

VALLEY STRONG
CREDIT UNION

2019 | ANNUAL REPORT

Grow Your Possibilities

A Message From The
Board of Directors and Management Team



Dr. Larry Reider
Chairperson, Board of Directors



Stephen P. Renock, IV
President/CEO

Valley Strong Credit Union has continued to grow the past year while still maintaining a strong focus on our Members. Much of the year was devoted to successfully completing our state charter conversion and name change, however, we also have remained dedicated to meeting our Membership's ever-changing needs with quality products and services. Throughout 2019, the Credit Union offered deposit and certificate promotions while also rolling out lending enhancements. Some of these key enhancements have included a year-round skip payment program, micro-loans, updated credit card rewards program and home construction loans. This past year also saw the launch of Valley Strong's new full-service Business Banking program.

Valley Strong is positioned to grow possibilities for our current Membership while also becoming the trusted financial institution of new Members across the Valley. In early 2020, Valley Strong eliminated nearly a dozen service fees, expanded Contact Center hours, and began the process of deploying a new ATM fleet. Indeed, these are just a few of the exciting improvements that will roll out throughout the year.

While 2019 was a year focused on future growth and possibility, our team members did not lose sight of the financial safety and sound practices that have led to more than 80 years of success and stability. The Credit Union focused on improving profitability in an effort to return as much benefit as possible to our growing Membership. With net income of $17 million and annual asset growth of $250 million, Valley Strong will be able to do just that. Asset growth for 2019 was approximately 16%, in large part due to the $58 million or 5% growth in loans (assets) and $212 million or 15% growth in deposits (liabilities). The remaining asset growth was driven by fixed asset improvements and deploying capital to prudent investment purchases.

Looking at 2020 and beyond, Valley Strong remains committed to serving the people of the Valley with the same strength, resilience, integrity, and optimism that we see reflected in them. While there will be challenges ahead that were unanticipated at the end of last year, the Credit Union will stand with its Members and commit to working together to achieve financial wellness for its Membership.

Valley Strong will continue to roll out new products and services to meet Membership needs, despite a financial landscape in 2020 that will be different than projected. Whether it be streamlined processes for home loans and refinances, constant evaluation and improvement of our online and mobile platforms, employing new staff in our Visalia and Tulare branches, or opening additional branches in the northern counties to serve our growing Membership, the Credit Union will contribute to our local economy while also safeguarding and serving our Members' finances.

As the Credit Union and its Members continue to focus on success, Valley Strong will remain rooted in our commitment to quality financial products and services. We look forward to growing the possibilities of those who bank with us along with the communities we call home, so that we may build a prosperous future together.

Supervisory Committee's Report



Troy Fringer
Chairperson

The Supervisory Committee is comprised of five volunteers from the Membership of Valley Strong Credit Union. To remain proficient in Credit Union developments, all Supervisory Committee members attend monthly Board of Directors meetings, semi-annual strategic planning sessions, and 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, 2019. The 2019 annual financial statement audit has been completed and the financial statements presented herein are audited. 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.

VALLEY STRONG CREDIT UNION

SUPERVISORY COMMITTEE

Troy Fringer, Chairperson
Dan Shannon, Member
Ken Gragg, Member
Ramon Hendrix, Member
Tenielle Tensley, Member

BOARD OF DIRECTORS

Dr. Larry Reider, Chairperson
Mike Kileen, First Vice Chairperson
Joe Drew, Second Vice Chairperson
Carl B.A. Lange, III, Treasurer
Joanne Mills, Secretary
Dr. James Fillbrandt, Director
Doug Miller, Director
Dr. Bryon Schaefer, Director
Dr. S. William Bruce, Director
Marilyn Jones, Director
Dr. Dennis Scott, Director

MANAGEMENT

Stephen P. Renock, IV
President/CEO

Nick Ambrosini
Executive Vice President, Chief Financial Officer

Steven R. Matejka
Executive Vice President, Chief Operations Officer

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

Mark Manns
Senior Vice President, Chief Human Resources Officer

Steve Roach
Senior Vice President, Chief Information Officer

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Annual Statements

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31 (AUDITED)

(000's Omitted)

INCOME	2018	2019
Interest on Members' Loans	$ 44.019	$ 47,040
Investment Income	7,616	12,525
Other Income	25,144	25,407
GROSS INCOME	**$ 76,779**	**$ 84,972**
EXPENSES		
Loan Loss Reserves	2,770	4,635
Other Operating Expenses	58,300	58,641
OPERATING EXPENSES	**$ 61,070**	**$ 63,276**
Income from Operations	$ 15,709	$ 21,696
Non-Operating Gains (Losses)	6,251	1,540
NCUSIF Recapitalization Expenses, Net	–	–
Income Before Dividends	21,960	20,156
Dividends & Interest Paid to Members	4,312	6,222
NET INCOME	**$ 17,648**	**$ 17,015**

STATEMENT OF FINANCIAL CONDITION

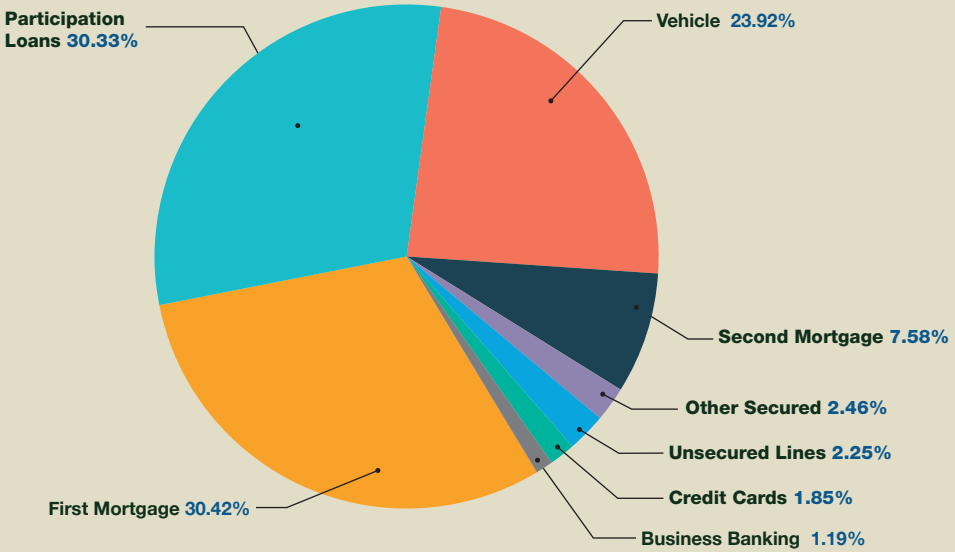
AS OF DECEMBER 31 (AUDITED)

(000's Omitted)

ASSETS	2018	2019
Loans to Members, Net of Loss Reserves	$ 1,124,939	$ 1,182,699
Cash on Hand	84,429	140,681
Investments & Interest-Bearing Deposits	246,607	391,757
Interest Receivable	3,337	4,168
Premises & Equipment, Net of Depreciation	46,181	45,670
Other Assets	41,880	32,287
TOTAL ASSETS	**$ 1,547,373**	**$ 1,797,261**
LIABILITIES / SHARES / EQUITY		
Dividends Payable	$ 82	$ 14,535
Other Liabilities	19,094	21,588
Members' Shares	1,365,919	1,577,601
Restricted Earnings Reserve	49,836	49,836
Minority Interests in Consideration	-	-
Undivided Earnings & Unrealized Losses	112,442	133,701
TOTAL LIABILITIES & EQUITY	**$ 1,547,373**	**$ 1,797,261**

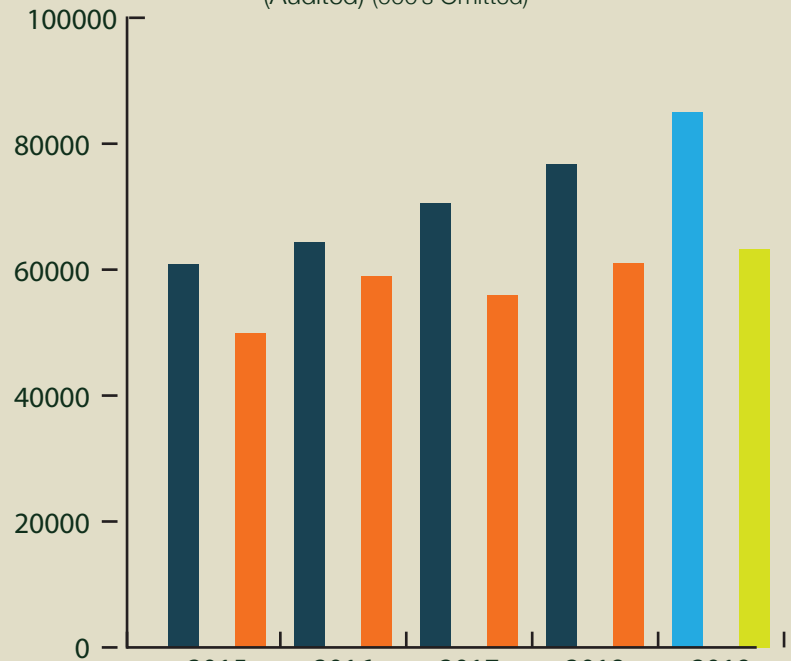
MEMBER LOANS

(Percentage of Total Loans)



GROSS INCOME AND OPERATING EXPENSES

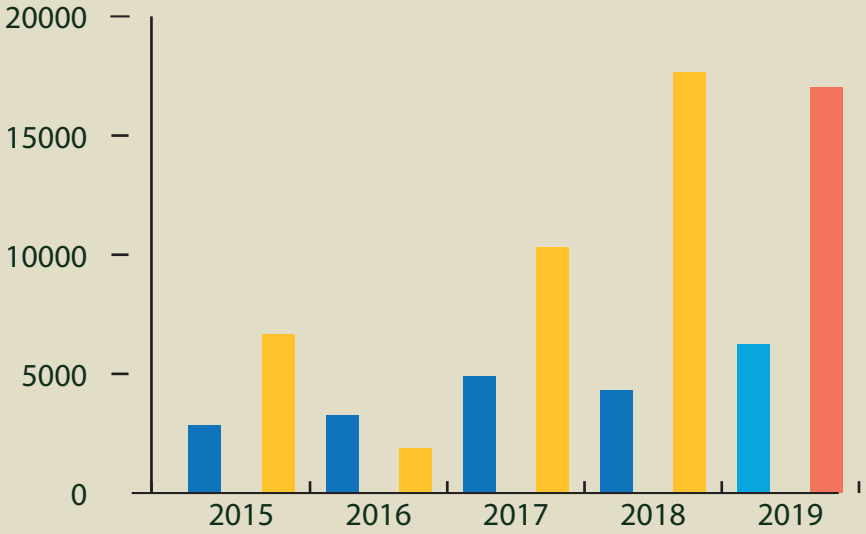
(Audited) (000's Omitted)



	2015	2016	2017	2018	2019
Gross Income	60,815	64,355	70,629	76,779	**84,972**
Operating Expenses	49,992	58,903	55,913	61,070	**63,276**

MEMBER DIVIDENDS (Interest) AND NET INCOME

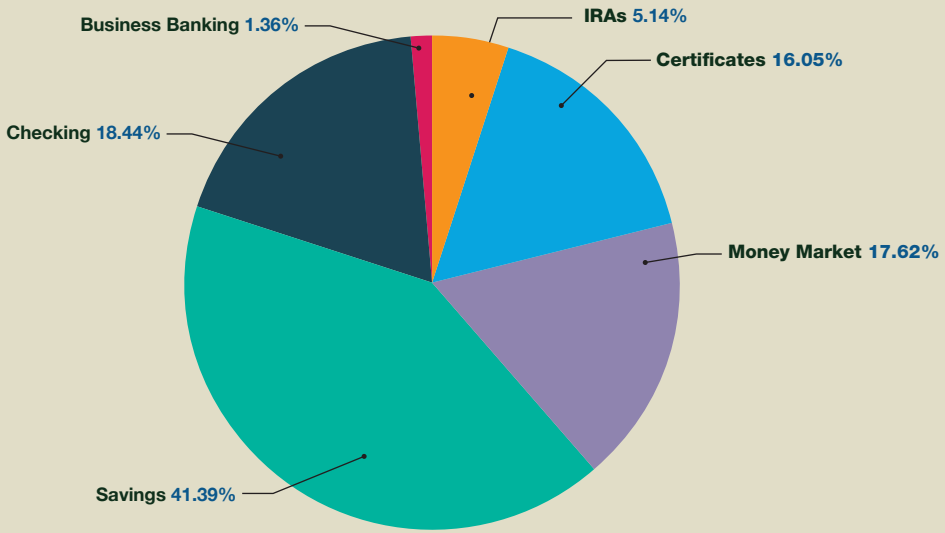
(Audited)



	2015	2016	2017	2018	2019
Dividends	2,819	3,261	4,908	4,312	**6,222**
Net	6,644	1,877	10,291	17,648	**17,015**

MEMBER SHARES

(Percentage of Total Shares)



Seventy-Ninth Annual Meeting Minutes | Kern Schools Federal Credit Union · April 11, 2019

The Seventy-Ninth Annual Meeting of Kern Schools Federal Credit Union was held at the Administrative Office in Bakersfield, California, on the evening of April 11, 2019. Dr. Bill Bruce, 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. Bruce noted that at each place there is a 2018 Annual Report, which contains the financial statements, minutes of the 2018 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. Bruce introduced Ms. Marilyn Jones, Board Member, who led the flag salute followed by the invocation.

Chairman Bruce began the evening by introducing the **Board of Directors:** Ms. Marilyn Jones, First Vice Chairperson; Ms. Joanne Mills, Second Vice Chairperson, Dr. Larry Reider, Secretary and Dr. Dennis Scott, Treasurer; **Directors:** Mr. Joe Drew, Mr. Doug Miller, Mr. Mike Kileen, Mr. Carl B.A. Lange, III and Dr. Bryon Schaefer. One Board Member was absent, Dr. James Fillbrandt. **Supervisory Committee:** Troy Fringer, Chairman; Ken Gragg and Ramon Hendrix, Committee Members. There was one Supervisory Committee member absent, Dan Shannon. **Management:** Steve Renock, President/CEO; Nick Ambrosini, EVP/Chief Financial Officer; Rudy Tafoya, SVP/Chief Lending Officer; Steve Matejka, EVP/Chief Operations Officer; Michael George, SVP/Chief Marketing, Innovation and Advocacy Officer; Mark Manns, VP Human Resources and Shari Butler, Assistant to the President.

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 are Dr. Bryon Schaefer, Mr. Doug Miller and Mr. Joe Drew. A motion will be requested during the business portion of the meeting.

Chairman Bruce called the business meeting to order at 6:03 pm. Chairman Bruce introduced Troy Fringer, Chairman of the Supervisory Committee, to present the Supervisory Committee Report. Mr. Fringer 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 2018 Annual Report. Currently, the 2018 annual financial statement audit is not complete; therefore, the financial statements presented are unaudited. The audited financial report will be completed during the second quarter of 2019.

Dr. Bruce stated that Kern Schools Federal Credit Union enjoyed a successful year on many fronts. Your Credit Union completed several system upgrades designed to enhance Membership service. We implemented a new core IT system, installed an improved telephone system in the Contact Center, modernized our online and mobile banking programs, and upgraded some of our branch facilities. The improvements were made with the goal of enhancing the overall Membership experience.

The Credit Union's commitment to the Kern County community remained strong and centered on our Membership. For the first time, financial workshops were offered in both English and Spanish. Board and team members provided countless hours of involvement in multiple community service projects.

Throughout this last year, your Credit Union continued to focus on security and fiscal stability as we aimed to increase return for the Membership. The Kern Schools team made solid progress toward our long-term growth goals with a net income of $17.6 million and asset growth of $71 million. Asset growth in 2018 was approximately 5%, supported by $64 million (5%) growth in deposits and $70 million (7%) in loan growth.

The foundation for our future success is based on our team's commitment to Kern School's Mission Statement: "The Credit Union shall

Seventy-Ninth
Annual Meeting Minutes

build a lifetime financial partnership with Members through exceptional service and quality financial products."

Mr. Renock welcomed all attendees to our 2019 Annual Meeting. He stated that as you have heard, the Credit Union had an outstanding year in 2018. In fact, without the financial adjustment we made to finally sunset the frozen Defined Benefit Pension Plan, we would have had the best year ever in Total Earnings and Return on Assets.

Our team worked very diligently to complete the conversions of our core system and our home banking platform. They completed these major projects without missing a beat on the Member service front. Their dedication to our core Credit Union Values of being Member Focused, Integrity Led, Community Based and Solutions Driven, continues to drive Kern Schools Federal Credit Union's progress.

This year, 2019, brings new challenges. With slow Membership and deposit growth in Kern County, we are looking at new ways to help us grow at a more appropriate pace. First, we are re-engaging in Business Banking to allow small businesses in Kern County and beyond to have another quality choice for their banking needs. Second, we are in the process of applying for a State Credit Union Charter that will allow us to more easily expand beyond Kern County. If this approval is received, it will also result in other changes that will enhance our chances for successful expansion. Like all new ideas, these will take time to implement and be accepted. The late retired U.S. Navy Admiral Hyman Rickover once said, "Good ideas are not adopted automatically. They must be driven into practice with courageous patience".

In closing, Mr. Renock thanked our volunteers on the Board of Directors, Supervisory Committee, and Nominating Committee for their guidance and support during this past year. Also a big thank you to the Board's Education Committee chaired by Ms. Marilyn Jones, who worked with our Marketing Department to arrange this event. Lastly, thank you to our outstanding team members who day in and day out serve our loyal Members.

Chairman Bruce 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 2018 Annual Report. Hearing none, the Chairman asked for a motion to accept the Minutes of the Seventy-Eighth Annual Meeting, Financial Statement, and the Supervisory Committee Report contained therein. It was moved by Ms. Joanne Mills and seconded by Mr. Mike Kileen to approve the minutes and reports as indicated above. Motion carried.

Chairman Bruce reported this year we did not have an election and the ballot was composed of three incumbents; Mr. Doug Miller, Dr. Bryon Schaefer and Mr. Joe Drew. 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 three Board Members were congratulated on their election for an additional three-year term.

Dr. Bruce 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. Joe Drew and seconded by Dr. Dennis Scott to adjourn the meeting at 6:18 p.m. Motion carried.

Respectfully submitted,
Shari Butler, Recording Secretary

APPROVED BY:
Dr. S. William Bruce, Chairperson
Dr. Larry Reider, Secretary

VALLEY STRONG CREDIT UNION

BRANCH LOCATIONS

ARTISAN
1341 Allen Road

BUENA VISTA
3300 Buena Vista Road, Ste. 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, Ste. P

TEHACHAPI
821 Tucker Road, Ste. A and 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
(661) 833-7926

BUSINESS BANKING
(661) 833-7530

RETIREMENT & WEALTH MANAGEMENT GROUP
(661) 833-7730

CONTACT CENTER
(661) 833-7900 I (800) 221-3311
www.valleystrong.com

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EQUAL HOUSING LENDER

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