

# President's Message

Signs of the recession became evident on Kauai in late 2008 and worsened throughout 2009. Businesses closed, work hours and income were reduced, and layoffs and other effects of an economic recession became a reality on our island.

As I've said in previous member communications, the recession affects everyone on Kauai and your credit union is no exception. 2009 was a challenging year at Kauai Community Federal Credit Union. The high unemployment rate on Kauai affected our members' ability to repay their loans, resulting in much higher than normal loan delinquencies and loan losses in 2009.

Your credit union suffered a \$2.8m net loss in 2009, primarily due to \$7.7m transferred into reserves to cover member loan losses. As planned, our Assets and Shares growth were kept to a minimum with growth rates at 1.9% and 3.3%, respectively. Our Loan portfolio decreased by 6% because of low member loan demand, due to reduced spending during this recessionary period. In addition, members leaving Kauai resulted in a 1.0% decrease in members.

On the upside, our credit union is still healthy financially and we are adequately capitalized as defined by our Regulators. Since the beginning of our credit union, we have continued to build our Reserves for times like these. We transferred from our reserves to accommodate our 2009 net loss and we had adequate reserves available to support this transfer. To offset these losses, KCFCU's staff can be commended for their efforts to keep operational expenses below budget.

In April of 2009, we revised our Operating Budget and created a financial plan in anticipation of recessionary conditions on our island. The financial plan was directed towards controlling credit union growth, loan loss reserves and income generation. We renegotiated contracts with our vendors, froze hiring or changed full-time positions to part-time or peak-time positions whenever a vacancy occurred, and reduced employee-training programs.

The economic recession and high unemployment rate on Kauai is not expected to end soon and it is prudent that we continue to adjust our operations accordingly. For 2010, we developed a new Financial

Plan and Strategy to improve our net income and rebuild Reserves. The major components of the Plan are an Organizational Restructure and changes in our operations to address loan delinquency problems. We will continue to reduce overall operating expenses, while striving for excellence in our service to you, the members of KCFCU.

2009 is behind us, and we look forward to 2010 and beyond. We will continue to offer affordable loan rates, especially for Home Equity Loans, Mortgage Loans and Visa Credit Cards. Improvements have been implemented in the Share Draft Checking program, including free online copies of cleared checks and "fee-free" programs, such as Visa Debit Cards, Home Banking, Bill Payer and ATMs. One of our most valuable member services is the BALANCE credit counseling program, which was implemented in early 2009. Debt counseling through Balance has successfully assisted members faced with financial difficulties and helped other members enhance their financial well-being.

The new KCFCU office at Kukui Grove is scheduled for completion in October. This new office is a positive sign of your credit union's intent to continue our tradition of growth in high-quality services and programs, and excellence in personal service to you.

I would like to express my sincere appreciation for the leadership of our Board of Directors, the dedication of Committee members and the quality of work and enthusiasm provided by Management and the Staff. Most importantly, I would like to thank you, our valued membership, for your confidence and continued support. Your financial goals and expectations keep us ever striving to satisfy your financial needs through these challenging times.

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 Check Card
- Visa Platinum Credit Card with Rewards
- SBA Loans

## 24-HOUR ACCOUNT ACCESS

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

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

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

## LOCATIONS AND INFORMATION

### LIHUE BRANCH OFFICE

4434 Hardy Street  
P.O. Box 1447 • Lihue HI 96766  
Phone 808.245.6791 • Fax 808.245.7180

### KUKUI GROVE BRANCH OFFICE

4405 Kukui Grove Street, Suite 101  
Lihue HI 96766  
Fax 808.246.0246

### WAIMEA BRANCH OFFICE

9936 Kaunualii Highway  
Waimea HI 96796  
Fax 808.338.0901

### ELEELE BRANCH OFFICE

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

### KAPAA BRANCH OFFICE

985 Kipuni Way  
Kapaa HI 96746  
Fax 808.822.0771

### CALL CENTER

808.245.6791

### WEB SITE

[www.kcfcu.org](http://www.kcfcu.org)

### E-MAIL

[info@kcfcu.org](mailto:info@kcfcu.org)



03/2010



# 2009 ANNUAL REPORT



## Chairman's Message

As a member of Kauai Community Federal Credit Union, you can rest assured that one of your credit union's highest priorities is meeting your financial needs while providing the entire membership with a safe, sound and convenient place to save and borrow at fair and competitive rates.

Kauai has not been immune to the effects of the national recession we are now experiencing. This has resulted in high unemployment, with increasing loan delinquencies and loan losses as many of the credit union's members were being laid off or having their work hours reduced. Also, in such times, people tend to cut back on spending, which results in a lower demand for loans.

Financially, 2009 was one of our most challenging years. It began with the National Credit Union Administration unexpectedly requiring all federally-insured credit unions to share in additional funding for insurance coverages and write-offs for losses suffered by the upper tiers of the credit union structure. The estimated cost to KCFCU to meet this federal mandate was approximately \$2 million. Coupled with the increased loan losses from our members because of the economy, we incurred a net loss in the year 2009.

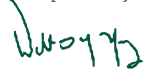
Your credit union responded in a number of ways, which included revising budgets, increasing reserves in order to prepare for 2010 and beyond, and restructuring positions within the credit union for increased efficiency in view of the times. Unfortunately, this also resulted in loss of a number of positions.

As reported last year, the Board of Directors considered delaying the construction of the new building due to the uncertainty of the future of the economy. But after being so far in the process and re-negotiating the cost of construction, the Board chose to continue with the construction. The building is underway and is expected to be completed by October of this year. As part of our overall strategy, we have also planned for the sale of the Kukui Grove Branch Office and the Annex building on Hardy Street.

While 2009 was a tough year, we remain optimistic of the future. KCFCU has been a very successful ongoing business entity for 55 years, and we plan to continue with the tradition we have built for the membership well into the future. As we move forward, be assured that safety and soundness of KCFCU is always a top priority.

To the Board, Management and Staff, thank you for your outstanding efforts throughout a challenging year. To the membership, my deepest gratitude for your loyalty, confidence and support. Together, we will face tomorrow with a commitment to excellence.

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, 2009.

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 and beneficial to the membership and result in growth and security for KCFCU.

KCFCU's loan portfolio declined slightly in 2009.

There was little loan demand for new/used autos and consumer loans, which is normal during recessionary times as members choose to defer purchases of goods and services. The Credit Committee approved 3,277 loans totaling \$56,568,264. Loan growth was primarily in the area of Mortgages, Home Equity Loans, and VISA Credit Cards. 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 Kauai Community Federal Credit Union are for its members only and the benefits derived are shared only among the membership. We are proud of the fact that KCFCU's loan program continues to offer one of the lowest interest rates available.

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,



Stephen Fujii  
Chairman

Committee Members:

Brent Mizutani  
Mitchell Ikeda

## Financial Statement

### Comparative Balance Sheet as of December 31, 2009

Assets	2009	2008
Loans to Members . . . . .	\$ 188,990,530	\$ 200,880,042
Less Allowance for Losses . .	(4,956,374)	(2,802,068)
Cash & Equivalents . . . . .	77,287,043	40,720,976
Investments . . . . .	36,035,455	59,433,720
Land and Buildings . . . . .	6,322,538	6,361,780
Other Fixed Assets . . . . .	529,791	\$555,906
Other . . . . .	9,793,087	6,490,755
<b>Total Assets . . . . .</b>	<b>\$ 314,002,070</b>	<b>\$ 311,641,111</b>
Liabilities		
Accounts Payable . . . . .	\$ 426,874	\$ 371,308
Dividends Payable . . . . .	474,327	890,902
Other Liabilities . . . . .	3,807,881	3,082,324
Member Savings . . . . .	283,634,033	274,538,560
<b>Total Liabilities . . . . .</b>	<b>\$ 288,343,115</b>	<b>\$ 278,883,094</b>
Equity		
Reserves . . . . .	\$ 2,652,060	2,652,060
Undivided Earnings . . . . .	23,922,323	30,943,684
Appropriated Undivided		
Earnings . . . . .	473,700	531,491
Pension and Other		
Comprehensive Loss . . . . .	(1,389,128)	(1,369,218)
<b>Total Equity . . . . .</b>	<b>\$ 25,658,955</b>	<b>\$ 32,758,017</b>
<b>Total Liabilities &amp;</b>		
<b>Equity . . . . .</b>	<b>\$ 314,002,070</b>	<b>\$ 311,641,111</b>

### Comparative Statement of Income

Income	2009	2008
Interest on Loans . . . . .	\$13,232,088	\$13,948,761
Loan Interest Rebate . . . . .	– 0	– 0
Investment Income . . . . .	1,593,066	3,459,845
Other Income . . . . .	2,022,749	1,871,767
<b>Total Income . . . . .</b>	<b>\$16,847,903</b>	<b>\$19,280,373</b>
Operating Expenses		
Employee Compensation . . . .	\$ 3,152,790	\$ 3,146,436
Employee Benefits . . . . .	1,687,605	1,639,733
Travel and Conference . . . . .	109,305	240,912
Association Dues . . . . .	53,392	51,979
Office Occupancy . . . . .	583,354	651,260
Office Operations . . . . .	971,086	916,418
Educational & Promotional . .	338,421	320,097
Loan Servicing . . . . .	553,453	554,429
Prof. & Outside Services . . . .	461,417	336,824
Provision for Loan Losses . . . .	7,697,235	2,203,487
Member Insurance . . . . .	768,874	316,002
Operating Fees . . . . .	78,882	65,756
Annual Meeting . . . . .	28,981	30,571
Direct Cost of Services		
to Members . . . . .	788,747	933,554
Misc. Operating Expenses . . .	29,290	42,650
<b>Total Operating Expenses</b>	<b>\$17,302,832</b>	<b>\$11,450,108</b>
<b>Income from Operations . . .</b>	<b>\$ (454,929)</b>	<b>\$ 7,830,265</b>
<b>Non-Operating Gain (Loss) . .</b>	<b>\$ 2,173,633</b>	<b>\$ (185,997)</b>
<b>Dividends to Members . . . .</b>	<b>\$ 4,541,585</b>	<b>\$ 6,873,487</b>
<b>To Undivided Earnings</b>		
<b>&amp; Reserves . . . . .</b>	<b>\$ (2,822,881)</b>	<b>\$ 770,781</b>