

## Agenda

### 1. Call to order

- Roll Call
- Minutes of the 63rd Annual Meeting

### 2. Reports of Officials

- Supervisory Committee  
Walter Kamika Smith

- Credit Committee  
Mitchell Ikeda

- Recruiting Committee  
Tammy Ando

- President/CEO- Brand Message  
Tess Shimabukuro

- Chairman of the Board  
Walton Hong

- President/CEO- President's Report  
Tess Shimabukuro

### 3. Unfinished Business

- Estimated Budget for 2018
- Suggestions/Actions  
Recommended by Membership
- Election of Officials  
1) Board of Directors

### 2) Credit Committee

### 5. Adjournment

## 2017 Membership Meeting Minutes

The 63rd Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:03 p.m. on Saturday, March 18, 2017 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 627 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 12, 2016, 62nd 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:** Tess Shimabukuro

**Supervisory Committee:** Walter Kamika Smith, Deborah Christian, Kent Kikuchi, Joseph Kobayashi, and Dulcie Yano

**Credit Committee:** Stephen Fujii, Mitchell Ikeda, Brent Mizutani

**CUSO Board of Managers:** Gerald Matsunaga, Jacqueline Kanna, Earl Miyao, Sherman Shiraiishi, and Tess Shimabukuro

Chairman Hong recognized Keeki's as the caterer for the evening's luau food.

#### Reports of Officials

Chairman's Message. Chairman Hong reported that the most significant event that occurred in 2016 was the retirement of KCFCU's President and Chief Executive Officer, Mr. Melvin Chiba, after 42 years of service. Upon his retirement, Ms. Tess Shimabukuro was confirmed as the new President and Chief Executive Officer in October 2016. Ms. Shimabukuro was the Executive Vice President for a number of years and is very knowledgeable in the operations of the Credit Union. Also retiring in 2016 after 24 years of service was Mr. Owen Nishihara who was the Vice President of Human Resources. Mr. Kaleo Perez is the new Vice President of Human Resources.

A concern that has been raised by some members is the constant change in staffing who do not recognize them when they go into a branch office to do their transactions and being asked for their identification. Chairman Hong reassured the members that the turnover in staffing is not higher than other places of employment or due to people not wanting to work at the Credit Union. KCFCU has a policy of filling position vacancies whenever possible with the best qualified people from within the organization vs. externally, which will result in some internal shifting of staff to other positions or to other branch offices. All members are valued and considered equally important to the organization.

Efforts are continuing to build a new branch office in Kilauea as well as to review the branding of the Credit Union to become more recognizable and acceptable as the financial institution of choice for its members. Chairman Hong extended his appreciation to those members who participated in providing feedback to the consultants. Another accomplishment is the establishment of student credit unions in Kauai's three public high schools which is an important step in educating the youth on financial management which will help them in their future years.

Chairman Hong extended his appreciation to Mr. Mel Chiba, Ms. Tess Shimabukuro and her management staff and KCFCU employees, the Volunteers and fellow Directors for their dedication and work in making 2016 a success. On behalf of the Board of Directors, Chairman Hong thanked the membership for their support and confidence in their 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: Mr. Phil Fudge  
Mr. Walton D.Y. Hong  
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.** Ms. Shimabukuro extended her appreciation to Mr. Chiba for his leadership and guidance and teaching the importance of upholding the Credit Union's values as well as allowing her the opportunity to learn and grow with the organization. Upon behalf of the Credit Union, she pledged that his legacy would be continued and his vision would be carried out of bettering the financial well-being of its members.

In 2016, KCFCU supported many community events as well as raised \$40,000 through its annual Charity Golf Tournament to benefit the Pediatric Units at Wilcox Memorial Hospital and the Kapiolani Medical Center. KCFCU collaborated with the educational community to promote financial literacy amongst the youth by opening student credit unions at the three high schools, as well as the Bank Bus program in several elementary schools. Programs implemented in 2016 included the ability for members to view their deposited checks via homebanking; lowered the annual fee, added cash redemptions and non-expiring points to the VISA Platinum credit cards; addition of an App to allow members to control their debit cards 24/7 as a tool to combat fraud; and members having the ability to have their debit card issued from two of the branch offices for a nominal fee.

Financial performance in 2016 reflected stellar growth of 9.06% in Assets, 8.84% in Member Savings, and 8.70% in Loans, with a Net Income of \$4 million. Ms. Shimabukuro reported that KCFCU at \$456 million in assets, \$239 million in loans to members, and total member savings of \$411 million is financially sound and stable.

Plans for 2017 includes joining a network of credit unions allowing accessibility to 70 locations statewide as well as accessing surcharge free ATMs in 50 states; renovations to three branch offices; upgrading the ATMs; issuance of credit and debit chip cards for added security; refreshing the Brand; and continuing to promote financial literacy.

Ms. Shimabukuro extended her appreciation to the volunteer Board of Directors and Committee Members for donating their time to ensure that plans and decisions made improve the members' lives, and also to the Staff and Management of KCFCU for all that they do for the membership. And to each and every member for their loyalty, cooperative spirit of people helping people, and their confidence in their Credit Union.

**Unfinished Business** - None.

#### New Business

Election of Officials. Vice Chairman Punua 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. Phil Fudge, Mr. Walton D.Y. Hong, 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.

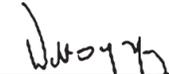
Estimated Budget for 2017. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2017.

Suggestions/Actions Recommended by Membership. None.

#### Adjournment

There being no further business, the meeting was adjourned at 7:29 p.m.

Respectfully submitted,

  
Chairman of the Board

  
Secretary

## Financial Statement

### Comparative Balance Sheet

| Assets                    | 2017             | 2016             |
|---------------------------|------------------|------------------|
| Loans to Members          | \$266,456,349.49 | \$238,726,160.14 |
| Less Allowance for Losses | (3,299,000.45)   | (2,170,002.10)   |
| Cash & Equivalents        | 30,348,821.42    | 46,818,128.10    |
| Investments               | 161,456,431.74   | 147,350,290.52   |
| Land and Buildings        | 15,416,958.03    | 15,808,955.56    |
| Other Fixed Assets        | 1,522,510.74     | 1,353,082.53     |
| Other                     | 14,145,875.99    | 11,064,726.71    |

**Total Assets \$486,047,946.96 \$458,951,341.46**

### Liabilities

|                   |                |                |
|-------------------|----------------|----------------|
| Accounts Payable  | \$672,068.83   | \$784,246.53   |
| Dividends Payable | 386,157.19     | 366,100.09     |
| Other Liabilities | 4,172,645.25   | 4,328,283.02   |
| Member Savings    | 434,479,683.03 | 411,867,156.85 |

**Total Liabilities \$439,710,554.30 \$417,345,786.49**

### Equity

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Reserves                             | \$2,652,060.02 | \$2,652,060.02 |
| Undivided Earnings                   | 46,352,814.39  | 42,346,788.19  |
| Appropriated Undivided Earnings      | 11,372.56      | 69,163.48      |
| Pension and Other Comprehensive Loss | (2,678,854.31) | (3,462,456.72) |

**Total Equity \$46,337,392.66 \$41,605,554.97**

**Total Liabilities & Equity \$486,047,946.96 \$458,951,341.46**

## Income Statement

### Comparative Statement of Income

| Income            | 2017            | 2016            |
|-------------------|-----------------|-----------------|
| Interest on Loans | \$14,574,211.43 | \$13,578,150.30 |
| Investment Income | 3,053,661.58    | 2,591,226.48    |
| Other Income      | 3,351,603.63    | 2,723,459.47    |

**Total Income \$20,979,476.64 \$18,892,836.25**

### Operating Expenses

|                                    |                |                |
|------------------------------------|----------------|----------------|
| Employee Compensation              | \$4,234,909.97 | \$4,310,653.03 |
| Employee Benefits                  | 1,185,384.61   | 1,016,048.61   |
| Travel and Conference              | 219,890.36     | 207,563.88     |
| Association Dues                   | 72,451.49      | 70,481.03      |
| Office Occupancy                   | 883,435.50     | 863,382.85     |
| Office Operations                  | 1,666,638.42   | 1,481,789.61   |
| Educational & Promotional          | 690,048.55     | 856,044.96     |
| Loan Servicing                     | 1,144,696.17   | 892,430.15     |
| Prof. & Outside Services           | 602,027.09     | 567,595.30     |
| Provision for Loan Losses          | 2,849,753.47   | 701,229.95     |
| Operating Fees                     | 104,902.18     | 76,673.23      |
| Annual Meeting                     | 11,430.54      | 29,468.79      |
| Direct Cost of Services to Members | 1,284,224.35   | 1,108,822.63   |
| Misc. Operating Expenses           | 36,558.56      | 37,502.48      |

**Total Operating Expenses \$14,986,351.26 \$12,219,686.50**

**Income from Operations \$5,993,125.38 \$6,673,149.75**

**Non-Operating Gain/Loss \$132,346.14 \$500.00**

**Dividends to Members \$2,743,799.71 \$2,583,900.49**

**To Undivided Earnings & Reserves \$3,381,671.81 \$4,089,749.26**

## Estimated Budget for 2018

|                            | 2018         | 2017         |
|----------------------------|--------------|--------------|
| <b>I. Operating Income</b> |              |              |
| Interest on Loans          | \$16,148,548 | \$14,902,103 |
| Income from Investments    | 2,954,057    | 2,551,017    |
| Fees and Charges           | 1,461,224    | 1,356,551    |
| Other Miscellaneous Income | 1,883,839    | 1,453,725    |

**Total Operating Income \$22,447,668 100.00% \$20,263,396 100.00%**

### II. Cost of Funds

Dividends \$3,109,534 \$2,881,547

**Total Cost of Funds \$3,109,534 13.85% \$2,881,547 14.22%**

### III. Gross Margin

**\$19,338,134 86.15% \$17,381,849 85.78%**

### IV. Operating Expenses

|   |             |             |
|---|-------------|-------------|
| Salaries                                  | \$4,913,055 | \$4,551,172 |
| Employee Benefits                         | 1,541,088   | 1,328,891   |
| Employees' Travel & Conference            | 173,196     | 161,470     |
| Officers' /Directors' Travel & Conference | 82,580      | 64,900      |
| Association Dues                          | 75,958      | 69,705      |
| Office Occupancy                          | 970,671     | 982,599     |
| Subscriptions & Training                  | 45,191      | 33,546      |
| Office Communications                     | 213,650     | 164,633     |
| Rental of Furniture & Equipment           | 5,495       | 4,824       |
| Maintenance of Furniture & Equipment      | 786,254     | 728,402     |
| Stationery & Supplies                     | 131,700     | 131,900     |
| Insurance                                 | 115,160     | 104,960     |
| Depreciation of Furniture & Equipment     | 513,361     | 427,005     |
| Armored Car Service                       | 71,376      | 75,099      |
| Bank Service Charges                      | 52,200      | 78,900      |
| Other Office Operations                   | 8,200       | 10,000      |
| Educational/Promotional                   | 639,225     | 715,000     |
| Business Development and SEG              | 25,150      | 18,500      |
| Loan Servicing                            | 967,900     | 735,100     |
| Visa Loan Expenses                        | 231,000     | 228,650     |
| Professional/Outside Services             | 699,455     | 639,060     |
| Provision for Loan Losses                 | 1,500,000   | 1,000,000   |
| NCUA Operating Fees                       | 105,000     | 76,700      |
| Cash Over/Short                           | 1,000       | 1,000       |
| Annual Meeting                            | 40,000      | 25,000      |
| Miscellaneous Operating Expenses          | 78,846      | 58,929      |
| Direct Cost of Services to Members        | 1,288,400   | 1,159,600   |

**Total Operating Expenses \$15,275,111 68.05% \$13,575,545 67.00%**

Non Operating Gain/Loss 0 0

**V. Net Income Before Gain \$4,063,023 18.10% \$3,806,304 18.78%**

# 2018 Annual Report





### Chairman's Report

This year will be the 64th year since your credit union was established by the ten farmers who had the vision of a financial institution to help the fellow members of their community meet their various needs through savings and loans.

The past two years have been years of evolution of this credit union. When President Tess Shimabukuro took over the reins of the credit union following the retirement of Mel Chiba, we shifted gears to accommodate a new style of management. I am happy to report that the credit union has continued to grow and prosper under President Tess Shimabukuro and her management team.

During the past year, we grew from \$458 million to \$486 million. We continue to match other credit unions of comparable size and membership in the State of Hawaii. This is the result of careful planning and the hard work and dedication of your credit union's management and staff.

We continue to look for ways to educate our younger members as to the financial realities they will face as they enter into the mainstream work force. The three student credit unions we established at Waimea High School, Kapaa High School, and Kauai High School are thriving.

Notwithstanding the credit union's continued success, we have faced obstacles needed to be overcome. We are still doing everything we can to establish a branch office in Kilauea. However, we continue to be hampered in the entitlement and permitting process, such as the requirement to provide a source of potable water for the branch office.

The threat of larger credit unions coming in to take over the smaller and more vulnerable credit unions remain. If we are to remain true to our belief that the credit union must be able to meet its members' financial needs with the "Aloha Spirit", we must be willing to evolve into a larger and stronger credit union.

Later in this annual meeting, we will show you how this evolution will occur. While the change may initially be difficult to accept, we will need your continued support, belief and faith that we can grow and prosper in the years to come.

I would like to express my thanks and appreciation to my fellow directors, the management and the staff of the credit union for their dedication and hard work to make the past year a success. As you will see later in the meeting, they have had to put in extraordinary time and effort in the past months to enable the credit union to plan its future course of action.

Your Board of Directors and management look forward to another successful year.

Respectfully submitted,

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



### President's Report

It has been a privilege to serve as your President/ CEO for a full year. I am pleased to report, Assets grew by \$27 million (5.90%); Member Savings grew by \$22 million (5.49%); Loans grew by \$27 million (11.66%). Net income for the year amounted to \$3.3 million. Now at \$486 million in assets, with \$267 million in loans to members, and total member savings of \$434 million. Your credit union remains financially stable and sound.

We have continued to promote financial literacy by offering educational seminars ranging from understanding credit scores to homeownership. We opened our third student credit union at Waimea High School along with the Bank Bus Program at several elementary schools.

As we are committed to providing you better experiences, we are upgrading our ATMs and renovating our Kapaa, Waimea and Eleele offices. Our VISA Credit and Debit cards now include the EMV chip for added protection. Additionally, you are now able to visit more than 5,600 credit union Shared Branch locations throughout the nation, including over 70 locations statewide.

It is heartwarming to see our volunteers, employees and you our members supporting our charitable causes. We continued to be very active in the community, either donating, participating, or volunteering with nearly 100 charitable and non-profit organizations.

This year, our annual golf tournament raised \$36,000 for Wilcox Pediatric Services on Kauai via the Kapiolani Children's Miracle Network. Kauai's credit unions collectively donated \$37,000 to the Kauai Independent Food Bank. \$17,000 was solely from KCFCU.

Thank you once again for voting us the Best Credit Union in the Garden Island Newspaper's poll. We are also proud to

have been recognized as the SBA 7(a) Lender of the Year in Category III.

Today we are excited to unveil the new direction for the KCFCU brand. Rebranding ourselves was a very big step. To make sure we got it right, we reached out for input and feedback from the membership and community over a two-year period. Rest assured, we are not changing our staff, business hours, account numbers, or our full-service approach to serving your financial needs.

Our new brand links us to our past, but represents a forward-looking brand promise to our members and community. To remain relevant with current and future generations, we must reach out and adapt to new opportunities. Our brand refresh embraces this mindset. We are local, and will always be local.

In the coming months you will be seeing more and more of our new branding materials that better reflect who we are in 2018: a modern credit union that is 100% local, member-owned, and dedicated to Strengthening the Financial Well-being of our Members and Island Communities. Although we are a financial institution, we are also a family – a family that has been dedicated to serving you for 64 years and promises to continue that level of dedication for many more years to come.

I would like to express my appreciation to our volunteer Board of Directors and Committee members who donate their time to ensure our plans and decisions improve the lives of our members.

To the KCFCU Staff and Management, my sincere gratitude for all you do for our membership.

I thank you all for the trust and confidence you place in your credit union team. Please know how much we appreciate your membership and how proud we are to be able to report to you another outstanding year.

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 2017, the Credit Committee approved 4,187 loans totaling \$111,414,982.17. The three highest categories in dollar amounts were for purposes of auto loans, mortgage refinances, and home equity 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:**  
Stephen 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 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, 2017.

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.



01/2018

## BALLOT

---

---

---