SHARES

millions of dollars / years



LOANS

millions of dollars / years



LOCATION

Main Office

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Aliso Viejo, CA 92656

PHONE

Toll-Free (800) 854-7125
Direct (949) 716-5746
Fax (949) 716-5756

OFFICE HOURS

M,T,TH,F 8 a.m. - 4 p.m.
W 9 a.m. - 4 p.m.

WEB ADDRESS

www.capstonefcu.coop

THE CO-OP

(888) SITECOOP
(888) 748-3266

THE CO-OP WEBSITE

www.co-opnetwork.org

DEBIT CARD CENTER

(800) 854-7125
Fraud/Disputes, option 1
Lost/Stolen Cards, option 2

24/7 VISA

CREDIT CARD CENTER

(855) 519-9553

LOAN CENTER

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In the event of a disaster,
call (800) 854-7125 for
information regarding your
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Built from a strong foundation