

AGENDA

1. Call to order

- Roll Call
- Minutes of the 59th Annual Meeting

2. Reports of Officials

- Chairman of the Board
Walton D.Y. Hong

- Supervisory Committee
Kamika Smith

- Credit Committee
Brent Mizutani

- Recruiting Committee
Tammy Ando

- President/CEO
Melvin I. Chiba

3. Unfinished Business

4. New Business

- Estimated Budget for 2014
- Suggestions/Actions
Recommended by Membership
- Election of Officials
 - Board of Directors
 - Credit Committee

5. Adjournment

2013 MEMBERSHIP MEETING MINUTES

The 59th Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:02 p.m. on Saturday, March 9, 2013 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 only totaled 725 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 10, 2012, 58th Annual 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.

President/CEO: Melvin I. Chiba

Supervisory Committee: Walter Kamika Smith, Gwynne Duarte, Joseph Kobayashi, Edward Medeiros, Lon Shimanuki

Credit Committee: Stephen Fujii, Mitchell Ikeda, Brent Mizutani

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

The caterer for the evening's luau food was Keoki's and Kaiola Canoe Club.

REPORTS OF OFFICIALS

Chairman's Message. Chairman Hong reported on significant events that occurred in 2012 which included the sale of the Kukui Grove Branch Office and the Hardy Street Annex Building as required by Federal guidelines, better control of delinquencies which reduced the mandated provision for loan losses by more than 80%, and reduction of operating expenses by 5%. Unfortunately, the reduction in operating expenses resulted in longer lines and lengthier processing time for loan applications. Chairman Hong assured the members that the Board is aware of the impact upon the members and action is being taken to improve the level of services by filling vacant positions.

As a result of cost savings and the sale of the two properties, the Credit Union in 2012 experienced the highest net income in its history. In consideration of potential upcoming impacts upon the local economy resulting from mandated cuts in federal spending, the Board has chosen to act conservatively and not pursue distribution of the profit through dividend payouts or lower interest rates on loans at the current time. Remaining conservative will enable the Credit Union to withstand this temporary setback within the economy. Chairman Hong assured the members that Kauai Community Federal Credit Union, through its Board of Directors and Management, will continue to address the financial concerns and needs of its membership.

Chairman Hong extended his appreciation to the Board of Directors and Committee Members for their unselfish and outstanding efforts in 2012, and to Mr. Chiba and the employees of the Credit Union for their dedication and hard work. On behalf of the Board of Directors, Chairman Hong extended a sincere Thank You to the membership for their continued support and confidence.

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.

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

Board of Directors-3 Year Term: Ms. Tammy Ando
Mr. George Masuoka
Ms. Caroline Ozaki

Credit Committee-3 Year Term: Mr. Stephen Fujii

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

President/CEO's Report. Mr. Chiba reported that 2012 was a very good year in financial performance which reflected growth in Assets of \$17.2 million and Membership Savings of \$13 million. The Loan portfolio decreased by 1.3% however this decrease is minimal when compared to the Hawaii State average of nearly 4.0%. Most notable was the growth in Net Income of \$4.2 million which was attributed to a reduction in the loan loss expenses, a 50% reduction in the Member Insurance also known as the Federal NCUA regulatory assessment, and the sale of the Kukui Grove Branch Office and the Lihue Annex properties at a net gain of \$650,000. As a result, Kauai Community Federal Credit Union's Net Worth ratio grew at an annualized rate of 16.4% which is a measurement of the Credit Union's financial strength.

Mr. Chiba extended his appreciation to the membership for their tremendous support and loyalty to their Credit Union and to the staff for their dedication and commitment as Kauai endured difficult economic conditions. Although the workforce was reduced, the staff continued their best efforts in serving the members with friendly, courteous and efficient service.

Plans for 2013 includes increasing the staffing within the Loan and Member Services departments, enhancement of the share draft checking and loan programs, and improving the electronic service programs. As the members' financial needs changes over time, a comprehensive member survey will be conducted in 2013 to assess the Credit Union's performance and determine the members' current financial needs. Mr. Chiba encouraged the members to complete the survey should they receive the questionnaire as the information received is valuable as efforts are made to meet the expectations of the membership.

Mr. Chiba extended his appreciation to the leadership of the Board of Directors, the dedication of the Committee members, and the membership for their continued support. As a closing comment, Mr. Chiba noted that Kauai Community FCU exists today because of its membership.

UNFINISHED BUSINESS. None.

NEW BUSINESS

Estimated Budget for 2013. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2013.

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 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.

ADJOURNMENT

There being no further business, the meeting was adjourned at 7:23 p.m.

Respectfully submitted,

Walton D. Y. Hong

Chairman of the Board

Caroline K. Ozaki

Secretary

FINANCIAL STATEMENT

COMPARATIVE BALANCE SHEET

Assets	2013	2012
Loans to Members	\$178,569,109.97	\$163,447,468.46
Less Allowance for Losses	(2,937,675.90)	(3,817,796.07)
Cash & Equivalents	32,896,966.88	47,395,623.33
Investments	123,299,011.43	97,203,531.41
Land and Buildings	16,812,000.89	17,170,482.88
Other Fixed Assets	1,361,165.03	1,441,163.28
Other	9,910,674.08	9,288,434.83
Total Assets	\$359,911,252.38	\$332,128,908.12
Liabilities		
Accounts Payable	\$591,902.16	\$327,415.14
Dividends Payable	382,152.88	275,468.57
Other Liabilities	2,938,359.59	2,114,674.17
Member Savings	324,107,077.71	299,415,382.28
Total Liabilities	\$328,019,492.34	\$302,132,940.16
Equity		
Reserves	\$2,652,060.02	\$2,652,060.02
Undivided Earnings	31,068,697.51	28,573,707.66
Appropriated		
Undivided Earnings	242,536.24	300,327.16
Pension and Other		
Comprehensive Loss	(2,071,533.73)	(1,530,126.88)
Total Equity	\$31,891,760.04	\$29,995,967.96
Total Liabilities & Equity	\$359,911,252.38	\$332,128,908.12

INCOME STATEMENT

COMPARATIVE STATEMENT OF INCOME

Income	2013	2012
Interest on Loans	\$10,199,978.71	\$10,419,771.32
Loan Interest Rebate	(464,925.51)	
Investment Income	1,730,542.38	1,661,960.76
Other Income	2,049,601.29	2,011,210.69
Total Income	\$13,515,196.87	\$14,092,942.77
Operating Expenses		
Employee Compensation	\$3,104,517.50	\$2,894,802.89
Employee Benefits	956,020.14	804,296.13
Travel and Conference	120,454.05	91,105.11
Association Dues	60,494.71	46,244.46
Office Occupancy	897,093.04	985,245.91
Office Operations	1,189,230.88	1,128,137.19
Educational & Promotional	389,019.88	294,778.72
Loan Servicing	486,047.60	493,076.19
Prof. & Outside Services	572,342.89	413,647.46
Provision for Loan Losses	329,769.87	563,396.44
Member Insurance	349,890.81	407,276.29
Operating Fees	75,170.29	71,100.57
Annual Meeting	22,360.78	20,931.82
Direct Cost of Services to Members	466,418.89	466,313.54
Misc. Operating Expenses	27,331.59	20,742.09
Total Operating Expenses	\$9,046,162.92	\$8,701,094.81
Income from Operations	4,469,033.95	5,391,847.96
Non-Operating Gain/Loss	0	654,413.09
Dividends to Members	2,031,835.02	1,866,745.83
To Undivided Earnings & Reserves	\$2,437,198.93	\$4,179,515.22

ESTIMATED BUDGET FOR 2014

	2014	2013
I. OPERATING INCOME		
Interest on Loans	11,104,066	10,202,544
Income from Investments	1,190,691	1,141,252
Fees and Charges	849,672	678,908
Other Miscellaneous Income	1,380,546	1,362,456
Total Operating Income	14,524,975 100.00%	13,385,160 100.00%
II. COST OF FUNDS		
Dividends	2,381,383	1,765,136
Total Cost of Funds	2,381,383 16.40%	1,765,136 13.19%
III. GROSS MARGIN	\$12,143,592 83.60%	\$11,620,024 86.81%
IV. OPERATING EXPENSES		
Salaries	3,441,491	3,219,071
Employee Benefits	1,056,411	845,028
Employees' Travel & Conference	114,965	92,980
Officers'/Directors' Travel & Conference	58,070	49,720
Association Dues	56,815	59,219
Office Occupancy	941,050	941,568
Subscriptions & Training	12,311	20,421
Office Communications	127,084	117,189
Rental of Furniture & Equipment	6,000	6,652
Maintenance of Furniture & Equipment	531,546	455,982
Stationery & Supplies	107,500	110,691
Insurance	82,995	102,460
Depreciation of Furniture & Equipment	281,247	274,001
Armored Car Service	72,648	69,168
Bank Service Charges	46,100	41,390
Other Office Operations	9,000	10,200
Educational/Promotional Business Development	538,616	474,622
Loan Servicing	0	2,500
Loan Servicing	346,700	261,900
Visa Loan Expenses	194,540	180,540
Professional/Outside Services	452,517	569,618
Provision for Loan Losses	1,000,000	1,500,000
Members' Insurance	326,540	358,289
NCUA Operating Fees	62,642	59,582
Cash Over/Short	1,000	1,000
Annual Meeting	35,000	30,000
Miscellaneous Operating Expenses	37,025	28,597
Direct Cost of Services to Members	481,269	472,588
Total Operating Expenses	\$10,421,082 71.74%	\$10,354,976 77.36%
Non Operating Gain/Loss	0	0
V. NET INCOME Before Gain	\$1,722,510 11.86%	\$1,265,048 9.45%
NET INCOME After Gain	\$1,722,510	\$1,265,048

60 Years
of Service

CELEBRATING

60 Years
of Service



2013 ANNUAL REPORT

CHAIRMAN'S REPORT



This year, we celebrate the 60th anniversary of the Kauai Community Federal Credit Union. It has been a very rewarding journey by your credit union in serving its members in so many different ways.

The KCFCU had its humble beginning in 1954, when ten businessmen decided that a credit union was needed to help, not only themselves, but other people on Kauai who lacked access to financial assistance. These ten gentlemen (Sam Aoki, James E. Nishida, Joseph T. Nakamura, William E. Fernandes, George N. Oshita, Kenneth Kagawa, Katsuto Arashiro, Shingo Yamaguchi, Julio Clemente, and Shigeto Nakamura), along with seventeen other members, started this credit union with a total of \$595.00.

As of December 31, 2013, KCFCU grew from that \$595.00 to assets of \$ 359,911,252.38. And in the past 60 years, there were a total of 167,868 loans, totaling \$ 1,645,405,294.16, made. The membership grew from the original 27 members to 32,000 members as of the end of last year.

It must be remembered that the Kauai Community Federal Credit Union is your credit union, owned by you as its members, and all of you can be proud of your being part of this financial institution which has helped so many in so many ways over the past years.

Last year was another good year for KCFCU, with a net income of \$2.4 million. A large part of this is due to the Management and Staff of the Kauai Community Federal Credit Union, who worked hard and diligently to keep operational costs down, while continuing to provide you with the best possible services to meet your needs. Management continues to explore means to make your financial goals and needs easier to attain, such as the use of

improved technology, online banking, and optional overdraft protection to avoid more costly charges by banks and merchants.

Unlike banks which do not return profits to its customers, credit unions such as KCFCU will return profits to its members where appropriate. Your Board of Directors, in December of 2013, approved the payment of a 5% Loan Interest Rebate, as well as a Bonus Dividend of 5% for 2013.

I again commend, and would like to thank my fellow Directors, Mel Chiba and his Management Team, the Staff at every one of the four branch offices and at the main Kukui Grove West office, for your outstanding and dedicated work throughout the past year. But the most important group to the success of your credit union is you, the 32,000 members, who have continued to support KCFCU. By your support, you will continue to help all of your fellow members of Kauai Community Federal Credit Union. Your Board of Directors and I thank you for your loyalty, confidence and support.

Respectfully submitted,

Walton D.Y. Hong
Chairman of the Board

PRESIDENT'S MESSAGE



2013 was again a very successful year for your credit union. Your credit union's Assets grew by \$27.9 million or 8.36%; Member Savings accounts increased by \$24.7 million or 8.25%, and Loans increased by \$15.2 million or 9.28%. Total Net Income at \$2.4 million exceeded our projections for the second consecutive year. As a result of this, and to commemorate the celebration of KCFCU's 60th year, your Board of Directors declared a 5% Bonus Dividend and a 5% Loan Interest Rebate to the membership. The bonus dividend was based upon giving every member another dividend in the amount of 5% of total dividends earned in the year 2013. This 5% Bonus Dividend will be deposited into every KCFCU members' account on April 1, 2014.

The Loan Interest Rebate was granted to give every member who paid interests on loans at KCFCU a refund equal to 5% of the total loan interest paid throughout 2013. Members with loans at KCFCU will notice that their total interest paid in 2013 was reduced by 5% and that amount was deposited into the borrowing members' savings account on December 31, 2013.

The Loan Interest Rebate and the Bonus Dividend is unique to credit unions. The benefits of a credit union can only be returned to its members and this is one of the ways credit unions return benefits to the membership when results exceed the projections of the credit union. Also, KCFCU and its membership is returning economic benefits to our island community in which we live. The 5% Loan Interest Rebate and the 5% Bonus Dividend totaled over \$500,000 which will be used by KCFCU members to support our island's economy. This is a significant impact on the community and local businesses as members reinvest these funds into our local economy.

2014 is KCFCU's 60th year of service to our island's residents on Kauai. As I reflect upon our credit union's history, I must say that Kauai Community FCU has always honored and practiced the ideals of

a credit union. Your credit union has enjoyed 60 years of success in providing low cost and affordable financial services as well as beneficial services and programs for the membership.

At KCFCU's 1st Annual Meeting in 1955, Board President James Nishida stated: "The main objective of credit unions is to substantially improve the economic condition of people who work for a living. It seems, therefore, that the first objective of any credit union should be to bring its service to all persons eligible to membership. But mere membership is not the ultimate goal. Members must participate to obtain the full benefits of credit union services. It is essential for them to know how to use their credit union to improve their economic condition." I am proud to say that KCFCU's objectives and purpose has not changed since 1954 as we celebrate our 60th year. We are a credit union, a financial cooperative built upon people helping people. People must become a member owner in order to use KCFCU's financial services and only member owners can receive the benefits of the credit union.

With our eyes on the future, Kauai Community Federal Credit Union is effectively positioned for continued success. As your financial needs change, we will change to meet them without losing our focus on KCFCU's initial objectives and purpose.

I 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 thank our Management and Staff for all their hard work and dedication. Ultimately however, the success of the credit union is due to the contributions and feedback from you, the members. Your goals and expectations keep us striving to satisfy your financial needs. We are here for you and your families, prepared to meet all of your needs with beneficial products and services, with a degree of quality and professionalism that far exceed your highest expectations. I thank you, the membership, for your continued support and confidence. Kauai Community Federal Credit Union exists today because of you.

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 2013, the Credit Committee approved 3,710 loans totaling \$77,640,996.95. The three highest categories in dollar amounts were for purposes of mortgage refinance, home equity loans and auto loans. As we look forward to the coming year, KCFCU will continue to offer programs that benefit the membership.

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:
Mitchell Ikeda
Stephen Fujii

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, 2013.

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,

Kamika Smith
Chairman

Committee Members:
Gwynne Duarte
Joseph Kobayashi
Edward Medeiros
Lon Shimanuki

LOCALLY OWNED

"Over the past 6 decades our progress has been impressive to say the least. KCFCU was created by 10 charter members on March 1, 1954 with a \$25 donation by J. B. Fernandes for the cost of the Credit Union Charter. On the first day of business, KCFCU's total shares amounted to \$595. Since then, KCFCU's Assets have grown to over \$360 million, Membership has increased to 32,000 members, and our Loan portfolio, which began with 21 loans totaling \$6,800, now reports nearly 18,000 loans totaling \$179 million."

"Even membership services have grown from one savings program and one loan type to a full service credit union that serves members' every financial need. One thing, however, has never changed: KCFCU is and continues to be locally owned and operated by you, the membership. Member ownership is the foundation of credit unions – it's the heart of KCFCU."

Melvin Chiba, President/CEO



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.

03/2014



BALLOT
