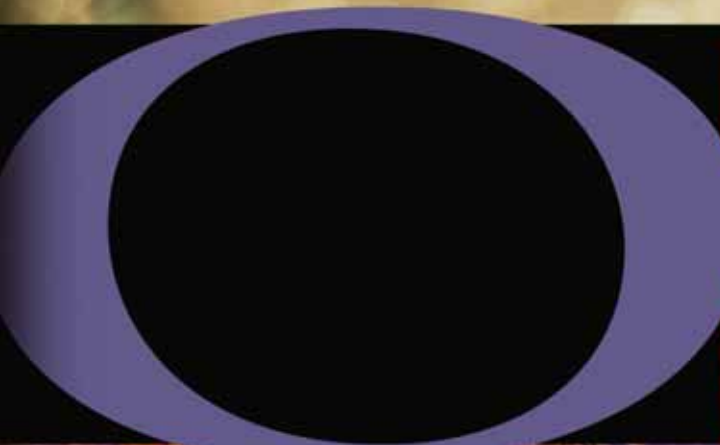


**Kern Schools Federal Credit Union
2005 Annual Report**



Interest rates began to rise in 2005. The price of oil and subsequently gasoline for our cars remained quite high. The Federal Reserve kept on its "tightening" path maintaining its hold on inflation risks.

through new branch offices, ATMs, or more "friendly" technology features. DataVoice transactions for 2005 reached over 2.4 million. DataNet bills paid by you, the member, totaled over \$60.5 million in 2005. Again, this is a positive

meet members' expectation of quality, efficient, and dependable service. The Board of Directors, Senior Management, and all of Staff are committed to these expectations... "Together, we have something special."

Kern Schools Federal Credit Union 2005 Annual Report

"together, we have something special"

Kern Schools Federal Credit Union continued to maintain its strong slow growth pattern of years past. Member deposits increased by \$137 million to a new high of \$1.4 billion. The Credit Union paid to its members \$33.9 million in dividends on share and share certificate accounts. This was an increase of \$5.9 million over 2004. These positive trends are necessary because the member deposit dollars provide the capital necessary to maintain our reserves, for the development of new products, and the construction of new branches.

In our mission of building a lifetime financial partnership with members comes a charge to provide convenient access to their money. This convenience can be

sign that members are using the services that Kern Schools Federal Credit Union offers. This is what the cooperative spirit is all about.

Demand in our investment services department has necessitated that we hire more representatives. These employees will be located at almost all of our offices. The response to our educational investment workshops has been overwhelming. Again, the Credit Union is meeting a need of the members that has not been there in the past.

Over its sixty-five years, the Credit Union has made the effort to adjust to the financial needs of its members. As we have grown in size and in age, products are introduced to meet our changing lifestyles. However, during this time, we have not deviated from our original mission of our cooperative spirit. We strive to



Vincent Rojas, Jr.
President/CEO



MESSAGE FROM THE
CHAIRPERSON OF THE BOARD OF DIRECTORS
MIKE KILEEN
MARCH 30, 2006

I AM PLEASED TO REPORT THAT, IN 2005, YOUR CREDIT UNION RETAINED ITS STATUS AS ONE OF THE MOST FISCALLY SOUND AND SECURE FINANCIAL INSTITUTIONS IN KERN COUNTY.

THAT IS A DISTINCTION NOT TO BE TAKEN LIGHTLY; A DISTINCTION WHICH REQUIRES A MARVELOUS TEAM EFFORT FROM TALENTED MANAGEMENT AND STAFF, COMMITTED CARING VOLUNTEERS WHO SERVE ON YOUR BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE, AND, OF COURSE, YOU, OUR MEMBERS.

THE KSFCU MISSION STATEMENT, ADOPTED MARCH 26, 2001, READS "THE CREDIT UNION SHALL BUILD A LIFETIME FINANCIAL PARTNERSHIP WITH MEMBERS THROUGH EXCEPTIONAL SERVICE AND QUALITY FINANCIAL PRODUCTS." THERE ARE MANY REASONS FOR OUR SUCCESS OVER THE PAST 65 YEARS; HOWEVER, PERHAPS THE PRIMARY REASON HAS BEEN OUR ABILITY TO MEET THE CHANGING FINANCIAL NEEDS OF OUR MEMBERS. MONEY MANAGEMENT AND FINANCIAL PLANNING SEMINARS; ON-LINE BANKING, BILL-PAY, AND OTHER AUTOMATED SERVICES; INVESTMENT AND INSURANCE SERVICES; REAL ESTATE LOANS; VISA CARD PROGRAMS; AND MANY MORE SERVICES ARE BEING ADDED AND IMPROVED EACH DAY.

KERN SCHOOLS HAS OVER 500 EMPLOYEES TO MEET YOUR GROWING FINANCIAL NEEDS. ONE MAJOR FOCUS IN 2005 HAS BEEN THE CONSOLIDATION OF DEPARTMENTS FROM MANY LOCATIONS INTO A SINGLE ADMINISTRATIVE SUPPORT CENTER. THIS NEW FACILITY IS THE FIRST BUILDING IN THE SAN JOAQUIN VALLEY TO BE DESIGNED AND CONSTRUCTED ACCORDING TO STRICT GUIDELINES FOR "GREEN" BUILDINGS. GREEN BUILDINGS CONTAIN ENVIRONMENTALLY FRIENDLY COMPONENTS AND ADHERE TO VERY HIGH STANDARDS FOR ENERGY EFFICIENCY WHICH PROVIDE SIGNIFICANT LONG-TERM OPERATIONAL COST SAVINGS. THE CREDIT UNION CAN NOW MANAGE ALL OPERATIONS FROM ONE LOCATION IN THE MOST EFFICIENT MANNER POSSIBLE.

A NEW FULL SERVICE BRANCH OFFICE IS NOW UNDER CONSTRUCTION AT 9800 MING AVENUE. THIS NEWEST BRANCH WILL PROVIDE DRIVE-UP TELLERS AND ATM LANES AND GIVE MEMBERS ADDITIONAL WAYS TO USE THE SERVICES OFFERED BY THEIR CREDIT UNION.

WE ARE SERIOUS ABOUT SERVICE AND WITH YOUR CONTINUED SUPPORT WE WILL CONTINUE TO MEET ALL OF YOUR FUTURE FINANCIAL SERVICES NEEDS! "TOGETHER, WE HAVE SOMETHING SPECIAL."



JOANNE MILLS
Treasurer

TREASURER'S REPORT

By reviewing the numbers, we get a financial picture of a very successful credit union. We get a good picture of its strengths as well as its future viability and see that the Credit Union is meeting its intended purpose, that of serving the members. Without this financial strength, the ability to meet members' needs would be hampered and the organization could not have achieved the successes that it has.

Some of the most significant numbers for Kern Schools Federal Credit Union during the 2005 year include the following:

As of December 31, 2005, total assets increased over \$169 million or 12% from December 31, 2004. Total assets are over \$1.568 billion as of December 31, 2005. Share balances grew by almost \$137 million or 10% while loan balances increased \$156 million or 15%.

Total reserves also increased to an all time high of \$131 million. This cushion increases our ability to insure that we will be around to serve our members for many years to come.

Our financial results paint a very bright picture for the membership of Kern Schools Federal Credit Union. They identify our strengths, our future vitality, and our success at meeting the needs of the membership.



CARL D. WOODY
JR.,
*Supervisory
Committee*

SUPERVISORY COMMITTEE'S REPORT

The Supervisory Committee, under the direction of the Board of Directors, continued to review and examine the Credit Union's operational practices.

The Supervisory Committee, with the assistance of our Chief Internal Auditor, Mr. Perry Goodbrake, and an expanded audit department, has increased its scrutiny into the review of our loan quality and their subsequent collection with excellent results.

Correspondingly, we have increased the membership of the Supervisory Committee from four to five members with the appointment of Mr. Tom Ross, who presently serves as Director of Purchasing for the Bakersfield City School District.

The Auditing Firm of Turner, Warren, Hwang and Conrad, under the direction of the Supervisory Committee, has been performing the Annual Audit of your Credit Union's financial statements for 2005. The Audit is not complete, therefore the report being presented is not audited. The final audited report will be available during the second quarter of 2006.

The Supervisory Committee wishes to express its appreciation to the members of management and staff for their assistance and cooperation in making this report possible.

BOARD of DIRECTORS

- Mike Kileen • CHAIRPERSON
- Dr. Bill Bruce • 1ST VICE CHAIRPERSON
- Jeannine Thompson • 2ND VICE CHAIRPERSON
- Joanne Mills • TREASURER
- Bryon Schaefer • SECRETARY
- Dr. James Fillbrandt • DIRECTOR
- Dr. Larry Reider • DIRECTOR
- Mary K. Zwartendyk • DIRECTOR
- Marilyn Jones • DIRECTOR
- Dr. Cecil Briscoe • DIRECTOR
- Dr. Bill Williams • DIRECTOR

SUPERVISORY COMMITTEE

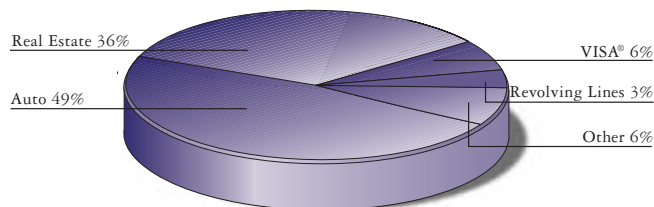
- Carl D. Woody, Jr. • CHAIRPERSON
- Jim Sheats • SECRETARY
- James C. Dunn • MEMBER
- Dennis Scott • MEMBER
- Tom Ross • MEMBER

ADMINISTRATION

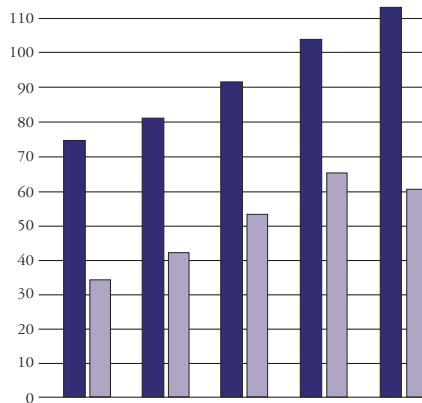
- Vincent Rojas, Jr.
PRESIDENT/CEO
- Penelope Fulton
SR. V.P., ADMINISTRATIVE SERVICES
- Norman Ranallo
SR. V.P., CHIEF FINANCIAL OFFICER
- Barbara Irle
SR. V.P., OPERATIONS/BRANCH ADMINISTRATION



MEMBER LOANS
(PERCENTAGE OF TOTAL LOANS)

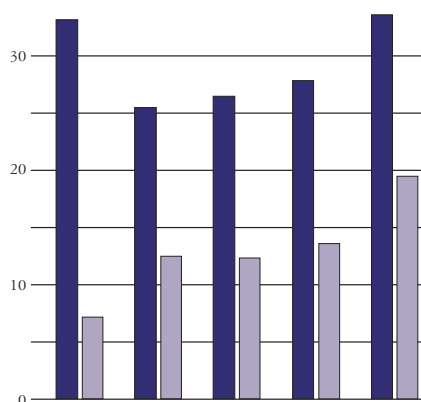


GROSS INCOME & OPERATING EXPENSE
(000's Omitted)



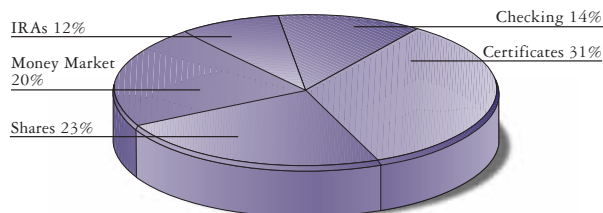
■ Gross Income	\$74,694	\$80,434	\$91,400	\$103,368	\$113,553
■ Op. Expense	\$34,467	\$42,106	\$53,152	\$65,389	\$60,877

MEMBER DIVIDENDS & NET INCOME
(000's Omitted)



■ Dividends	\$33,201	\$25,360	\$26,470	\$27,919	\$33,891
■ Net Income	\$7,031	\$12,557	\$12,427	\$13,652	\$19,975

MEMBER SHARES
(PERCENTAGE OF TOTAL SHARES)



STATEMENTS

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

INCOME	2004	2005
Interest on Members' Loans	\$71,573	\$72,261
Investment Income	5,503	10,078
Other Income	26,292	31,214
GROSS INCOME	\$103,368	\$113,553
OPERATING EXPENSES	\$65,389	\$60,877
Income from Operations	\$37,979	\$52,676
Non-Operating Gain	3,592	1,190
Income Before Dividends	41,571	53,866
Dividends Paid to Members	27,919	33,891
NET INCOME	\$13,652	\$19,975

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

ASSETS	2004	2005
Loans to Members	\$1,040,438	\$1,196,835
Cash	36,685	51,095
Investments	271,690	251,108
Interest Receivable	4,998	6,067
Premises & Equipment	18,248	29,608
Other Assets	26,730	33,487
TOTAL ASSETS	\$1,398,789	\$1,568,200
LIABILITIES/SHARES/EQUITY		
Dividends Payable	\$2,239	\$2,897
Other Liabilities	17,469	35,037
Member Accounts	1,262,622	1,399,152
Restricted Reserve	34,783	34,783
Undivided Earnings	81,676	96,331
TOTAL LIABILITIES & EQUITY	\$1,398,789	\$1,568,200



"Together, we have something special."

9600 MING AVENUE
BAKERSFIELD, CA 93311

Presorted Standard
US POSTAGE
PAID
BAKERSFIELD, CA
Permit 595

2005 ANNUAL REPORT

BRANCH LOCATIONS

BAKERSFIELD

4530 Ming Avenue
2424 Chester Avenue
3901 Mt. Vernon Avenue
8200 Stockdale Highway
6101 Coffee Road
2671 Oswell Street
5001 Panama Lane

RIDGECREST

1621 North Downs Street

DELANO

1101 Cecil Avenue

TEHACHAPI

Tehachapi Express Branch
821 Tucker Road

Credit Union
Telephone Numbers

661 833-7900
800 221-3311

www.ksfcu.org

