



2008

ANNUAL REPORT

*Together,
we have
something
special.*

2008

KERN SCHOOLS
FEDERAL CREDIT UNION

2008 ANNUAL REPORT

"Together, we have something special."

2008 presented financial challenges for members of Kern Schools Federal Credit Union. Dividend rates have fallen, qualifications for loans have tightened, and companies have closed their doors or reduced their staff. Yes, all around us we could see the effects of an economic downturn.

What has this meant to Kern Schools Federal Credit Union? As our Chairman's report points out, we too have instituted internal expense controls and staff reductions. Our investments are not in the stock market. Credit Unions are restricted to investing only in government guaranteed investments and in loans to our members.

At the end of 2007, the rate of delinquency of our members' loans began to rise. Economic factors locally placed a strain on our middle class working membership. Increasing unemployment and depreciating mortgage values led to the continued increase in loan delinquency and loan losses in 2008.

Our gross income was the highest it has ever been at the Credit Union, but the amount we were required to transfer to our loan loss reserve account was also the highest it has ever been. This created a net loss for the Credit Union in 2008.

The financial industry has been dealt a difficult hand. Kern Schools Federal Credit Union continues to have adequate reserves, we continue to strive to help many members through their financial challenges, and we continue to pay our members' dividends on their share deposits.



VINCENT ROJAS, JR.
President/CEO

We paid over \$45 million to members in share dividends in 2008. In addition, we contributed \$29,600 for the Federal Home Loan Bank's Affordable Housing Program from earnings on our deposit investments with the Bank.

Kern Schools Federal Credit Union will maintain its high level of diligence through these times, as well as continue to provide the highest level of service to its members, the owners of the Credit Union. We look forward to the return of prosperity as the stages of the traditional business cycle begin to change direction once again for the better. Remember, *"Together, we have something special."*

The recessionary economy that has severely impacted our state and federal governments has also deeply affected Kern County. The high rate of home foreclosures coupled with an increasing unemployment rate, have created serious challenges for local banking institutions. Members are deferring new car purchases and, in some cases, finding it increasingly difficult to make timely loan payments.



MESSAGE FROM THE
CHAIRPERSON OF THE BOARD OF DIRECTORS
DR. BILL BRUCE

Kern Schools Federal Credit Union, while not immune to these negative market forces, has worked hard to adjust to the declining economy in a conscientious effort to protect member investments and securities while continuing our mission of reaching out to our members in the community. Kern Schools Federal Credit Union has instituted internal cost cutting efficiencies at all levels, begun to closely monitor and close our underperforming branches, and continues to seek measures that protect our members, conserve our resources, and ensure our long term financial viability. Yes, your Credit Union remains a solid and respected member of the financial scene in Kern County as well as statewide.

The past year has seen our total membership grow over 10,000 members which raised our membership to over 187,000. Our total assets approach almost 1.7 billion dollars and we remain a major banking option for all our members. We have experienced a 4% growth in deposits in the past year and we remain #1 in market share among banking institutions in the City of Bakersfield and the County of Kern. We opened the new Taft and Spectrum branches this year and have established smaller presences in more of our outlying areas to provide improved access and convenience to our members.

Management, staff, and your Board of Directors work diligently to ensure the safety and security of your deposits and accounts. We are all proud of the image and credibility that Kern Schools Federal Credit Union reflects in our community. We remain the envy of countless financial institutions and our commitment to promote exceptional service and quality financial products to you, our members, is our mission and our goal. In the final analysis, it is your belief in and continuing use of your Credit Union services that provides the unwavering strength that makes Kern Schools Federal Credit Union a jewel in the financial marketplace. This is, indeed, why *"Together, we have something special."*



"Together, we have something special!"

SUPERVISORY COMMITTEE'S REPORT

The Supervisory Committee is comprised of four volunteers from the membership of Kern Schools Federal Credit Union appointed by the Board of Directors to ensure the Credit Union maintains an adequate system of internal controls and financial reporting to safeguard Credit Union assets. The Supervisory Committee and the Internal Audit team lead by Vice President & Chief Auditor, Mr. Perry Goodbrake of Kern Schools Federal Credit Union, are dedicated to ensuring member safety, privacy and the security of your funds deposited with the Credit Union. The Supervisory Committee reports directly to the Board of Directors, assessing those systems implemented by Management. To preserve our independence, and that of Internal Audit, we do not take any direct responsibility in designing, establishing or maintaining the controls we evaluate. We advise on potential improvements that can be made and effects once implemented. This independence is your assurance that all reports are impartial and accurately reflect operations.

During the forthcoming year, the Internal Audit team under supervision of the Committee will focus on audit practices addressing Risk Assessment, Information Security for the protection of our members, and Compliance Program which will strengthen the core operations of Kern Schools Federal Credit Union.

To meet our responsibilities, the Supervisory Committee has appointed the accounting firm of Turner, Warren, Hwang & Conrad to perform an annual audit as of December 31, 2008. This examination is designed to provide an unbiased opinion of the financial condition of your Credit

Union, to verify the accuracy of members' accounts, as well as determine compliance with regulatory requirements. Our independent auditor's report for year ending December 31, 2007 provided Kern Schools Federal Credit Union with an unqualified opinion and as a result the Supervisory Committee finds Kern Schools Federal Credit Union to be in a position of financial strength and is considered "well capitalized" by the National Credit Union Administration.

Currently, the 2008 annual final report is not completed and therefore the financials as presented herein are not audited. The final audited financial report will be completed during the second quarter of 2009.

SUPERVISORY COMMITTEE

Jim Sheats, *Chairman*

Tom Ross, *Secretary*

Carl Woody Jr., *Member*

Dennis Scott, *Member*

Supervisory committee from left to right: Jim Sheats, Dennis Scott, Carl Woody, Tom Ross.



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

MARY K. ZWARTENDYK, DIRECTOR

MARILYN JONES, DIRECTOR

DR. CECIL BRISCOE, DIRECTOR

DR. BILL WILLIAMS, DIRECTOR

MIKE KILEEN, DIRECTOR

SUPERVISORY COMMITTEE

JIM SHEATS, CHAIRPERSON

TOM ROSS, SECRETARY

CARL D. WOODY, JR., MEMBER

DENNIS SCOTT, MEMBER

ADMINISTRATION

VINCENT ROJAS, JR.
PRESIDENT/CEO

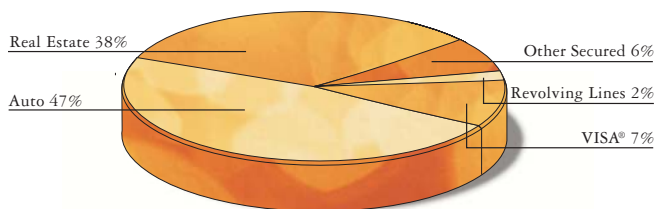
PENELOPE FULTON
SR. V.P., ADMINISTRATIVE SERVICES

NORMAN RANALLO
SR. V.P., CHIEF FINANCIAL OFFICER

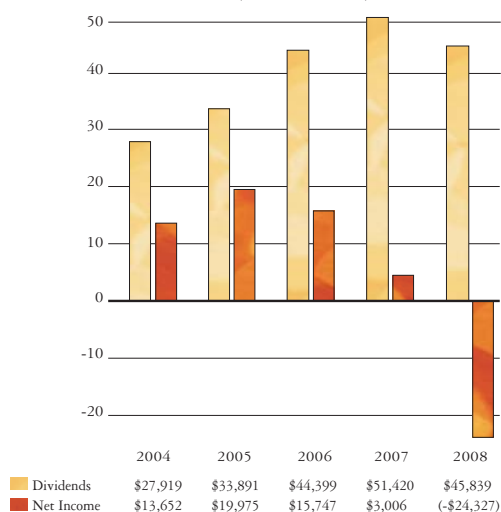
BARBARA IRLE
SR. V.P., OPERATIONS/
BRANCH ADMINISTRATION

ANNUAL STATEMENTS

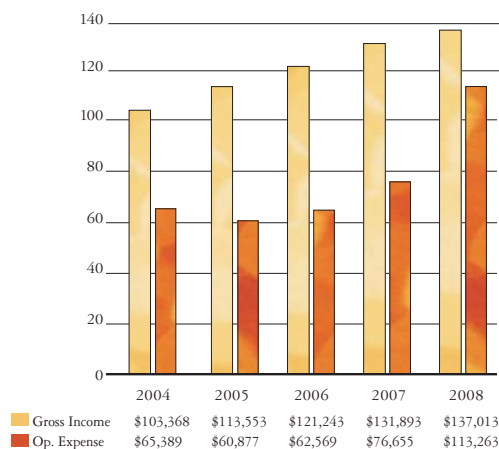
MEMBER LOANS
(PERCENTAGE OF TOTAL LOANS)



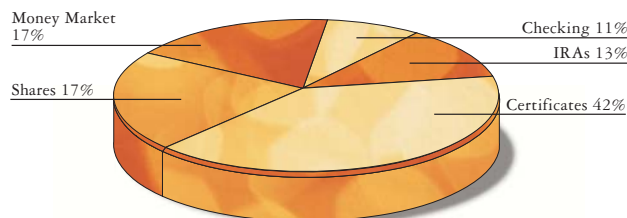
MEMBER DIVIDENDS & NET INCOME
(000's OMITTED)



GROSS INCOME & OPERATING EXPENSE
(000's OMITTED)



MEMBER SHARES
(PERCENTAGE OF TOTAL SHARES)



STATEMENTS

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

	2007	2008
INCOME		
Interest on Members' Loans	\$87,679	\$91,678
Investment Income	10,016	7,510
Other Income	34,198	37,825
GROSS INCOME	\$131,893	\$137,013

EXPENSES		
Loan Loss Reserves	13,055	\$41,501
Other Operating Expenses	63,610	71,762
OPERATING EXPENSES	\$76,665	\$113,263

Income from Operations	\$55,228	\$23,750
Non-Operating Loss	(802)	(2,238)
Income Before Dividends	54,426	21,512
Dividends Paid to Members	51,420	45,839
NET INCOME	\$3,006	(\$24,327)

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

	2007	2008
ASSETS		
Loans to Members	\$1,385,816	\$1,374,546
Cash	20,863	26,693
Investments	132,888	174,697
Interest Receivable	6,938	6,392
Premises & Equipment	55,870	62,038
Other Assets	52,246	59,430
TOTAL ASSETS	\$1,654,621	\$1,703,796

LIABILITIES/SHARES/EQUITY

Dividends Payable	\$3,006	\$2,243
Other Liabilities	40,339	38,004
Member Accounts	1,469,314	1,553,528
Restricted Reserve	34,783	34,783
Undivided Earnings	107,179	75,238
TOTAL LIABILITIES & EQUITY	\$1,654,621	\$1,703,796



"Together, we have something special."

9600 Ming Avenue
Bakersfield, CA 93311

BRANCH LOCATIONS

BAKERSFIELD

4530 Ming Avenue
2424 Chester Avenue
3901 Mt. Vernon Avenue
6101 Coffee Road
2671 Oswell Street
5001 Panama Lane
9800 Ming Avenue
9600 Hageman Road
19632 Industry Parkway Drive
13129 Rosedale Highway

RIDGECREST

1621 North Downs Street

DELANO

1101 Cecil Avenue

TAFT

1056 W. Kern Street

TEHACHAPI

821 Tucker Road

WASCO

2425 Highway 46

Credit Union
Telephone Numbers

661 833-7900
800 221-3311

www.ksfcu.org



DR. BRYON SCHAEFER
Treasurer

TREASURER'S REPORT

This past year we saw unprecedented turmoil in the financial markets. The credit crisis, a significant decline of 39.6% in local real estate values, the collapse of a number of major financial institutions, and rising unemployment all combined to create an economic climate which has not been seen since the 1930s. While your Credit Union is not immune to the overall economic environment, due to our prudent lending practices and sound financial policies, Kern Schools Federal Credit Union continues to be a strong, well-capitalized financial institution. We remain committed to our mission, which is "to build a lifetime financial partnership with members through exceptional service and quality financial products.

To meet this mission, we continue to invest for the future. Our most visible investment this past year was the construction and opening of our newest branch location, Spectrum. This brings our number of branches to fifteen as we continue to expand our geographic reach to serve you, our current members, and to attract new members to the benefits we offer. We also continue to invest in technology to enable us to provide the services which our members have come to expect from a progressive organization. Last, but certainly not least, we are investing in our people. Ongoing training and development of our personnel are high priorities for the Credit Union. We recognize that our people are the tools that make it possible for us to provide the high-quality service which our members expect and deserve.

During 2008 we saw our gross income rise 15% to over \$137,013,000. This increase, unfortunately, could not offset the rapid and significant decline in real estate values, which caused a dramatic rise in foreclosures. While the fore-

closures were generally non-Credit Union actions, many of our member home equity and second trust deed power-house loans were lost. We added over \$41,500,000 in reserves to safely provide for the losses. During the year, we charged off \$23,433,000 in loan losses. As a result the Credit Union incurred a net loss of \$24,327,000.

To help in offsetting some of the impact of these losses, the Credit Union is adopting cost control measures and analyzing risk inherent in its loan portfolio to keep 2009 from following the economic turmoil of 2008. Turmoil that has had life changing implications for almost every American...

Thanks to you, the members, for your continuing loyalty and confidence in Kern Schools Federal Credit Union. Members' share deposits have increased more than \$84 million, or 5.7% to over \$1.5 billion. And thanks also to the Credit Union staff and volunteers for the efforts they have provided on our behalf over this very trying past year to

make our co-operative association the first-rate organization that it is, responsive to members' needs and dedicated to the idea of outstanding and innovative service.

