

Agenda

1. Call to order

- Roll Call
- Minutes of the 62nd Annual Meeting

2. Reports of Officials

- Chairman of the Board
Walton Hong

- Supervisory Committee
Walter Kamika Smith

- Credit Committee
Brent Mizutani

- Recruiting Committee
Eric Honma

- President/CEO
Tess Shimabukuro

3. Unfinished Business

4. New Business

- Estimated Budget for 2017
- Suggestions/Actions
Recommended by Membership
- Election of Officials
 - Board of Directors
 - Credit Committee

5. Adjournment

2016 Membership Meeting Minutes

The 62nd Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:04 p.m. on Saturday, March 12, 2016 at the Kauai War Memorial Convention Hall with Chairman Walton D.Y. Hong presiding.

ROLL CALL.

Luau tickets sold to the Membership as well as tickets issued at the door for those attending the meeting totaled 746 members. A quorum was declared to be present. (Article IV, Section 5 of the Bylaws requires that 15 members be present.)

AGENDA – There being no objections, the agenda as presented was approved.

MINUTES – On motion duly made, seconded and carried, the minutes of the March 7, 2015, 61st Membership Meeting was approved as circulated.

Chairman Hong introduced the Officials of the Credit Union:

Board of Directors: Vice Chairman Victor Punua, Sr., Secretary/Treasurer Caroline Ozaki, Tammy Ando, Phil Fudge, Eric Honma, George M. Masuoka, Earl Miyao, and Walter Kamika Smith (absent).

President/CEO: Melvin I. Chiba

Supervisory Committee: Walter Kamika Smith, Deborah Christian, Gwynne Duarte,

Credit Committee: Stephen Fujii, Mitchell Ikeda, Brent Mizutani

CUSO Board of Managers: Gerald Matsunaga, Melvin Chiba, Jacqueline Kanna, Earl Miyao, Sherman Shiraiishi

Chairman Hong recognized Keoki's as the caterer for the evening's luau food and also Cruz Control for providing the music.

REPORTS OF OFFICIALS

Chairman's Message. Chairman Hong reported that Kauai Community FCU is in good financial condition. In 2015, Assets grew by \$40 million with a net profit of over \$3 million. It had been reported in 2014 that efforts were ongoing to try and establish branch offices in Kilauea and Koloa. A potential site has been located in Kilauea however there is still a great deal of groundwork that needs to be done in obtaining permits as well as going before the Planning Commission and the Kilauea Neighborhood Association. Chairman Hong requested the membership's support, especially for those living on the North Shore, to convey to the County that a branch office is needed in the Kilauea area. Further information will be forthcoming on the scheduling of public hearings. Also upcoming is a renovation of the Kapaa Branch Office as well as the original Main Office in Lihue which will involve some time and cost.

There is a continuing need for membership growth. Chairman Hong noted that the only way that a credit union can continue to exist over the years is to have members. Members of KCFCU receives certain benefits that other credit unions and banks do not have. KCFCU's Kasasa Checking Account program is currently paying up to 3.25% interest which is much more than what other financial institutions are offering. Chairman Hong asked for the membership's support to encourage their family members, relatives and friends to become members of KCFCU.

Chairman Hong conveyed his appreciation to Mel Chiba, Management, Staff, Volunteers and fellow Directors for their dedication and hard work in making 2015 another successful year. On behalf of the Board of Directors, Chairman Hong thanked the membership of Kauai Community FCU for their support and confidence in the Board of Directors.

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. Eric Honma, Chairperson of the Recruitment Committee, presented the following nominations:

Board of Directors-3 Year Term: Ms. Tammy Ando
Mr. George M. Masuoka
Ms. Caroline Ozaki
Credit Committee-3 Year Term: Mr. Stephen Fujii

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

President/CEO's Report. Mr. Chiba welcomed the members to the 62nd Annual Membership Meeting and extended his appreciation for their participation in making KCFCU such a successful organization. The objective of credit unions as stated by one of the founding fathers of KCFCU has again been successfully met which is all about member participation. The year 2015 was very rewarding as KCFCU continued to serve the financial needs of its members, families, and businesses on Kauai and Niihau, adding new affordable and beneficial services, and giving back to the membership and to the island community. One of the most successful programs is the Kasasa Checking Account program. KCFCU also continues to participate in charitable contributions within the island community.

Through the combined efforts of the membership and the Board of Directors, Officials, Management and staff, 2015 was another year of excellent financial performance: Assets grew by \$40.8 million or 10.7%; Member Savings accounts increased by \$37.5 million or 11.0%; and Total Loans to Members grew by \$18.8 million or 9.3%. Total Assets at yearend 2015 amounted to \$420.8 million.

The latest achievement in the area of the island's youth and financial education is the creation of the Warrior Credit Union Branch which is a partnership between Kapaa High School and KCFCU. Student leaders from Kapaa High School were present to announce that the newly created Warrior Credit Union Branch Office is managed by the students and is open on Wednesdays from 9:30 a.m. to 11:30 a.m. for Kapaa High School and Elementary School students. It was noted that the common theme that was noticed of students graduating from high school was that they were lacking in financial management skills and the intent of creating a student credit union is to further educate and prepare them for the road ahead. On behalf of Kapaa High School, the student leaders thanked Mr. Chiba and Kauai Community FCU for giving them this awesome opportunity.

Mr. Chiba thanked the membership for their support and loyalty to their Credit Union and is looking forward to everyone working together for another great year for KCFCU and its members.

UNFINISHED BUSINESS. None.

NEW BUSINESS

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 Ms. Tammy Ando, Mr. George M. Masuoka, and Ms. Caroline Ozaki to a three-year term on the Board of Directors, and Mr. Stephen Fujii to a three-year term on the Credit Committee.

Estimated Budget for 2016. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2016.

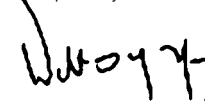
Suggestions/Actions Recommended by Membership. None.

ADJOURNMENT

There being no further business, the meeting was adjourned at 7:27 p.m.

Respectfully submitted,

Respectfully submitted,



Chairman of the Board



Secretary

Financial Statement

Comparative Balance Sheet

Assets	2016	2015
Loans to Members	\$ 238,726,160.14	\$ 219,615,516.94
Less Allowance for Losses	(2,170,002.10)	(2,781,285.49)
Cash & Equivalents	46,818,128.10	32,646,746.92
Investments	147,350,290.52	143,790,182.79
Land and Buildings	15,808,955.56	16,213,391.82
Other Fixed Assets	1,353,082.53	1,402,649.37
Other	11,064,726.71	9,930,538.54

Total Assets \$458,951,341.46 \$420,817,740.89

Liabilities

Accounts Payable	\$ 784,246.53	\$ 751,880.24
Dividends Payable	366,100.09	343,337.47
Other Liabilities	4,328,283.02	2,945,484.71
Member Savings	411,867,156.85	378,405,273.55

Total Liabilities \$417,345,786.49 \$382,445,975.97

Equity

Reserves	\$ 2,652,060.02	\$ 2,652,060.02
Undivided Earnings	42,346,788.19	38,199,248.01
Appropriated Undivided Earnings	69,163.48	126,954.40
Pension and Other Comprehensive Loss	(3,462,456.72)	(2,606,497.51)

Total Equity \$ 41,605,554.97 \$ 38,371,764.92

Total Liabilities & Equity \$458,951,341.46 \$420,817,740.89

Income Statement

Comparative Statement of Income

Income	2016	2015
Interest on Loans	\$ 13,578,150.30	\$ 12,288,238.21
Loan Interest Rebate		
Investment Income	2,591,226.48	2,107,916.76
Other Income	2,723,459.47	2,592,830.65

Total Income \$18,892,836.25 \$16,988,985.62

Operating Expenses

Employee Compensation	\$ 4,310,653.03	\$ 3,764,863.43
Employee Benefits	1,016,048.61	965,153.90
Travel and Conference	207,563.88	214,543.19
Association Dues	70,481.03	66,227.62
Office Occupancy	863,382.85	903,877.52
Office Operations	1,481,789.61	1,401,229.17
Educational & Promotional	856,044.96	532,345.76
Loan Servicing	892,430.15	790,204.80
Prof. & Outside Services	567,595.30	542,969.18
Provision for Loan Losses	701,229.95	1,203,964.30
Member Insurance	—	(86,139.57)
Operating Fees	76,673.23	69,569.22
Annual Meeting	29,468.79	30,107.81
Direct Cost of Services to Members	1,108,822.63	823,078.25
Misc. Operating Expenses	37,502.48	84,811.17

Total Operating Expenses \$12,219,686.50 \$11,306,805.75

Income from Operations 6,673,149.75 5,682,179.87

Non-Operating Gain/Loss 500.00 (29,407.67)

Dividends to Members 2,583,900.49 2,245,495.89

To Undivided Earnings & Reserves \$ 4,089,749.26 \$ 3,407,276.31

Estimated Budget for 2017

	2017	2016
I. OPERATING INCOME		
Interest on Loans	14,902,103	13,267,737
Income from Investments	2,551,017	2,120,405
Fees and Charges	1,356,551	1,346,497
Other Miscellaneous Income	1,453,725	1,600,541
Total Operating Income	20,263,396	18,335,180
100.00%		100.00%
II. COST OF FUNDS		
Dividends	2,881,547	2,728,242
Total Cost of Funds	2,881,547	2,728,242
14.22%		14.88%
III. GROSS MARGIN	\$17,381,849	\$15,606,938
85.78%		85.12%
IV. OPERATING EXPENSES		
Salaries	4,551,172	4,278,716
Employee Benefits	1,328,891	1,150,811
Employees' Travel & Conference	161,470	177,280
Officers'/Directors' Travel & Conference	64,900	80,610
Association Dues	69,705	66,856
Office Occupancy	982,599	1,010,246
Subscriptions & Training	33,546	32,318
Office Communications	164,633	143,613
Rental of Furniture & Equipment	4,824	4,824
Maintenance of Furniture & Equipment	728,402	729,329
Stationery & Supplies	131,900	123,200
Insurance	104,960	100,560
Depreciation of Furniture & Equipment	427,005	354,126
Armored Car Service	75,099	70,272
Bank Service Charges	78,900	51,400
Other Office Operations	10,000	9,000
Educational/Promotional	715,000	805,566
Business Development and SEG	18,500	12,900
Loan Servicing	735,100	589,900
Visa Loan Expenses	228,650	214,500
Professional/Outside Services	639,060	617,415
Provision for Loan Losses	1,000,000	1,000,000
Members' Insurance		
NCUA Operating Fees	76,700	69,570
Cash Over/Short	1,000	1,000
Annual Meeting	25,000	35,000
Miscellaneous Operating Expenses	58,929	78,819
Direct Cost of Services to Members	1,159,600	792,600
Total Operating Expenses	\$13,575,545	\$12,600,431
67.00%		68.72%
Non Operating Gain/Loss	0	0
V. NET INCOME Before Gain	\$3,806,304	\$3,006,507
18.78%		16.40%

Chairman's Report



This year makes the 63rd year since the Kauai Community Federal Credit Union has been established by a group of farmers with the vision of helping their fellow farmers and other members of the community have a secured institution to meet their financial needs.

We are continuing to grow, from about \$421 million last year, to \$458 million. Since its beginning, and until the end of 2016, your credit union has made a total of 180,995 loans, totaling \$1,912,724,710. In this past year alone, the credit union made 4,437 loans, totaling more than \$93.7 million. We have matched, if not exceeded, credit unions of comparable size and membership in the State of Hawaii. This is due to the careful planning, and hard and dedicated work of management and staff.

This past year has been a year of change. We had a change in leadership, due to the retirement of Mel Chiba, after more than 40 years of service to KCFCU and the credit union movement. Your credit union is now under the capable leadership of our new President and Chief Executive Officer, Tess Shimabukuro. The management team under Ms. Shimabukuro remains essentially the same, giving the credit union the expertise and experience to continue its mission of providing the best financial services we can to our members.

In the past several years, we have been successful in opening up student credit unions in the three high schools on Kauai. We now have the Warrior Credit Union at Kapaa High School, the Raider Credit Union at Kauai High School, and the Menehune Credit Union at Waimea High School, which had its opening last month. These student credit unions afford opportunity for the next generation to learn and experience financial transactions which will help them in later years. We continue to explore other means of educating students and young adults in managing their financial affairs in preparation to their entering the mainstream workforce.

Your Board of Directors continue to seek a way to establish a branch office at Koloa. We have entered into an agreement for acquiring a site in Kilauea for a branch office, but are delayed by the necessity to meet the County's zoning and subdivision requirements for the site. We are very pleased at the support of our members and the Kilauea community for this project.

There are, however, some dark clouds on the horizon. We have observed a growing movement of large credit unions taking over smaller credit unions. We have watched Pentagon Federal Credit Union, a twenty-one billion dollar credit union, essentially take over a few credit unions on Oahu. In our opinion, these giant credit unions are very aggressive and cannot give the kind of care and consideration as Kauai Community Federal Credit Union can provide to our members. We will continue to ask for your support in keeping this credit union as a credit union with the "Kauai Aloha Spirit".

I would like to express my thanks and appreciation to my fellow directors, the management, and the staff of Kauai Community Federal Credit Union for their dedication and hard work to make the past year such a success. But, the success of this credit union could not have been met without the support of you, the members.

I, and my fellow Directors, thank you for your support and confidence in us. We look forward to another successful year.

Respectfully submitted,

Walton D. Y. Hong
Chairman of the Board of Directors

President's Message



2016 was a year of change for Kauai Community Federal Credit Union. Melvin Chiba, our CEO retired after 42 years of leading Kauai Community Federal Credit Union. Under Mr. Chiba's leadership and vision, the credit union has grown from \$9 million to \$458 million in assets. Mr. Chiba taught us the importance of

upholding our credit union's values. We pledge to continue his legacy and carry out his vision of bettering the financial well-being of our members.

We were fortunate to have the opportunity to promote financial literacy amongst our youth as we opened student credit unions at Kapaa High School and Kauai High School, with a third opening at Waimea High School in February, 2017.

In credit union fashion of providing value to our members, we have implemented a system which images your check deposits giving you the convenience of viewing these images via homebanking. We have also redesigned our VISA Platinum credit card to provide you better value by lowering the annual fee, providing cash redemptions, and non-expiring points.

In addition to the KCFCU Mobile App, you can now access our latest debit Card Management App – CardNav. Cardholders have the ability to set controls and alert preferences and view recent transactions. Allowing members to control their debit cards 24/7 is a powerful tool to combat fraud.

KCFCU had stellar financial performance in 2016. Assets grew by \$38 million (9.06%); Member Savings grew by \$33 million (8.84%); Loans grew by \$19 million (8.70%). Net income for the year amounted to \$4 million. Kauai Community Federal Credit Union at \$458 million in assets, with \$239 million in

loans to members, and total member savings of \$411 million is financially sound and stable.

Last year, the Credit Union was once again voted the Best Credit Union on Kauai. And for the first time, KCFCU was recognized as the #1 Mortgage Company on the island. As our commitment to serving our members and island community, we will continue to provide exceptional member service.

I would like to extend my deepest appreciation to our volunteer Board of Directors and Committee members who donate their time to ensure the success of your credit union. I especially want to thank our Management and Staff who work tirelessly to improve the financial well-being of our member-owners. Finally, I thank you the membership, for your confidence, support and continued loyalty.

We looked forward to another successful year in 2017.

Respectfully submitted,

Tess Shimabukuro
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 2016, the Credit Committee approved 4,437 loans totaling \$93,681,843.94. The three highest categories in dollar amounts were for purposes of auto loans, home equity loans, and mortgage refinances. 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 FCU'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,

Brent Mizutani
Chairman

Committee Members:
Stephen Fujii
Mitchell Ikeda

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 Moss Adams LLP 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, 2016.

On behalf of the Committee, I am pleased to report that KCFCU is financially sound; the 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,

Kamika Smith
Chairman

Committee Members:
Deborah Christian
Kent Kikuchi
Joseph Kobayashi
Dulcie Yano



Ph# 808.245.6791 • www.kcfcu.org

Locations:
Kukui Grove, Lihue, Kapaa, Eleele, Waimea



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



03/2017

BALLOT