

2009

ANNUAL REPORT



"Together, we have something special!"

The best thing that can be said about 2009 is that it's over. We look forward to a challenging but better year in 2010. The Mission Statement for Kern Schools Federal Credit Union is still our guiding light. It states, "The Credit Union shall build a lifetime financial partnership with members through exceptional service and quality financial products."

We want to be responsive to your needs in these turbulent economic times. The current regulatory environment does make it more difficult for all financial institutions to be as flexible as in prior years. On the positive side, the new laws and regulations will provide some needed discipline for these companies that have created the toxic financial products that helped to create the current economic difficulties. As your Credit Union, we recognize that our Members are our owners and our financial lives are intertwined. We never have created or used any of the toxic financial products and our commitment to you is to continue to provide outstanding Member service and quality products.



Steve Renock
President/CEO

We have made some tough decisions recently to reduce Credit Union expenses. These changes were necessary to align our expenses with our expected revenue for the coming year. We have made the same type of choices that many of you have made in your personal lives and we will continue to be prudent stewards of the money you have entrusted to us.

*"Together,
we have something special."*



**Chairperson of
the Board of Directors
Dr. Bill Bruce**

Message from the Chairperson

The powerful recession ravaging our nation and our state continues to impact the bottom line of Kern Schools Federal Credit Union as well as all savings institutions in the United States. The financial challenges of 2009 severely affected our financial strength and gave more focus toward our efforts to cut expenses and save money while still reaching out to our Members with the best service possible.

I have been asked how the recession directly affects the financial health of KSFCU. Remember, our Credit Union does not engage in loaning money for shopping malls, huge land development or other speculative endeavors. Our income and expenses revolve around the financial activity of you, our Members. The very high unemployment rate in Kern County coupled with Members who have had reduced incomes due to job reductions, cutbacks, and furloughs has created an atmosphere that cripples income for financial institutions. When your neighbors, friends, or colleagues can no longer afford their personal, car, or home loan payments, KSFCU is forced to translate those unfortunate circumstances into loan delinquencies and charge-offs which, of course, affect our bottom line. Additionally, the current down economy creates a climate where there is generalized caution and reluctance by families to spend more money or to take on new debt.

Just as you, our Members, have been forced to tighten your belts to deal with the recessionary economy, so too has KSFCU sought ways to tighten its belt. We continue to do everything possible to adjust to the declining economy in a focused effort to protect Member investments while continuing our mission to reach out to our members in the community. Your Board of Directors, along with management, continues to initiate cost-cutting efficiencies at all levels including the closing of 6 branches in the past 18 months and reducing our workforce significantly in a regrettable but necessary effort to protect our Members, conserve our resources, and return to long term viability.

Through all the financial challenges facing us, KSFCU remains a solid and respected member of the financial scene in Kern County as well as in California. Your Credit Union remains very strong with over \$1.5 billion in assets along with every deposit being federally insured up to \$250,000. It continues to be a safe and viable choice for you to save and invest your money, borrow for your needs as well as your dreams, and to be part of something special. Amazingly, our total membership continues to grow each month and we are now more than 192,000 Members strong. Even with branch closings, we still have branches located strategically in our local community as well as some outlying areas. Increasingly our membership has turned to online, telephone, and drive-through banking options.

Rest assured that management, staff, and your Board of Directors are working diligently to ensure the safety and security of your deposits and accounts while still providing the best service possible. We are proud of the image and credibility that KSFCU reflects in our community. We remain the envy of countless financial institutions and our commitment to promote exceptional service and quality financial products to our membership remains our overriding mission and goal. Your Board and management led by Steve Renock, our new President and CEO, have developed operational plans for the next 10 years which indicate a return to positive growth in the very near future. In the final analysis, it is your belief in and continuing use of your Credit Union services that provides the unwavering strength that makes KSFCU a jewel in the financial marketplace. This is, indeed, why *"Together, we have something special."*

Supervisory Committee's Report

The Supervisory Committee is an impartial Board appointed committee comprised of three volunteer Members of Kern Schools Federal Credit Union. The Supervisory Committee and the Internal Audit team led by Senior Vice President, Chief Risk Officer, Perry K. Goodbrake, are dedicated to assuring internal operating controls are established and effectively maintained, the Board of Directors' plans, policies and procedures are being properly administered by management, and in compliance with the governing directives established by the National Credit Union Association (NCUA).

To maintain impartiality, Internal Audit does not have any direct responsibility in designing, establishing or maintaining the controls they evaluate. All findings are reported directly to the Supervisory Committee. This independence is your assurance that all reports are impartial and accurately reflect the operations of the Credit Union.

The Committee accomplishes its objectives by:

- Ensuring that appropriate safeguards and controls are in place to protect the organization's assets, we review the Credit Union Board of Directors, management, and staff activities and programs.
- Ensuring that complete and accurate financial records are prepared in a timely manner.
- Determining that the Credit Union's Board and management team make decisions and take actions that are consistent with the best interests of the Membership.

To accomplish our responsibilities, the Supervisory Committee has engaged the accounting firm of Turner, Warren, Hwang & Conrad (Certified Public Accountants) to perform an annual audit as of December 31, 2009. This examination is designed to provide an unbiased opinion of the financial condition of your Credit Union, verify the accuracy of

Member accounts, and determine compliance with regulatory requirements. Our independent auditor's report for year ending December 31, 2008, provided Kern Schools Federal Credit Union with an unqualified opinion and as a result, the Supervisory Committee finds that Kern Schools Federal Credit Union is operating effectively, is managed soundly, and Members' assets are being safeguarded consistent with the Kern Schools Federal Credit Union tradition. Currently, the 2009 annual financial report is not completed; therefore, the financials as presented herein are not audited. The final audited financial report will be completed during the second quarter of 2010.

It has been our pleasure to serve our fellow Membership of Kern Schools Federal Credit Union.

Respectfully submitted,



Chairman
Supervisory Committee

Supervisory Committee

Jim Sheats Chairman
Tom Ross Secretary
Carl Woody, Jr. Member

Board of Directors

- Dr. Bill Bruce**, Chairman
- Jeannine Thompson**, 1st Vice Chairperson
- Joanne Mills**, 2nd Vice Chairperson
- Dr. Bryon Schaefer**, Treasurer
- Dr. James Fillbrandt**, Secretary
- Dr. Larry Reider**, Director
- Marilyn Jones**, Director
- Dr. Cecil Briscoe**, Director
- Dr. Bill Williams**, Director
- Mike Kileen**, Director
- Dr. Dennis Scott**, Director

Supervisory Committee

- Jim Sheats**, Chairperson
- Tom Ross**, Secretary
- Carl D. Woody, Jr.**, Member

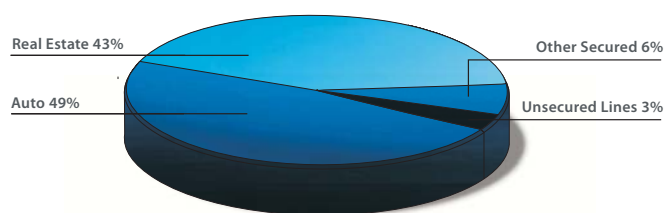
Administration

- Steve Renock**
President/CEO
- Norman Ranallo**
Sr. V.P., Chief Financial Officer
- Perry K. Goodbrake**
Sr. V.P., Chief Risk Officer
- Penelope Fulton**
Sr. V.P., Marketing
- Barbara Irlle**
Sr. V.P., Operations/
Branch Administration

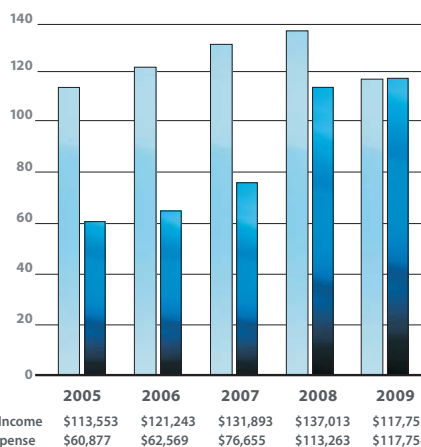


Annual Statements

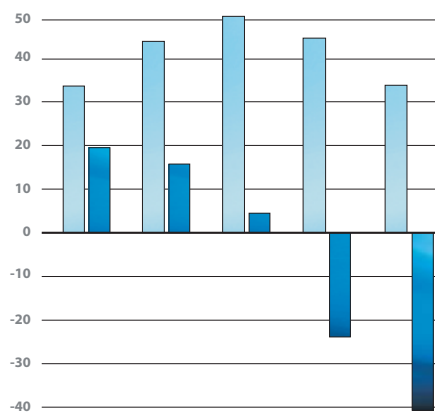
MEMBER LOANS
(Percentage of Total Loans)



GROSS INCOME & OPERATING EXPENSE
(000's Omitted)

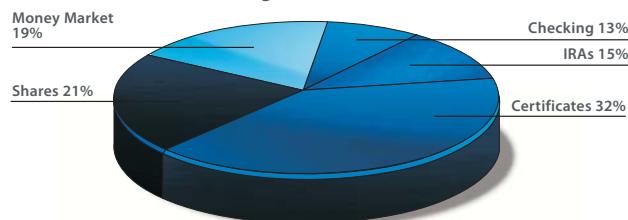


MEMBER DIVIDENDS & NET INCOME
(000's Omitted)



| | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------|----------|----------|----------|------------|------------|
| Dividends | \$33,891 | \$44,399 | \$51,420 | \$45,839 | \$34,446 |
| Net Income | \$19,975 | \$15,747 | \$3,006 | \$(24,327) | \$(40,641) |

MEMBER SHARES
(Percentage of Total Shares)



Statements

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31ST - (UNAUDITED)
(000's Omitted)

| INCOME | 2008 | 2009 |
|----------------------------|------------------|------------------|
| Interest on Members' Loans | \$91,678 | \$72,973 |
| Investment Income | 7,510 | 8,635 |
| Other Income | 37,825 | 36,145 |
| GROSS INCOME | \$137,013 | \$117,753 |

| EXPENSES | 2008 | 2009 |
|---------------------------|------------------|------------------|
| Loan Loss Reserves | \$41,501 | \$53,171 |
| Other Operating Expenses | 71,762 | 64,587 |
| OPERATING EXPENSES | \$113,263 | \$117,758 |

| | | |
|---------------------------------------|-------------------|-------------------|
| Income from Operations | \$23,750 | \$(4) |
| Non-Operating Loss | (2,238) | (3,062) |
| NCUSIF Recapitalization Expenses, Net | — | 2,363 |
| Income Before Dividends | 21,512 | (5,430) |
| Dividends Paid to Members | 45,839 | 35,212 |
| NET INCOME | \$(24,327) | \$(40,641) |

STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31ST - (UNAUDITED)
(000's Omitted)

| ASSETS | 2008 | 2009 |
|---|-------------|-------------|
| Loans to Members Net of Loss Reserves | \$1,374,546 | \$1,034,087 |
| Cash on hand | 26,693 | 24,609 |
| Investments & Interest-bearing Deposits | 174,697 | 370,515 |
| Interest Receivable | 6,392 | 5,284 |
| Premises & Equipment, Net of Depreciation | 62,038 | 100,927 |
| Other Assets | 59,430 | 47,209 |

TOTAL ASSETS **\$1,703,796** **\$1,582,631**

LIABILITIES/SHARES/EQUITY

| | | |
|--|-----------|-----------|
| Dividends Payable | \$2,243 | \$1,443 |
| Other Liabilities | 33,977 | 43,678 |
| Members' Shares | 1,553,528 | 1,466,094 |
| Restricted Earnings Reserve | 34,783 | 41,503 |
| Minority Interests in Consolidation | 4,027 | 4,341 |
| Undivided Earnings & Unrealized Losses | 75,238 | 25,572 |

TOTAL LIABILITIES & EQUITY **\$1,703,796** **\$1,582,631**

Treasurer's Report

Dr. Bryon Schaefer
Treasurer



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hile 2009 was another challenging year for everyone in the financial industry and the Kern County community, the economy has affected each of us in different ways. Most of us know someone who has lost their job. A few of us know someone who has lost their home. These conditions mean that your Credit Union has a greater role in serving our Members. Kern Schools Federal Credit Union takes this responsibility seriously and we are doing all we reasonably can to serve our Members.

During these difficult economic times it is reassuring to know your Credit Union is still a safe, secure, and solid financial institution. Thanks to the dedicated staff and our volunteer board of directors, we have weathered the 2009 financial storm. We don't think the economic downturn is over and we continue to see challenges ahead, but our charge remains clear: to continue offering our Members the best service and products we can.

The recent financial turmoil has created unique opportunities as well as new challenges. During this past year credit unions have distinguished themselves as the best choice for a financial institution. Our not-for-profit cooperative spirit is alive and well, which gives us the opportunity to tell the community how valuable the credit union movement is. We look forward to continuing to grow our membership in 2010 and offering our great products and services to our new Members. Additionally, recent regulatory changes have created a new set of revised regulations. Over the next few months you will receive important notices from us explaining upcoming changes to your accounts.

We appreciate your membership and are committed to taking care of all your financial needs. While these times are difficult, rest assured your board of directors, the management team and our dedicated staff are working hard to keep our Credit Union safe and secure. We will continue to look for opportunities to serve you better while remaining poised for the challenges ahead.



"Together, we have something special."

BRANCH LOCATIONS

BAKERSFIELD

4530 Ming Avenue
2424 Chester Avenue
3901 Mt. Vernon Avenue
6101 Coffee Road
5001 Panama Lane
9800 Ming Avenue
19632 Industry Parkway Drive
13129 Rosedale Highway

DELANO

1101 Cecil Avenue

TEHACHAPI

821 Tucker Road

Kern Schools Federal Credit Union

Telephone Numbers

661 833-7900
800 221-3311

www.ksfcu.org

9600 Ming Avenue
Bakersfield, CA 93311

