

AGENDA

1. Call to order

- Roll Call
- Minutes of the 57th Annual Meeting

2. Reports of Officials

- Chairman of the Board
Walton D.Y. Hong

- Supervisory Committee
Phil Fudge

- Credit Committee
Mitchell Ikeda

- Recruiting Committee
Earl Miyao

- President/CEO
Melvin I. Chiba

3. Unfinished Business

4. New Business

- Estimated Budget for 2012
- Suggestions/Actions
Recommended by Membership
- Election of Officials
 - Board of Directors
 - Credit Committee

5. Adjournment

2011 MEMBERSHIP MEETING MINUTES

The 57th Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:05 p.m. on Saturday, March 12, 2011 at the Kauai War Memorial Convention Hall with Chairman Walton D.Y. Hong presiding.

AGENDA

There being no objections, the agenda as amended, was approved:

Addition: Moment of silence for Japan.

Correction: Recruiting Committee report to be presented by Mr. Victor Punua, Sr.

ROLL CALL.

Luau tickets were sold to the Membership as well as tickets issued at the door for those attending only the meeting portion of the evening which totaled 699 members. A quorum was declared to be present. (Article IV, Section 5 of the Bylaws requires that 15 members be present.)

A moment of silence was held for Japan who is suffering through the after effects of the earthquake and tsunami.

MINUTES.

On motion duly made, seconded and carried, the minutes of the March 12, 2010, 56th Annual Membership Meeting was approved as circulated.

Chairman Hong introduced the Members of the Board of Directors and their respective positions who were as follows: Walter Kamika Smith, Earl Miyao, George M. Masuoka, Eric Honma, Phil Fudge, Tammy Ando, Caroline Ozaki, Victor Punua, Sr., and Mel Chiba, President/CEO. The two remaining Charter Members William Fernandes and George Oshita accompanied by his wife Margaret were recognized as well as other volunteers of the Credit Union who were: Phil Fudge, Gwynne Duarte, Kei Inazu, Joseph Kobayashi and Lon Shimanuki of the Supervisory Committee; Stephen Fujii, Mitchell Ikeda, and Brent Mizutani of the Credit Committee; and Earl Miyao, Gerald Matsunaga, Clint Saiki, Sherman Shiraishi and Mel Chiba of the CUSO Board of Managers. Chairman Hong also recognized Keoki's and Kaiola Canoe Club for catering the luau food for the members.

REPORTS OF OFFICIALS.

Chairman's Message. Chairman Hong reported that Kauai Community FCU, like all other financial institutions, have felt the impact of the continuing economic recession with members having to utilize their savings to supplement reduced hours or loss of employment and fewer loans being made. In spite of this, KCFCU remains a strong and viable source in meeting the members' financial needs offering a safe place for savings and competitive loan rates. Plans have been made to address the continuing assessments by the National Credit Union Association to replenish the reduced insurance fund. Chairman Hong encouraged all members who are experiencing difficulties in meeting their KCFCU financial obligations to come to the Credit Union and seek assistance from the Loan Counselors who are there to assist the members through these difficult times. Not doing anything and allowing loans to become delinquent would only negatively impact the members themselves resulting in bad credit ratings.

The new building opened in November 2010 (brown building with green roof) located across from Macy's. Several comments heard from members is that the building is so large that there is a loss of closeness as compared to the other branch offices and that the teller lines are too long. Chairman Hong noted that the building was designed to meet the needs of the members for the next 30-40 years and that the 8 teller stations are also for future demand. Additional tellers have been added, however, it is necessary to maintain a balance between the number of tellers vs. managing the Credit Union in an efficient and affordable manner. Efforts by the Contractor to rectify the situation of the leaking skylight has been hampered by bad weather however is anticipated to be completed shortly.

Chairman Hong also touched upon the recently seen media coverage on the benefits that the directors of a large local credit union has been utilizing. While many of these benefits are allowed by the NCUA, Chairman Hong assured that the Directors of KCFCU has not and never will abuse the trust of the members. The Directors do not receive these types of benefits with the exception of attendance at credit union conferences which is limited to one per year. Of the total 16 eligible trips per year, in 2010, only six of these trips were utilized. In closing, Chairman Hong extended his appreciation to his fellow Board Members and Committee Members, management team and staff, and especially to the members who has made the success of KCFCU possible.

Supervisory Committee. On motion duly made, seconded and carried, the report of the Supervisory Committee was accepted.

Credit Committee. On motion duly made, seconded and carried, the report of the Credit Committee was accepted.

Recruitment Committee. Mr. Victor Punua, Sr., Chairman of the Recruitment Committee, presented the following nominations:

Board of Directors-3 Year Term: Mr. Phil Fudge, Mr. Walton D.Y. Hong, Mr. Earl Miyao

Credit Committee-3 Year Term: Mr. Brent Mizutani

On motion duly made, seconded and carried, the Nominating Committee Report was accepted.

President/CEO's Report. Mr. Chiba reported that 2010 continued to be a challenging year with efforts focused on maintaining the financial strength of the credit union and maintaining economic benefits to the membership. Maintaining financial strength was attained by reducing the shares portfolio by reducing expenses due to low loan demand and the Federal Regulator's assessments which are based upon the shares portfolio. While Gross Income decreased by 6.7%, Operating Expenses declined by 10.2%, resulting in a year end Net Income of \$135,000. Assets, Shares and Loans declined by 3.4%, 2.9%, and 7.8%, respectively. Economic benefits to the membership were maintained with no elimination of benefits and there were no increases or new service fees added. While dividends on member savings accounts remained unchanged and low, they were competitive to what others were offering. Loan interest rates remained low and affordable.

The new home office at Kukui Grove Village West was completed in November of 2010. In response to questions raised as to why such a large facility was built during such bad economic times, Mr. Chiba apprised the members that the building was originally scheduled for completion in 2007 when the economy was good. However, construction was deferred due to the high cost of construction at that time and a decision was made to proceed in 2009 resulting in a savings of \$2 million. The building is intended to accommodate the operational requirements of the credit union as it grows over the next 40 years.

In looking forward towards 2011 and beyond, Mr. Chiba assured that Kauai Community FCU is for the membership to help maximize their financial needs through beneficial financial services at very affordable costs. Mr. Chiba extended his appreciation to the membership for their confidence and support, and to the Board of Directors and staff for their hard work and dedication to the membership.

UNFINISHED BUSINESS. None.

NEW BUSINESS.

Estimated Budget for 2011. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2011.

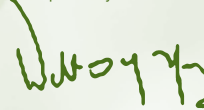
Suggestions/Actions Recommended by Membership. None.

Election of Officials. Chairman Hong called for nominations from the floor for the vacancies on the Board of Directors and the Credit Committee. There were none. There being no objections, the nominations were closed with the Secretary casting a unanimous ballot electing Mr. Phil Fudge, Mr. Walton D.Y. Hong, and Mr. Earl Miyao to a three-year term on the Board of Directors, and Mr. Brent Mizutani to a three-year term on the Credit Committee.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 7:31 p.m.

Respectfully submitted,



Chairman of the Board



Secretary

FINANCIAL STATEMENT

COMPARATIVE BALANCE SHEET

Assets	2011	2010
Loans to Members	\$ 165,682,677.71	\$ 175,451,841.15
Less Allowance for Losses	(5,510,788.88)	(5,808,144.47)
Cash & Equivalents	50,893,602.99	62,497,617.87
Investments	73,906,673.65	45,636,029.28
Land and Buildings	19,033,635.77	18,201,491.49
Other Fixed Assets	1,572,988.40	1,703,658.60
Other	9,358,467.39	5,521,321.07
Total Assets	\$314,937,257.03	\$303,203,814.99
Liabilities		
Accounts Payable	\$354,157.36	\$215,840.74
Dividends Payable	278,420.13	319,917.88
Other Liabilities	2,121,227.63	2,069,401.48
Member Savings	286,422,841.29	275,219,342.07
Total Liabilities	\$289,176,646.41	\$277,824,502.17
Equity		
Reserves	\$2,652,060.02	\$2,652,060.02
Undivided Earnings	24,336,401.52	24,115,202.02
Appropriated		
Undivided Earnings	358,118.08	415,909.00
Pension and Other		
Comprehensive Loss	(1,585,969.00)	(1,803,858.22)
Total Equity	\$25,760,610.62	\$25,379,312.82
Total Liabilities & Equity	\$314,937,257.03	\$303,203,814.99

INCOME STATEMENT

COMPARATIVE STATEMENT OF INCOME

Income	2011	2010
Interest on Loans	\$ 10,906,401.91	\$ 12,578,767.66
Investment Income	1,517,580.00	1,248,493.64
Other Income	1,869,667.54	2,168,782.92
Total Income	\$14,293,649.45	\$15,996,044.22
Operating Expenses		
Employee Compensation	\$ 2,799,676.34	\$ 2,765,570.36
Employee Benefits	988,742.03	1,138,025.01
Travel and Conference	74,756.18	98,651.31
Association Dues	42,117.35	42,820.67
Office Occupancy	975,940.62	658,725.40
Office Operations	1,153,493.79	1,053,074.44
Educational & Promotional	288,496.11	242,296.94
Loan Servicing	436,568.03	495,286.37
Prof. & Outside Services	412,571.29	449,721.93
Provision for Loan Losses	3,409,977.87	4,853,000.12
Member Insurance	815,565.50	972,694.72
Operating Fees	69,084.03	86,014.74
Annual Meeting	26,192.63	19,414.72
Direct Cost of Services to Members	517,340.47	593,606.40
Misc. Operating Expenses	26,132.03	9,272.37
Total Operating Expenses	\$12,036,654.28	\$13,478,175.50
Income from Operations	2,256,995.17	2,517,868.72
Non-Operating Gain/Loss	1,500.00	1,252.00
Dividends to Members	2,095,086.60	2,384,032.35
Total Undivided Earnings & Reserves	\$ 163,408.58	\$ 135,088.37

ESTIMATED BUDGET FOR 2012

	2012	2011
I. OPERATING INCOME		
Interest on Loans	\$ 10,344,781	\$ 13,400,620
Income from Investments	1,283,103	1,361,546
Fees and Charges	721,623	767,927
Other Miscellaneous Income	1,384,755	1,254,195
Total Operating Income	13,734,262	16,784,288
100.00%		100.00%
II. COST OF FUNDS		
Dividends	1,749,686	2,450,783
Total Cost of Funds	1,749,686	2,450,783
12.74%		14.60%
III. GROSS MARGIN	\$11,984,576	\$14,333,505
87.26%		85.40%
IV. OPERATING EXPENSES		
Salaries	2,869,209	\$2,970,795
Employee Benefits	849,814	1,037,676
Employees' Travel & Conference	63,530	64,030
Officers'/Directors' Travel & Conference	35,685	45,460
Association Dues	57,777	45,268
Office Occupancy	970,204	1,447,324
Subscriptions & Training	13,476	14,423
Office Communications	118,514	154,894
Rental of Furniture & Equipment	6,652	6,000
Maintenance of Furniture & Equipment	409,276	443,981
Stationery & Supplies	132,033	188,600
Insurance	105,100	108,600
Depreciation of Furniture & Equipment	276,365	328,251
Armored Car Service	67,416	66,552
Bank Service Charges	12,000	6,000
Other Office Operations	8,300	9,000
Educational/Promotional	354,108	382,452
Business Development	3,500	3,500
Loan Servicing	232,500	252,200
Visa Loan Expenses	180,489	200,000
Professional/Outside Services	478,652	553,047
Provision for Loan Losses	2,800,000	4,200,000
Members' Insurance	625,000	716,000
NCUA Operating Fees	69,108	73,640
Cash Over/Short	1,000	1,000
Annual Meeting	30,000	30,000
Miscellaneous Operating Expenses	30,040	33,912
Direct Cost of Services to Members	551,907	581,109
Total Operating Expenses	\$11,351,655	\$13,963,714
82.65%		83.20%
Non Operating Gain/Loss	1,227,885	1,000,000
V. NET INCOME Before Gain	\$632,921	\$369,791
4.61%		2.20%
NET INCOME After Gain	\$ 1,860,806	\$ 1,369,791

2011 ANNUAL REPORT

CHAIRMAN'S REPORT



In my Chairman's Report for Kauai Community Federal Credit Union's last annual meeting, I stated that one of your credit union's highest priorities is to address the financial needs of the membership, while still providing a safe place to save and borrow at fair and competitive rates. I said that this has not, and will not change.

In my Chairman's Report last year, I made note of the national recession, and some of the effects it has had on your credit union. While it remains debatable whether the recession is or is not over, the effects nonetheless still remain felt in our island community.

Calendar year 2011 has been among the most difficult years for your Board of Directors and management in view of the economic conditions we have had to face. Despite this, your credit union's assets grew by \$11,733,442.04, or a 3.9% growth. During calendar year 2011, your credit union made \$46,359,000 in new loans, making the total loans made by the credit union to more than \$1.5 billion since it began 58 years ago. Our net income increased from \$135,088.37 to \$163,408.58, due in large part to the efforts of management and the staff to reduce and minimize operating costs.

All of this demonstrates the commitment of the staff, management, and directors of your credit union to continue their goal of providing the membership with the best possible financial services under these trying conditions.

Kauai Community Federal Credit Union is required under federal guidelines to sell the former Kukui Grove Branch Office and the Hardy Street Annex building. I am glad to report that the credit union has received an offer for the purchase of the Hardy Street Annex building. The sale is expected to close

at the end of March 2012 to allow the buyer to meet its financing contingencies.

While we are all hoping that the economic conditions will improve in the near future, the Board of Directors and Management remain steadfast that Kauai Community Federal Credit Union will continue to be a major financial institution on Kauai to meet the financial needs and services of its members in the years to come.

I thank the Board of Directors, Management and Staff for their outstanding and dedicated work throughout this past year. To the membership, the Board of Directors and I extend our deepest gratitude for your loyalty, confidence and support. We will continue to strive in continuing to provide you with a safe and sound financial institution to meet your financial needs.

Respectfully submitted,

Walton D.Y. Hong
Chairman of the Board

PRESIDENT'S MESSAGE



The year 2011 was the third consecutive year of challenges related to the recessionary conditions on our island of Kauai. The largest problem was unemployment and financial hardships amongst our working class membership. Most important of these challenges was continuing to provide economic benefits to you the membership, while preserving the financial strength and soundness of your credit union. I am proud to report that we were able to continue offering low cost loans, continued to provide free or low cost financial services, and pay among the highest return on savings accounts throughout the year.

In addition to offering low cost loans to our members with a need to borrow, we continued to encourage loan modifications in an effort to provide some relief to families facing financial hardships. Loan extension agreements, refinancing to lower monthly payments, as well as consolidation loans assisted members in managing personal debts. We continued to offer financial counseling programs to help members through these tough economic times. Our Credit Matters program was implemented to help members build and rebuild their credit scores through a Share Secured Loan where members may make a loan and the funds are deposited into the member's share account. As payments are made to the loan, the funds become available as needed and the member rebuilds credit by building a record of timely monthly payments to the loan. If the member chooses not to use the available funds, the member automatically builds a savings account for the future. Again, I am proud to report that none of KCFCU's membership services were eliminated in 2011.

Low loan demand and lower loan interest rates resulted in lower interest income to the credit union which led to a 13.3% decline in loan interest income in 2011. However, our hard working and dedicated operational staff succeeded in decreasing

our Provision for Loan Loss expenses by 29.7%. I am proud to report that our total operating expenses in 2011 increased only \$1,500 over 2010. For this, I wish to thank our entire staff at KCFCU.

In addition to providing the best financial services to the membership, our efforts at serving you with friendly, courteous, and efficient services are very important to the tradition of KCFCU's history of membership services. Thanks to our financial services programs, ongoing commitment to our community, and our staff's dedication to membership services, KCFCU was named Best Credit Union on Kauai for the tenth consecutive year.

In 2012, we continue to anticipate a sluggish economy and low consumer loan demand as members continue to refrain from buying things that are not absolutely necessary. While we will continue to offer affordable, low cost loans to members who need to borrow, we are currently pursuing the creation of a mortgage brokerage department at KCFCU. Our plans are to offer competitive long term mortgage loans to members wishing to purchase real estate properties into the future. We will also strive for enhancements to our Business services accounts, SBA loan program, electronic member statements or e-statements, and continue to provide convenient and efficient delivery of our services to you, the membership.

I would like to thank our volunteer Directors and Officials who strive to keep KCFCU an island of security where you feel welcomed to come for all your financial needs. I thank the staff for their hard work and professionalism in taking the steps necessary to provide members with the quality of service that they deserve. Finally, I thank you, the membership for your support and your confidence in your credit union.

Respectfully submitted,

Melvin I. Chiba
President/CEO

CREDIT COMMITTEE REPORT



Kauai Community Federal Credit Union's Credit Committee works in conjunction with the credit union's Board and Management to create and monitor credit services and policies. Our goal is to offer loan and credit programs that are affordable to the membership and result in growth and security for KCFCU.

In 2011, the Credit Committee approved 2,754 loans totaling \$46,359,000. The three highest categories in dollar amounts were for purposes of home equity loans, auto loans and debt consolidation. As we look forward to the coming year, KCFCU will continue to offer programs that benefit the membership, and result in growth and security for the credit union.

Loans at KCFCU are for its members only and benefits derived are shared only amongst the membership. We are proud of the fact that Kauai Community Federal Credit Union's loan program continues to offer a full range of loan products with some of the lowest interest rates available.

On behalf of the Credit Committee, I would like to express my appreciation to the Board of Directors, Management and Staff for their continued support. The members however, are the ones who make it happen. Thank you for the privilege of servicing your financial needs. We look forward to continuing to effectively serve you for many years to come.

Respectfully submitted,

Mitchell Y. Ikedo,
Chairman

Committee Members:
Stephen Fujii
Brent Mizutani

SUPERVISORY COMMITTEE REPORT



The Supervisory Committee is appointed by the Board of Directors to examine and evaluate the adequacy and effectiveness of internal controls at the Credit Union. To assist the Supervisory Committee, the professional services of Kwock & Company CPAs were retained to perform an annual independent audit of the consolidated financial statements of Kauai Community Federal Credit Union and its wholly-owned subsidiary Community Financial Services Group, LLC, for the fiscal year ending June 30, 2011.

On behalf of the Committee, I am pleased to report that KCFCU is financially sound and operating in compliance with all federal and state regulations. Furthermore, the financial condition of the Credit Union's financial statements, and management practices and procedures are sufficient to safeguard member assets.

We thank the Board of Directors, Management and Staff, whose hard work and diligence helped maintain the financial safety and soundness of your Credit Union. Our sincerest appreciation goes out to you, the members, for your support and confidence. It has been a pleasure to serve you.

Respectfully submitted,

Phil Fudge,
Chairman

Committee Members:
Gwynne Duarte
Kei Inazu
Joseph Kobayashi
Lon Shimanuki

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**KAUAI COMMUNITY
FEDERAL CREDIT UNION**
YOUR ISLAND. YOUR FAMILY. YOUR CREDIT UNION.



This credit union is federally insured by
the National Credit Union Administration.

03/2012



B A L L O T
