

AGENDA

1. Call to order

- Roll Call
- Minutes of the 60th Annual Meeting

2. Reports of Officials

- Chairman of the Board
Walton D.Y. Hong
- Supervisory Committee
Kamika Smith
- Credit Committee
Mitchell Ikeda
- Recruiting Committee
Tammy Ando
- President/CEO
Melvin I. Chiba

3. Unfinished Business

4. New Business

- Estimated Budget for 2015
- Suggestions/Actions
Recommended by Membership
- Election of Officials
 - Board of Directors
 - Credit Committee

5. Adjournment

2014 MEMBERSHIP MEETING MINUTES

The 60th Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:28 p.m. on Saturday, March 8, 2014 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 797 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 9, 2013, 59th 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 Shiraishi

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

REPORTS OF OFFICIALS

Chairman's Message. Chairman Hong announced that Kauai Community FCU in 2014 is celebrating 60 years of serving its membership of nearly 32,000 members. The Credit Union which began in 1954 with assets of \$595 has now grown in asset size to nearly \$360 million. The current members are the beneficiaries of the foresight of the 27 original members 60 years ago.

Chairman Hong reported that 2013 was a good year reflecting a net income of approximately \$2.4 million. While some of that income is being conservatively retained for potential future adverse conditions, a portion of the income is also being returned to the members through a 5% Loan Interest Rebate and a 5% Bonus Dividend. The members of Kauai Community FCU are entitled to share in the benefits of membership unlike banks which has shareholders who benefit from income generated by the institution.

In 2013, the credit unions on Kauai lost part of their real property tax exemption. In the past, credit unions were exempt from paying real property taxes on the basis that they are not for profit institutions. Kauai Community FCU was impacted the most due to its number of properties. Should the County attempt to increase the real property taxes on credit unions, Chairman Hong requested the members' support in fighting against such proposals as the loss of the real property tax exemption would affect every single member of the credit union. Chairman Hong conveyed his appreciation to Mel Chiba, Management, Staff, Volunteers and fellow Directors for their dedication and work in making 2013 a success. On behalf of the Board of Directors, Chairman Hong extended his thankfulness to the membership of Kauai Community FCU for their 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.

Recruitment Committee. Ms. Tammy Ando, Chairperson of the Recruitment Committee, presented the following nominations:

Board of Directors-3 Year Term: Mr. Walton D.Y. Hong
Mr. Phil Fudge
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 2013 was again a very successful year with Assets growing 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 projections for the second consecutive year. As a result of its financial performance and to commemorate the celebration of KCFCU's 60th year, the Board of Directors

declared a 5% Bonus Dividend and a 5% Loan Interest Rebate to the membership. The Bonus Dividend was based upon an additional 5% of total dividends earned in 2013 to be deposited into members' accounts on April 1, 2014. The Loan Interest Rebate was a refund of 5% of the total loan interest paid throughout 2013 which was deposited into the borrowing members' savings accounts on December 31, 2013. The Loan Interest Rebate and Bonus Dividend are unique to credit unions. The benefits of a credit union can only be returned to its members. Mr. Chiba noted that this is one of the ways credit unions return benefits to the membership when results exceed the credit union's projections.

Mr. Chiba shared with the members a slide presentation of the historical background of the Credit Union since it first began in 1954 along with significant events that occurred along the way leading to its current status. The slide presentation was dedicated to Mr. George Oshita who is the sole surviving Charter Member and who had always attended the Annual Meetings in the past. In March 1954, a group of pineapple farmers submitted an application for a Federal Charter and received approval to form a credit union called Kauai Community Federal Credit Union. It was comprised of 10 Charter Members and along with 17 other members pooled their funds together and started the Credit Union with \$595. In 1955, Board President James Nishida stated at the 1st Annual Meeting: "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." This objective has not changed over the past 60 years.

Mr. Chiba recognized Ms. Terri Kaniho who is the Marketing Specialist for the Credit Union and who is responsible for coordinating the luau and annual meeting. Included in her accomplishments has been the creation of the slide presentation depicting the history of the Credit Union, its growth in branch offices, products and services, as well as its involvement in community service in fundraisers and donations. The Children's Miracle Network has been a major recipient over the past 13 years receiving over \$250,000 which is channeled to the Wilcox Pediatric Services Unit. Included is the creation of the CUSO, Community Financial Services Group LLC, as well as the Kukui Grove West building being recognized as the first financial institution in the State of Hawaii receiving a LEED Gold certification.

As the financial needs of the membership have changed from 1954 to present, Kauai Community FCU has similarly changed to meet the members' needs yet at the same time has upheld its original objective to provide affordable financial services and improve the economic condition of 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 Mr. Walton D.Y. Hong, Mr. Phil Fudge, 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.

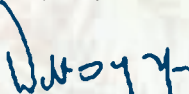
Estimated Budget for 2014. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2014.

Suggestions/Actions Recommended by Membership. None.

ADJOURNMENT

There being no further business, the meeting was adjourned at 8:17 p.m.

Respectfully submitted,



Chairman of the Board



Secretary

FINANCIAL STATEMENT

COMPARATIVE BALANCE SHEET

Assets	2014	2013
Loans to Members	\$200,848,009.09	\$178,569,109.97
Less Allowance for Losses	(2,578,655.08)	(2,937,675.90)
Cash & Equivalents	32,800,312.72	32,896,966.88
Investments	120,283,783.38	123,299,011.43
Land and Buildings	16,607,297.17	16,812,000.89
Other Fixed Assets	1,411,011.71	1,361,165.03
Other	10,655,582.15	9,910,674.08
Total Assets	\$380,027,341.14	\$359,911,252.38
Liabilities		
Accounts Payable	\$558,713.20	\$591,902.16
Dividends Payable	308,348.58	382,152.88
Other Liabilities	2,827,348.58	2,938,359.59
Member Savings	340,944,528.63	324,107,077.71
Total Liabilities	\$344,638,938.99	\$328,019,492.34
Equity		
Reserves	\$2,652,060.02	\$2,652,060.02
Undivided Earnings	34,701,867.31	31,068,697.51
Appropriated		
Undivided Earnings	184,745.32	242,536.24
Pension and Other		
Comprehensive Loss	(2,150,270.50)	(2,071,533.73)
Total Equity	\$35,388,402.15	\$31,891,760.04
Total Liabilities & Equity	\$380,027,341.14	\$359,911,252.38

INCOME STATEMENT

COMPARATIVE STATEMENT OF INCOME

Income	2014	2013
Interest on Loans	\$11,321,866.81	\$10,199,978.71
Loan Interest Rebate		(464,925.51)
Investment Income	1,979,129.79	1,730,542.38
Other Income	2,219,627.13	2,049,601.29
Total Income	\$15,520,623.73	\$13,515,196.87
Operating Expenses		
Employee Compensation	\$3,271,878.68	\$3,104,517.50
Employee Benefits	889,109.33	956,020.14
Travel and Conference	182,491.87	120,454.05
Association Dues	58,222.55	60,494.71
Office Occupancy	939,743.49	897,093.04
Office Operations	1,207,266.40	1,189,230.88
Educational & Promotional	490,468.97	389,019.88
Loan Servicing	692,429.77	486,047.60
Prof. & Outside Services	493,918.84	572,342.89
Provision for Loan Losses	801,687.24	329,769.87
Member Insurance	174,472.42	349,890.81
Operating Fees	66,469.56	75,170.29
Annual Meeting	38,501.79	22,360.78
Direct Cost of Services to Members	533,771.64	466,418.89
Misc. Operating Expenses	22,260.88	27,331.59
Total Operating Expenses	\$9,862,693.43	\$9,046,162.92
Income from Operations	5,657,930.30	4,469,033.95
Non-Operating Gain/Loss	—	—
Dividends to Members	2,050,237.95	2,031,835.02
To Undivided Earnings & Reserves	\$3,607,692.35	\$2,437,198.93

ESTIMATED BUDGET FOR 2015

	2015	2014
I. OPERATING INCOME		
Interest on Loans	12,490,182	11,104,066
Income from Investments	1,754,520	1,190,691
Fees and Charges	979,344	849,672
Other Miscellaneous Income	1,513,498	1,380,546
Total Operating Income	16,737,544 100.00%	14,524,975 100.00%
II. COST OF FUNDS		
Dividends	2,506,458	2,381,383
Total Cost of Funds	2,506,458 14.98%	2,381,383 16.40%
III. GROSS MARGIN	\$14,231,086 85.02%	\$12,143,592 83.60%
IV. OPERATING EXPENSES		
Salaries	3,796,281	3,441,491
Employee Benefits	1,030,223	1,056,411
Employees' Travel & Conference	159,340	114,965
Officers'/Directors' Travel & Conference	73,150	58,070
Association Dues	63,367	56,815
Office Occupancy	995,103	941,050
Subscriptions & Training	23,111	12,311
Office Communications	132,084	127,084
Rental of Furniture & Equipment	4,824	6,000
Maintenance of Furniture & Equipment	631,189	531,546
Stationery & Supplies	109,700	107,500
Insurance	99,459	82,995
Depreciation of Furniture & Equipment	295,339	281,247
Armored Car Service	75,180	72,648
Bank Service Charges	46,100	46,100
Other Office Operations	9,000	9,000
Educational/Promotional	500,002	538,616
Loan Servicing	442,000	346,700
Visa Loan Expenses	202,000	194,540
Professional/Outside Services	542,196	452,517
Provision for Loan Losses	1,000,000	1,000,000
Members' Insurance	96,481	326,540
NCUA Operating Fees	66,470	62,642
Cash Over/Short	1,000	1,000
Annual Meeting	35,000	35,000
Miscellaneous Operating Expenses	49,939	37,025
Direct Cost of Services to Members	581,200	481,269
Total Operating Expenses	\$11,059,738 66.08%	\$10,421,082 71.75%
Non Operating Gain/Loss	0	0
V. NET INCOME Before Gain	\$3,171,348 18.95%	\$1,722,510 11.86%

2014 ANNUAL REPORT

CHAIRMAN'S REPORT



Last year, we celebrated the 60th anniversary of this credit union. It was a resounding success, highlighting the history of the credit union when ten community members decided to do something for the local population which they believed were not being properly served by the major financial institutions on Kauai.

Your credit union still continues to grow and serve you and your fellow members. For example, the Kauai Community Federal Credit Union made a little under \$80 million in loans in 2014. Since its inception 60 years ago, it has made \$1,726,012,833.54 over 171,987 loans. This is about \$10,000 a loan, which evidences that the credit union makes smaller loans to a greater number of members. We continue to fill a niche that is not being fulfilled by other financial institutions.

Your Board of Directors are cognizant of the need for changes to continue to give you loans at competitive rates, while also paying dividends at competitive rates. KCFCU historically increases its membership growth at about 2% per annum, which is approximately 200 new members every month. But we also lose about a 100 accounts a month for a number of reasons, such as members moving to the mainland, or needing the funds due to loss of employment. A large portion of the closed accounts are dormant accounts, for which there have been no activity for 5 years, despite notices to the account holders. These accounts are escheated or forfeited to the State of Hawaii, but can be reclaimed upon proper documentation.

We need and want to continue to have membership growth. Following up on members and non-members surveys done by the credit union, we elected to introduce the Kasasa program. This is an innovative program with rewards, one of which pays 2.5% interest on money a member has on deposit while participating in the program. There are certain requirements, such as using your debit card ten or more times a month. But it's not that difficult—use the Kasasa card when you buy small items, such as drinks at 7-11 Stores, coffee at Starbucks, and the like. It is the number of times you use your debit card, not the amount of the purchase that counts towards earning you interest much higher than you would get on a regular checking or savings account. Other checking account reward options include getting cash back and receiving iTunes or Amazon.com refunds.

Since it was implemented in July of 2014, more than 1,500 Kasasa accounts have been opened, and that number continues to increase. We believe that the growth will continue as more and more of our members learn about the program and its advantages from their friends and fellow members.

In an effort to better serve our membership in the Koloa and North shore areas, we have been looking for possible branch office sites in Kilauea and Koloa for years, but have not been successful. If anyone knows of property becoming available in those areas, we ask that you contact Mel Chiba for follow up.

Last year was a very good year for the Kauai Community Federal Credit Union, with a net income of about \$3.6 million. In recognition of the credit union's earnings in 2013 and anticipated income in 2014, the Board of Directors declared a bonus dividend which was paid to all members in April of 2014. But your Board of Directors was also conservative in not returning all of the profits to you, as owners of the credit union. We need to plan should an opportunity arise to establish a branch office in Koloa and/or Kilauea. While some of the profits were returned, we also need to have sufficient cash reserves for new branch office or offices, as well as being ready to meet any changes which may be imposed upon us by the credit union regulatory bodies.

But more importantly, we need to retain sufficient reserves to insure the financial strength and stability which the Kauai Community Federal Credit Union has shown over the past 60 years for the betterment of its members and the community.

I would like to again commend and thank my fellow Directors, Mel Chiba and his Management Team, and the staff of KCFCU, for their dedication and hard work in making last year such a success.

I would like to acknowledge and recognize all of you, the members of Kauai Community Federal Union, for your support and patronage, because without you, KCFCU could not enjoy the level of success it has achieved and maintained.

I read somewhere that if you're standing still while everyone around you is moving forward, then you're falling behind. If your credit union is to remain as a force in the Kauai community, we need to be continuously moving forward. To do this, we need your help.

We need your help in gaining and keeping members. We need your help in promoting the credit union's programs, such as Kasasa, that are available to the membership. We need you to continue using the loan, savings, and other financial services available. We need you as owners of this financial institution to help us help you.

And for your past help, and for the anticipated continued help in the future, the Board of Directors, management and staff extend their gratitude and appreciation.

Respectfully submitted,

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

PRESIDENT'S MESSAGE



Thank you members for another wonderful year. A wonderful year of celebrating our 60th Anniversary of service to you, the membership of Kauai Community Federal Credit Union. It's remarkable to look at how far your credit union has come – from

our grassroots beginning in 1954, to becoming one of the 10 largest credit unions in the State of Hawaii.

In 2014, we introduced our new Kasasa Checking and Savings Account program, which includes free checking with rewards, such as cash back, or iTunes and Amazon.com refunds and high dividends. Dividend rates on Kasasa accounts are as high as 2.50% APY. This program is proving to be highly successful with over 1,500 accounts already signed up.

Service delivery or the way in which we serve your financial business has always been a very important part of our efforts at providing convenience to you the membership. From the days of walking into KCFCU with cash, to using checks, to debit and credit cards, to electronic service delivery, KCFCU has continued to change as the needs of the membership changes. In 2014, we introduced our new eMobile App and we're excited about expanding the capabilities of our eMobile smartphone banking service. Soon, you'll be able to take a photograph of a check and deposit that check into your account remotely from virtually any location – without having to visit a credit union office. Our free eMobile app is available for iPhones, iPads, and Android phones and devices. Look for upcoming improvements to our ebranch Online banking and Bill Payer services that will streamline your transactions, while also increasing your online security.

2014 was again another very successful year with regards to the financial performance of your credit union: Assets grew by \$20.1 million or 5.59%; Member Savings Accounts increased by \$16.8 million or 5.20%; and Loans increased by \$22.4 million or 12.52%. Total Net Income for the year amounted to \$3.6 million. Kauai Community Federal Credit Union at \$380 million in Assets, with \$201 million in loans to members, and total member savings in the amount of \$341 million is financial sound and stable.

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 thank our Management and Staff for their hard work and dedication throughout the year. And, I thank you the membership, for your continued support, confidence, and loyalty.

Please remember, your credit union remains focused on helping you improve your financial wellbeing and fostering the best quality of life for you and your family. With these goals in mind, you can look forward to more new services and advanced banking technology coming from your credit union in 2015 and beyond. As always, we couldn't have achieved this long tradition of growth and success without the loyalty and support of you, our members. I thank you all for another great year of success.

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 2014, the Credit Committee approved 4,119 loans totaling \$79,607,539.38. 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, 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,

Mitchell Ikeda,
Chairman

Committee Members:
Steve 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 Subsidiary for the fiscal year ending June 30, 2014.

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:
Deborah Christian
Gwynne Duarte
Joseph Kobayashi
Edward Medeiros

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.kfcu.org

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



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

03/2014



B A L L O T
