

President's Message

With 2010 continuing to show little improvement in our island's sluggish economy, Kauai Community Federal Credit Union and the membership were faced with another year of challenges. Most important of these challenges was to preserve financial strength and soundness while continuing to provide economic benefits to you, the membership of KCFCU.

It was our plan to reduce our Assets and Shares in 2010 in order to preserve the financial strength and soundness of your credit union. Since loan demand remained very low, we elected to reduce our Shares portfolio. In addition to a lesser dividend expense, it also reduced the amount of our NCUA Share Insurance assessments, which amounted to slightly more than \$750,000 in 2010.

While we ended the year 2010 with a net income of only \$135,000, there were two major expense items which affected our bottom line: The NCUA Share Insurance assessment, and our Provision for Loan Loss expense which amounted to \$4.8 million. Both expense items are a direct hit to our net income. While we experienced a 6.7% decrease in Total Interest Income due to low loan demand, we were able to decrease our Operating Expenses by 10.2%.

Overall, our Assets decreased by 3.4%, Shares decreased by 2.9%, and Loans decreased by 7.8% for the year 2010.

Our efforts at providing economic benefits to the members continued in 2010. We are proud to report that none of KCFCU's membership benefits were eliminated. Existing service fees remained unchanged and no new service fees were imposed. In addition to maintaining low-interest loan rates, 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. Financial counseling programs were also offered to help members through these tough economic times.

Progress however, continued despite economic struggles. You as members have many options available to you financially as technological advances and

competition increases. KCFCU is committed to providing convenient and quality services to meet members' changing needs.

The completion of our long awaited Kukui Grove West new home office was finally completed in November, 2010. While the building may seem extremely large for our credit union, please be assured that the new building is intended to serve the membership as KCFCU continues to grow over the next 40 years.

Our 2011 plans calls for enhancements to our Business Services accounts, electronic member statements or e-statements, promote our SBA loan program, and to continue to provide convenient and efficient delivery of our services to you, the membership.

I thank our volunteer Directors and Officials who strive to keep Kauai Community Federal Credit Union 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 they deserve. Finally, I thank you, the members for your support, and your confidence in your credit union, Kauai Community Federal Credit Union.

Respectfully submitted,



Melvin I. Chiba
President/CEO

KCFCU offers a complete package
of financial services!

SAVINGS & INVESTMENTS

- Savings Accounts
- Checking Accounts
- Share Certificates
- Money Market Accounts
- Investment Advisory Services

LOANS

- Home Equity Line of Credit
- Mortgage Loans
- New & Used Auto Loans
- Visa Classic and Platinum Credit Cards

BUSINESS SERVICES

- Checking Accounts
- Share Certificates
- Money Market Accounts
- Visa Platinum Credit Card with Rewards
- SBA Loans
- Merchant Services
- Investments & Insurance Services

24-HOUR ACCOUNT ACCESS

- ATM/Visa Check Cards
- eStatements
- Online Banking
- Online Bill Payer Services
- Telephone Accessline

OTHER SERVICES offered through Community Financial Services Group, LLC, wholly owned by KCFCU:

- Accidental Death & Dismemberment Insurance
- Auto & Homeowners Insurance
- Cancer Insurance
- Hospital Accident Protection Insurance
- Pet Insurance
- Prepaid Legal Services
- Retiree Health Care Program
- Term Life Insurance
- Vehicle Extended Warranty Services

LOCATIONS AND INFORMATION

KUKUI GROVE WEST OFFICE

4493 Pahe'e Street
Lihue HI 96766
Fax 808.246.0246

LIHUE OFFICE

4434 Hardy Street
Lihue HI 96766
Fax 808.245.7180

WAIMEA OFFICE

9936 Kaunualii Highway
Waimea HI 96796
Fax 808.338.0901

ELEELE OFFICE

Eleele Shopping Center
4485 Waialo Road, Unit 15A
Eleele HI 96705
Fax 808.335.0234

KAPAA OFFICE

985 Kipuni Way
Kapaa HI 96746
Fax 808.822.0771

CALL CENTER

808.245.6791

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info@kcfcu.org



03/2011



2010 ANNUAL REPORT



Chairman's Report

As I stated last year, one of your credit union's highest priorities is to address your financial needs, while providing the entire membership with a safe place to save and borrow at fair and competitive rates. This has not, and will not, change.

The national recession still continues, and its effects are being felt here. The high rate of unemployment and our members being laid off or cut back on their hours, were naturally followed by increasing loan delinquencies and loan losses. It also resulted in people tending to reduce their spending, which translate to lower demand for loans.

In this climate, your credit union was faced with challenges. It also didn't help when the National Credit Union Administration continued to require all federally-insured credit unions to share in additional funding for insurance coverages and writeoffs for losses by the upper levels of the credit union structure. But even with the obstacles, we were able to turn it around from 2009, and made a profit for 2010.

While 2010 was a difficult year for the credit union, it was also a milestone year, as the new building was completed and opened. There are some tweaks which need to be worked out, but that is not abnormal when moving into a new building. Management is working with the contractor and the architect to resolve construction issues. Management continues to work with the KCFCU staff to address operational concerns to give you the best service we can, without going overboard in staffing and operational costs.

The former Kukui Grove Branch Office and the Hardy Street Annex building are listed for sale, and there are some parties showing interest. We are hopeful of obtaining purchasers for those two locations soon.

Even though the economic recession is still with us, the directors and management remain confident that this storm will eventually pass. In the meantime, and in the years to come, KCFCU will continue to be a major institution on Kauai to meet the financial needs and services of its members under these trying conditions.

To the Board of Directors, Management and Staff, thank you for your outstanding work throughout last year. To the membership, the Board of Directors and I extend our deepest gratitude for your loyalty, confidence, and support. We will go forward and continue 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

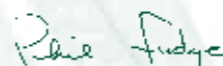
Supervisory Committee Report

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 Subsidiary for the fiscal year ending June 30, 2010.

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

Credit Committee Report

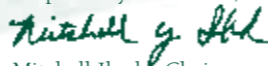
Kauai Community Federal Credit Union's Credit Committee works in conjunction with the credit union's Board and Management to create and monitor credit services and policies. Our goal is to offer loan and credit programs that are affordable to the membership and result in growth and security for KCFCU.

KCFCU's loan portfolio did not experience much growth in 2010, however the Credit Committee approved 2,606 loans totaling \$46,693,040. The three highest categories in dollar amounts were for purposes of auto loans, followed by real estate/home improvement 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 the benefits derived are shared only among the membership. We are proud of the fact that Kauai Community FCU's loan program continues to offer one of the lowest interest rates available, plus we offer Credit Life and Credit Disability Insurance programs.

On behalf of the Credit Committee, I would like to express my thanks to the Board of Directors, Management and Staff for their continued support. The members however, are the ones who make it all 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 Ikeda, Chairman

Committee Members:
Stephen Fujii
Brent Mizutani

Financial Statement

Comparative Balance Sheet as of December 31, 2010

Assets	2010	2009
Loans to Members	\$ 175,451,841	\$188,990,530
Less Allowance for Losses . .	(5,808,144)	(4,956,374)
Cash & Equivalents	62,497,618	77,287,042
Investments	45,636,029	36,035,455
Land and Buildings	18,201,491	6,322,538
Other Fixed Assets	1,703,659	529,791
Other	5,521,321	9,793,087
Total Assets	\$303,203,815	\$314,002,069
Liabilities		
Accounts Payable	\$ 215,841	\$426,874
Dividends Payable	319,918	474,327
Other Liabilities	2,069,401	3,807,881
Member Savings	275,219,342	283,634,033
Total Liabilities	\$277,824,502	\$288,343,115
Equity		
Reserves	\$ 2,652,060	\$2,652,060
Undivided Earnings	24,115,202	23,922,323
Appropriated Undivided Earnings	415,909	473,699
Pension and Other Comprehensive Loss	(1,803,858)	(1,389,128)
Total Equity	\$ 25,379,313	\$25,658,954
Total Liabilities & Equity	\$303,203,815	\$314,002,069

Comparative Statement of Income

Income	2010	2009
Interest on Loans	\$ 12,578,768	\$ 13,232,088
Investment Income	1,248,494	1,593,066
Other Income	2,168,782	2,022,749
Total Income	\$15,996,044	\$16,847,903
Operating Expenses		
Employee Compensation	\$ 2,765,570	\$ 3,152,790
Employee Benefits	1,138,025	1,687,605
Travel and Conference	98,651	109,305
Association Dues	42,821	53,392
Office Occupancy	658,725	583,354
Office Operations	1,053,075	971,086
Educational & Promotional . .	242,297	338,421
Loan Servicing	495,286	553,453
Prof. & Outside Services	449,722	461,417
Provision for Loan Losses	4,853,000	7,697,235
Member Insurance	972,695	768,874
Operating Fees	86,015	78,882
Annual Meeting	19,415	28,982
Direct Cost of Services to Members	593,607	788,747
Misc. Operating Expenses . . .	9,272	29,290
Total Operating Expenses .	\$13,478,176	\$17,302,833
Income from Operations . . .	2,517,868	(454,930)
Non-Operating Gain/Loss . .	(1,252)	2,173,633
Dividends to Members	2,384,032	4,541,585
To Undivided Earnings & Reserves	\$ 135,088	\$(2,822,882)