

2017 | ANNUAL REPORT



"Together, we have something special"SM



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A Message From The Board of Directors and Management Team



Dr. S. William Bruce

Chairperson, Board of Directors



Stephen P. Renock, IV

President/CEO

Over the past year, the Credit Union has achieved a level of financial success through sound operational practices that has resulted in opportunities to better serve our Membership. As in prior years, solid growth in lending has led to growth of the Credit Union's balance sheet and fiscal stability. A very healthy loan-to-share ratio of 79.10% is due to, among other things, a \$46 million (7%) growth in real estate loans which reflects a growing recognition of KSFCU's mortgage lending ability and expertise.

Even though our industry growth has been dampened as a result of narrow margins, low interest rates, and intense competition, the Credit Union's balance sheet has grown by leveraging the financial strength and soundness of our balance sheet as well as by offering value-added products and services designed to meet the needs of our Membership.

While 2017 was a year of steady financial success, the strategic vision of the Credit Union's leadership was focused on maintaining sustained growth for years to come. This includes the opening of our new full service branch at Artisan Square, investments in technology and infrastructure and a commitment to our team members with training aimed at coaching.

Over the course of this last year, steady asset growth of \$101 million or 7%, coupled with solid deposit growth of \$83 million or 7% and minimal loan losses emphasized the strength of KSFCU's balance sheet. Throughout 2017 the Credit Union maintained focus on reducing operational expenses by creating efficiencies and process improvements. These continuing efforts resulted in an end-of-year Net Worth Ratio of 9.97% and annual net income of \$10 million.

This solid financial foundation will afford a continued focus on product and service generation to meet the changing needs of the Credit Union's Membership. The coming year will begin with multiple system upgrades, starting with a new phone system to better serve the Membership through advanced service capabilities that will be afforded to the Contact Center. Additionally, the online and mobile banking upgrade will continue the Credit Union's commitment to staying in front of technological advances. These advances will serve the Membership's desire for easy, secure and ever-evolving access to their financial institution. Finally, the core system upgrade will position the Credit Union for growth opportunities available in the future.

While 2017 demonstrated operational strength, the Credit Union must continue to remain focused on the Membership in a fluid and sometimes uncertain economy. Continuing to build an agile organization will allow the Credit Union to weather economic fluctuations and an uncertain regulatory environment while, at the same time, focus on products and services that benefit the Membership.

While sustainable growth remains the focus of the Credit Union in 2018 and future years, this strategic vision cannot be achieved without a constant focus on the KSFCU mission: "The Credit Union shall build a lifetime financial partnership with Members through exceptional service and quality financial products." The continued success of the Credit Union's Membership and our team members is paramount to the achievement of our goals for 2018 and the future. Service to the Credit Union Membership and financial stability are the core of our mission.

Supervisory Committee's Report



Troy Fringer
Chairperson



Dan Shannon
Member

The Supervisory Committee, appointed by the Board of Directors, is comprised of three volunteers from the Membership of Kern Schools Federal Credit Union. To remain proficient in Credit Union developments, all Supervisory Committee members attend monthly Board of Directors meetings, attend semi-annual strategic planning sessions, and attend various industry-specific educational seminars and conferences.

The Supervisory Committee has two primary responsibilities. First, to ensure Management's financial reporting is consistent with Generally Accepted Accounting Principles (GAAP). Second, to ensure Management's policies and procedures safeguard Members' assets. To accomplish these responsibilities, the Supervisory Committee engaged the services of Nearman, Maynard, and Vallez to perform the required financial statement audit and verification of Members' accounts for the year ending December, 31, 2017.

The 2017 annual financial statement audit is not finalized; therefore, the financial statements presented herein are not audited. The audited financial report will be completed during the second quarter of 2018. As a result of the financial statement audit, internal audits, and regulatory examinations, the Supervisory Committee believes the Credit Union's financial condition and its internal controls are sound.

SUPERVISORY COMMITTEE

Troy Fringer, Chairperson

Dan Shannon, Member

BOARD OF DIRECTORS

Dr. S. William Bruce, Chairman

Marilyn Jones, First Vice Chairperson

Joanne Mills, Second Vice Chairperson

Dr. Dennis Scott, Treasurer

Dr. Larry Reider, Secretary

Joe Drew, Director

Dr. James Fillbrandt, Director

Mike Kileen, Director

Carl B.A. Lange, III, Director

Doug Miller, Director

Dr. Bryon Schaefer, Director

MANAGEMENT

Stephen P. Renock, IV,
President/CEO

Nick Ambrosini,
Senior Vice President, Chief Financial Officer

Michael M. George,
Senior Vice President, Chief Marketing,
Innovation & Advocacy Officer

Steven R. Matejka,
Senior Vice President, Chief Operations Officer

Steve Roach,
Senior Vice President, Chief Information Officer

Rudy Tafoya,
Senior Vice President, Chief Lending Officer

2017 | ANNUAL REPORT

Annual Statements

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31ST (UNAUDITED)

(000's Omitted)

INCOME	2017	2016
Interest on Members' Loans	\$ 38,955	\$ 35,041
Investment Income	8,346	6,320
Other Income	23,328	22,994
GROSS INCOME	\$ 70,629	\$ 64,355
EXPENSES		
Loan Loss Reserves	2,974	3,214
Other Operating Expenses	52,938	55,689
OPERATING EXPENSES	\$ 55,913	\$ 58,903
Income from Operations	\$ 14,716	\$ 5,452
Non-Operating Gains (Losses)	483	(314)
NCUSIF Recapitalization Expenses, Net	-	-
Income Before Dividends	15,200	5,138
Dividends & Interest Paid to Members	4,908	3,261
NET INCOME	\$ 10,291	\$ 1,877

STATEMENT OF FINANCIAL CONDITION

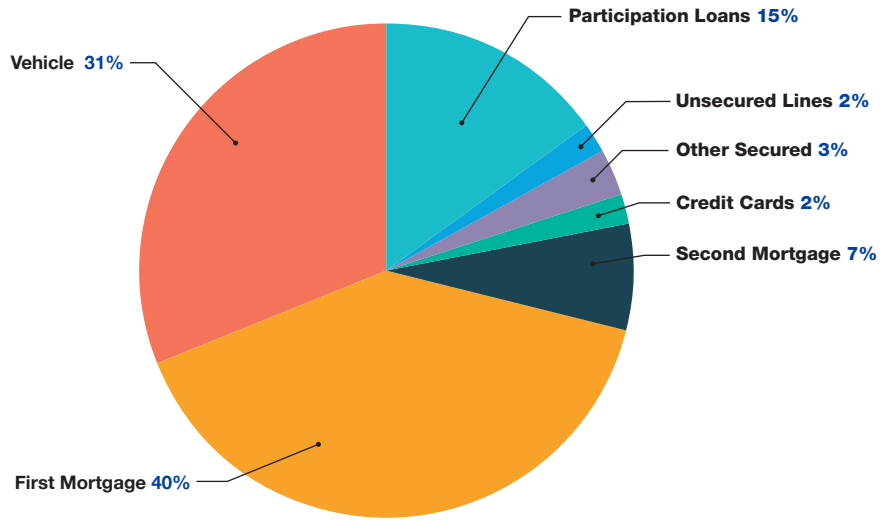
AS OF DECEMBER 31ST (UNAUDITED)

(000's Omitted)

ASSETS	2017	2016
Loans to Members, Net of Loss Reserves	\$ 1,049,564	\$ 922,500
Cash on Hand	75,125	54,723
Investments & Interest-Bearing Deposits	281,902	332,997
Interest Receivable	2,899	2,612
Premises & Equipment, Net of Depreciation	46,620	46,092
Other Assets	55,751	51,101
TOTAL ASSETS	\$ 1,511,861	\$ 1,410,025
LIABILITIES / SHARES / EQUITY		
Dividends Payable	\$ 24	\$ -
Other Liabilities	28,216	20,917
Members' Shares	1,335,915	1,253,391
Restricted Earnings Reserve	49,836	49,836
Minority Interests in Consideration	-	-
Undivided Earnings & Unrealized Losses	97,869	85,880
TOTAL LIABILITIES & EQUITY	\$ 1,511,861	\$ 1,410,025

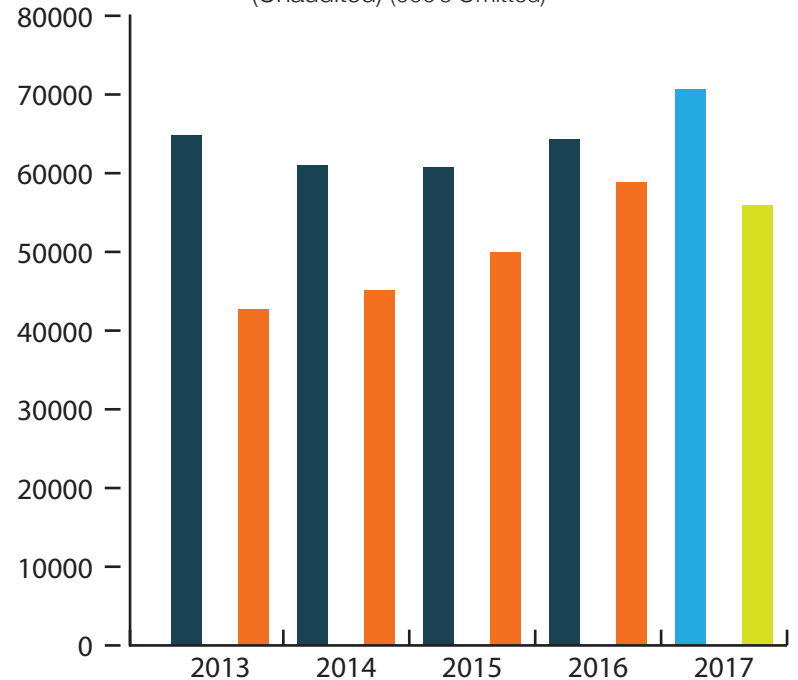
MEMBER LOANS

(Percentage of Total Loans)



GROSS INCOME AND OPERATING EXPENSES

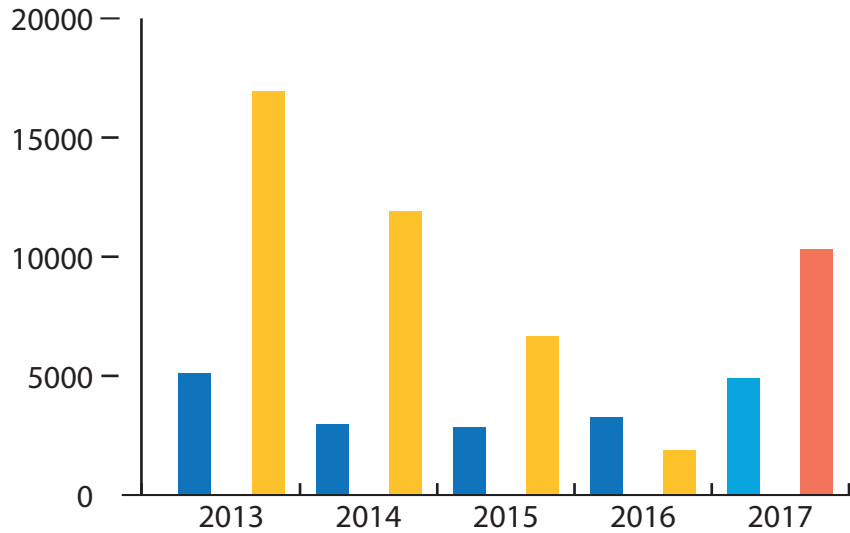
(Unaudited) (000's Omitted)



	2013	2014	2015	2016	2017
Gross Income	64,837	61,034	60,815	64,355	70,629
Operating Expenses	42,735	45,124	49,992	58,903	55,913

MEMBER DIVIDENDS (Interest) AND NET INCOME

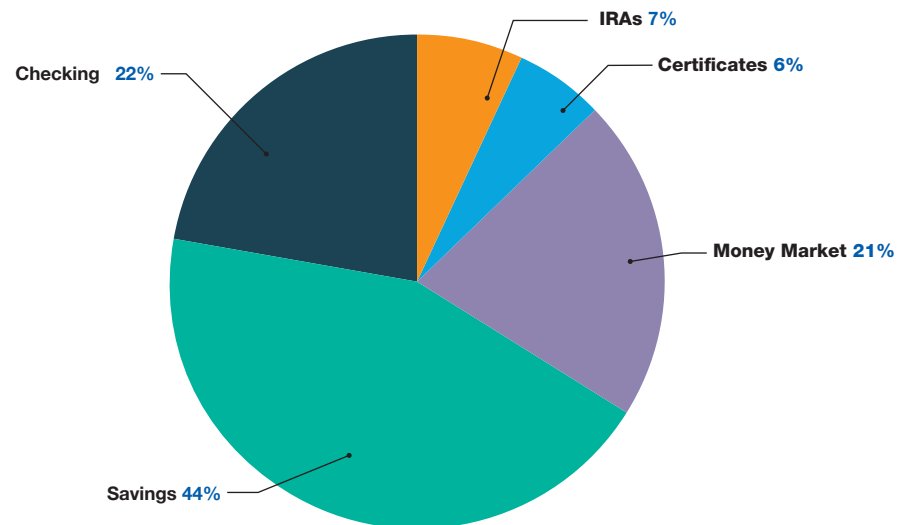
(Unaudited)



	2013	2014	2015	2016	2017
Dividends	5,097	2,975	2,819	3,261	4,908
Net	16,927	11,920	6,644	1,877	10,291

MEMBER SHARES

(Percentage of Total Shares)



Seventy-Seventh Annual Meeting Minutes

Kern Schools Federal Credit Union • April 13, 2017

The Seventy-Seventh Annual Meeting of Kern Schools Federal Credit Union was held at the Administrative Office in Bakersfield, California, on the evening of April 13, 2017. Dr. Bryon Schaefer, Chairman of the Board of Directors, extended a warm welcome to all Members and guests as well as his sincere appreciation for their attendance.

Dr. Schaefer noted that at each place there is a 2016 Annual Report which contains the financial statements, minutes of the 2016 Annual Meeting and the Supervisory Committee Report. A motion to accept these items will be required during the business portion of the meeting, so the Chairman asked the group to please take a few minutes to review the reports.

Dr. Schaefer introduced Ms. Marilyn Jones, Board Member, who led the flag salute followed by the invocation.

Our Chairman, Dr. Bryon Schaefer, began the evening by introducing the **Board of Directors:** Dr. S. William Bruce, First Vice Chairperson; Ms. Joanne Mills, Second Vice Chairperson, Ms. Marilyn Jones, Secretary and Dr. Bill Williams, Treasurer; **Directors:** Dr. James Fillbrandt, Dr. Larry Reider, Dr. Dennis Scott, Mike Kileen and Carl Lange; Board Member Doug Miller was absent. **Supervisory Committee:** Joe Drew, Chairman, Troy Fringer Member and Dan Shannon, Member, was absent. **Management:** Steve Renock, President/CEO; Nick Ambrosini, SVP/Chief Financial Officer; Neil Marshall, SVP/Chief Risk Officer; Michael George, SVP/Chief Marketing and Advocacy Officer; Steve Roach, SVP/Chief Information Officer; and Shari Butler, Assistant to the President. Absent were Steve Matejka, SVP/Chief Operations Officer and Rudy Tafoya, SVP/Chief Lending Officer.

Dr. Schaefer introduced the Members in attendance with the most longevity at the Credit Union; Paul Weller, 31 years and Fern Weller, 35 years. Dr. Schaefer thanked them for their many years with the Credit Union.

Pursuant to the Bylaws, at each Annual Meeting an election is conducted to fill vacancies on the Board of Directors. The candidates running for re-election were announced and included Dr. S. William Bruce, Dr. James Fillbrandt, Ms. Marilyn Jones and Ms. Joanne Mills. A motion will be

requested during the business portion of the meeting.

Chairman Schaefer called the business meeting to order at 6:03 pm. Chairman Schaefer introduced Joe Drew, Chairman of the Supervisory Committee to present the Supervisory Committee Report. Mr. Drew stated the Supervisory Committee had reviewed the financial statement of the Credit Union with our outside auditors and prepared the Supervisory Committee report as contained in the 2016 Annual Report.

Currently, the 2016 annual financial statement Audit was not yet complete; therefore, the financial statements presented were unaudited. The audited financial report will be completed during the second quarter of 2017.

Dr. Schaefer spoke to the attendees and mentioned that 2016 was a year of challenge and change. Kern Schools Federal Credit Union's efficient systems, underwriting expertise, competitive rates and commitment to finding the "right solutions" for our Members resulted in sustained loan portfolio success in 2016. The Credit Union had double digit loan growth of more than 11%, or \$91 million above 2015 totals.

Dr. Schaefer stated that the challenges the Credit Union faces are in the form of rising regulatory and compliance costs, many of which are associated with Information Security, as safeguarding our systems and our Members is paramount; yet, the cost to do so has risen substantially.

Beginning in 2018, the Credit Union is scheduled to significantly enhance its online and mobile banking solutions with new tools that deliver unparalleled levels of security, convenience, and reliability. Further technological changes include reinvesting additional earnings into innovative technologies to improve the Member experience across our delivery channels, including branch and phone based transactions.

Kern Schools remains Member focused, community based, solutions driven and integrity led. Through these values Kern Schools will continue to achieve its mission: "The Credit Union shall build a lifetime financial partnership with Members through exceptional service and quality financial products." As the Credit Union looks to 2017 and beyond, Dr. Schaefer stated we will not lose sight of the fact that our Members and team members remain our most important asset.

Seventy-Seventh Annual Meeting Minutes

Mr. Renock came to the podium and extended a welcome to all those attending our 2017 Annual Meeting.

He stated a significant part of our challenge is a result of the low interest rate environment over the last several years. It's a much tougher environment when, for competitive reasons you charge 1.99% for an auto loan, even if you pay depositors far less than 1%. This margin compression, as it is called, has put pressure on earnings for most financial institutions.

He went on to say how everyone is talking about the Federal Government raising rates, which they have finally started to do, after years of speculation and inaccurate forecasts. Our regulator has been warning credit unions about the imminent rise of rates since 2009. While a rising rate environment will certainly help our Credit Union earnings and Member deposits, until it happens it is still just a forecast.

Mr. Renock closed with a statement that Winston Churchill was once asked how he would describe political ability. He said, "It is the ability to foretell what is going to happen tomorrow, next week, next month and next year; and to have the ability to explain why it didn't happen." This sounds a lot like forecasting to me.

Regardless of forecasts, our team will continue to live our core values of being member focused, solutions driven, community based and integrity led. By doing so, our Members will be well served and our Credit Union will continue to do well.

Mr. Renock thanked our volunteer Board and Supervisory Committee for their wisdom and guidance this past year, and all of our team members for the wonderful job they do every day. A special thanks to the Marketing Department for putting together today's event. Lastly, a special thanks to the spouses and significant others for their patience in dealing with all of the work issues we bring home with us.

Chairman Schaefer verified by attendance of our Members that a quorum was present. The Chairman asked if there were any corrections to either the minutes or the Treasurers' Report contained in the 2016 Annual

Report. Hearing none, the Chairman asked for a motion to accept the Minutes of the Seventy-Sixth Annual Meeting, the Financial Statement and the Supervisory Committee Report contained therein. It was moved by Dr. S. William Bruce and seconded by Ms. Joanne Mills to approve the minutes and reports as indicated above. Motion carried.

Chairman Schaefer reported that this year we did not have an election and the ballot was composed of four incumbents re-running; Dr. S. William Bruce, Dr. James Fillbrandt, Ms. Marilyn Jones and Ms. Joanne Mills. The Chairman asked for a motion to elect these candidates by acclamation. A motion was made by Mr. Carl Lange and seconded by Dr. Larry Reider to elect these candidates by acclamation. Motion carried. These four Board Members were congratulated on their election for an additional three-year term.

Dr. Schaefer called for any old business that needs to be discussed, followed by any new business. There was no old or new business presented. There being no further business to conduct, it was moved by Mr. Mike Kileen and seconded by Dr. Bill Williams to adjourn the meeting at 6:14 p.m. Motion carried.

Respectfully submitted,
Shari Butler, Recording Secretary

APPROVED BY:

Dr. Bryon Schaefer, Chairperson
Ms. Marilyn Jones, Secretary



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BRANCH LOCATIONS

ARTISAN

1341 Allen Road

BUENA VISTA

3300 Buena Vista Road, Suite J

DELANO

1828 Cecil Avenue, Ste. A and B

DOWNTOWN

2424 Chester Avenue

MING

4530 Ming Avenue

MT. VERNON

3901 Mt. Vernon Avenue

PANAMA

5001 Panama Lane

RIVER RUN

6101 Coffee Road

TOWN & COUNTRY

8200 Stockdale Highway, Suite P

TEHACHAPI

821 Tucker Road, Suite A & B

HIGH SCHOOL BRANCHES

Frontier High School
Regional Occupational Center
Ridgeview High School
Stockdale High School
West High School

HOME LOAN CENTER

4530 Ming Avenue

MEMBER BUSINESS SERVICES

(661) 833-7530

WEALTH MANAGEMENT

(661) 833-7730

CONTACT CENTER

(661) 833-7900
(800) 221-3311(outside of Bakersfield)
www.ksfcu.org

ADMINISTRATIVE OFFICES

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