

AGENDA

1. Call to order

- a. Roll Call
- b. Minutes of the 58th Annual Meeting

2. Reports of Officials

- a. Chairman of the Board
Walton D.Y. Hong

- b. Supervisory Committee
Kamika Smith

- c. Credit Committee
Stephen Fujii

- d. Recruiting Committee
Victor Punua Sr.

- e. President/CEO
Melvin I. Chiba

3. Unfinished Business

4. New Business

- a. Estimated Budget for 2013
- b. Suggestions/Actions
Recommended by Membership
- c. Election of Officials
 - 1) Board of Directors
 - 2) Credit Committee

5. Adjournment

2012 MEMBERSHIP MEETING MINUTES

The 58th Annual Membership Meeting of Kauai Community Federal Credit Union convened at 7:07 p.m. on Saturday, March 10, 2012 at the Kauai War Memorial Convention Hall with Chairman Walton D.Y. Hong presiding.

ROLL CALL.

Luau tickets were sold to the Membership as well as tickets issued at the door for those attending only the meeting portion of the evening which totaled 672 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 amended, was approved:

Addition: Moment of silence.

MINUTES

On motion duly made, seconded and carried, the minutes of the March 12, 2011, 57th Annual Membership Meeting was approved as circulated.

A moment of silence was held for the passing of Charter Member William Fernandes and Margaret Oshita, wife of George Oshita who is the sole remaining Charter Member.

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, Earl Miyao, and Walter Kamika Smith. (Absent were Eric Honma and George M. Masuoka.)

President/CEO: Melvin I. Chiba

Supervisory Committee: Phil Fudge, Gwynne Duarte, Kei Inazu, Joseph Kobayashi, Lon Shimanuki

Credit Committee: Stephen Fujii, Mitchell Ikeda, Brent Mizutani

CUSO Board of Managers: Gerald Matsunaga, Melvin Chiba, Earl Miyao, Clint Saiki, 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 the Kukui Grove West main office building has been awarded the Gold LEEDS (Leadership in Energy and Environmental Design) certification. During the planning phase of the new building, a commitment was made by the Board of Directors and management to create a building that would preserve and enhance the environment and natural resources. This included the installation of photovoltaic cells to produce electricity for the building, motion sensor light switches that would activate lights only on sensing of movement, window shades to block the sunlight and reduce electricity for air conditioning, a skylight to use natural light and reduce the need for lighting, and a bio-swale to utilize rainwater for the natural vegetation through a filtration process. Kauai Community FCU is the first credit union as well as the first financial institution in the State of Hawaii to receive a Gold LEEDS certification.

The economic landscape has not stabilized with many members remaining either unemployed or under-employed making it difficult to make ends meet, many senior retirees having to utilize their savings and find ways to cut their cost of living, and more people having to rely on governmental assistance. Chairman Hong assured the members that the Board of Directors and management will continue to do everything within its authority and discretion to address their financial concerns and needs. The membership's assistance and cooperation was requested in working together with the Credit Union and sharing the responsibilities and duties as members just as it shares in the rewards of membership. Together, it will be possible to endure through these rough times. Chairman Hong extended his appreciation to the Board of Directors, Committee Members, management and staff for their dedication and hard work. On behalf of the Board of Directors, Chairman Hong conveyed their appreciation to the members who has made the success of the Credit Union possible.

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. Earl Miyao, Chairman of the Recruitment Committee, presented the following nominations:

Board of Directors-3 Year Term: Mr. Eric Honma
Mr. Victor Punua, Sr.
Mr. Walter Kamika Smith

Credit Committee-3 Year Term: Mr. Mitchell Ikeda

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

President/CEO's Report. Mr. Chiba announced that the recent reports on the radio and newspaper regarding damage to Kauai Community FCU's Kukui Grove West building roof are untrue. Three panels from the Drive-up Teller and Drive-up ATM canopies were damaged due to strong winds.

Mr. Chiba reported that in 2011, financial hardship amongst the membership continued and Kauai's unemployment rate remained over 8%. Of positive note, no membership services were eliminated, low cost loans and free or low cost financial services continued to be offered, along with the highest return on savings accounts throughout the year. Loan modifications were encouraged to provide relief to families facing financial hardship which included loan extension agreements, refinancing to lower monthly payments, and consolidation loans to assist members in managing their personal debts. In 2011, the Loans portfolio declined by 5.6% resulting in a 13.3% decrease in income from loans. The Provision for Loan Loss expenses decreased by nearly 30% and total Operating Expenses increased by only \$1,500 over 2010's Operating Expenses, which resulted in a Net Income of \$163,000. Assets and Shares grew over \$11 million and Equity increased by over \$381,000.

In 2012, it is anticipated that a sluggish economy and low consumer loan demand will continue. However, the Credit Union will continue to offer affordable, low cost loans and free or low cost financial services to the membership. Also upcoming is the creation of a mortgage brokerage department to offer competitive long term mortgage loans to the members. Mr. Chiba conveyed his appreciation to the volunteer Directors and Officials for their efforts in keeping the Credit Union secure, the staff for their professionalism and hard work in servicing the members, and the membership for their support and confidence in their credit union.

UNFINISHED BUSINESS. None.

NEW BUSINESS

Estimated Budget for 2012. On motion duly made, seconded and carried, the Estimated Budget was accepted as an operating guide for the year 2012.

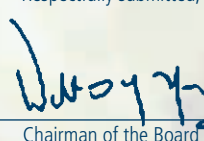
Suggestions/Actions Recommended by Membership. None.

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 Mr. Eric Honma, Mr. Victor Punua, Sr., and Mr. Walter Kamika Smith to a three-year term on the Board of Directors, and Mr. Mitchell Ikeda to a three-year term on the Credit Committee.

ADJOURNMENT

There being no further business, the meeting was adjourned at 7:31 p.m.

Respectfully submitted,



Chairman of the Board



Secretary

FINANCIAL STATEMENT

COMPARATIVE BALANCE SHEET

Assets	2012	2011
Loans to Members	\$163,447,468.46	\$165,682,677.71
Less Allowance for Losses	(3,817,796.07)	(5,510,788.88)
Cash & Equivalents	47,395,623.33	50,893,602.99
Investments	97,203,531.41	73,906,673.65
Land and Buildings	17,170,482.88	19,033,635.77
Other Fixed Assets	1,441,163.28	1,572,988.40
Other	9,288,434.83	9,358,467.39
Total Assets	\$332,128,908.12	\$314,937,257.03
Liabilities		
Accounts Payable	\$327,415.14	\$354,157.36
Dividends Payable	275,468.57	278,420.13
Other Liabilities	2,114,674.17	2,121,227.63
Member Savings	299,415,382.28	286,422,841.29
Total Liabilities	\$302,132,940.16	\$289,176,646.41
Equity		
Reserves	\$2,652,060.02	\$2,652,060.02
Undivided Earnings	28,573,707.66	24,336,401.52
Appropriated		
Undivided Earnings	300,327.16	358,118.08
Pension and Other		
Comprehensive Loss	(1,530,126.88)	(1,585,969.00)
Total Equity	\$29,995,967.96	\$25,760,610.62
Total Liabilities & Equity	\$332,128,908.12	\$314,937,257.03

INCOME STATEMENT

COMPARATIVE STATEMENT OF INCOME

Income	2012	2011
Interest on Loans	\$10,419,771.32	\$10,906,401.91
Investment Income	1,661,960.76	1,517,580.00
Other Income	2,011,210.69	1,869,667.54
Total Income	\$14,092,942.77	\$14,293,649.45
Operating Expenses		
Employee Compensation	\$2,894,802.89	\$2,799,676.34
Employee Benefits	804,296.13	988,742.03
Travel and Conference	91,105.11	74,756.18
Association Dues	46,244.46	42,117.35
Office Occupancy	985,245.91	975,940.62
Office Operations	1,128,137.19	1,153,493.79
Educational & Promotional	294,778.72	288,496.11
Loan Servicing	493,076.19	436,568.03
Prof. & Outside Services	413,647.46	412,571.29
Provision for Loan Losses	563,396.44	3,409,977.87
Member Insurance	407,276.29	815,565.50
Operating Fees	71,100.57	69,084.03
Annual Meeting	20,931.82	26,192.63
Direct Cost of Services to Members	466,313.54	517,340.47
Misc. Operating Expenses	20,742.09	26,132.03
Total Operating Expenses	\$8,701,094.81	\$12,036,654.27
Income from Operations	5,391,847.96	2,256,995.18
Non-Operating Gain/Loss	654,413.09	1,500.00
Dividends to Members	1,866,745.83	2,095,086.60
Total Undivided Earnings & Reserves	\$4,179,515.22	\$163,408.58

ESTIMATED BUDGET FOR 2013

	2013	2012
I. OPERATING INCOME		
Interest on Loans	10,202,544	10,344,781
Income from Investments	1,141,252	1,283,103
Fees and Charges	678,908	721,623
Other Miscellaneous Income	1,362,456	1,384,755
Total Operating Income	13,385,160	13,734,262
	100.00%	100.00%
II. COST OF FUNDS		
Dividends	1,765,136	1,749,686
Total Cost of Funds	1,765,136	1,749,686
	13.19%	12.74%
III. GROSS MARGIN	\$11,620,024	\$11,984,576
	86.81%	87.26%
IV. OPERATING EXPENSES		
Salaries	3,219,071	2,869,209
Employee Benefits	845,028	849,814
Employees' Travel & Conference	92,980	63,530
Officers'/Directors' Travel & Conference	49,720	35,685
Association Dues	59,219	57,777
Office Occupancy	941,568	970,204
Subscriptions & Training	20,421	13,476
Office Communications	117,189	118,514
Rental of Furniture & Equipment	6,652	6,652
Maintenance of Furniture & Equipment	455,982	409,276
Stationery & Supplies	110,691	132,033
Insurance	102,460	105,100
Depreciation of Furniture & Equipment	274,001	276,365
Armored Car Service	69,168	67,416
Bank Service Charges	41,390	12,000
Other Office Operations	10,200	8,300
Educational/Promotional Business Development	474,622	354,108
Loan Servicing	2,500	3,500
Visa Loan Expenses	261,900	232,500
Professional/Outside Service	180,540	180,489
Provision for Loan Losses	569,618	478,652
Members' Insurance	1,500,000	2,800,000
NCUA Operating Fees	358,289	625,000
Cash Over/Short	59,582	69,108
Annual Meeting	1,000	1,000
Miscellaneous Operating Expenses	30,000	30,000
Direct Cost of Services to Members	28,597	30,040
	472,588	551,907
Total Operating Expenses	\$10,354,976	\$11,351,655
	77.36%	82.65%
Non Operating Gain/Loss	0	1,227,885
V. NET INCOME Before Gain	\$1,265,048	\$632,921
	9.45%	4.61%
NET INCOME After Gain	\$1,265,048	\$1,860,806



2012 ANNUAL REPORT



CHAIRMAN'S REPORT



Each year, I reiterate that one of your credit union's highest priorities is to address the financial needs of the membership, yet providing a safe place to save and borrow at fair and competitive rates. That has not, and will not change.

In my report last year, I noted that KCFCU was required under federal guidelines to sell the former Kukui Grove Branch Office and the Hardy Street Annex building. The sales of those buildings were concluded in 2012.

Last year was a good year financially for your credit union. KCFCU had a net income of almost \$4.2 million, as compared to \$163,408 the previous year. This large increase in net income was due to the sale of the two buildings, the federally required provisions for loan losses being reduced from \$3.4 million to \$563,000, and the efforts during the year to reduce operating expenses.

Management was able to better control the delinquencies, which along with other regulatory requirements, reduced the provisions for loan losses by more than 80%. Management was also able to reduce operating expenses by more than 5%, through reduced staffing, modifications to employee benefits, and other means.

But the steps taken to reduce operational expenses also had other impacts. The reduction of staff resulted in a reduction in the level of service which the members were accustomed to in the past years. There were longer lines, and loan applications took more time to review and approve. Your Board of Directors and management are aware of these, and are taking measures to address these concerns, including adding more qualified staff members.

The net income of last year was the highest in the history of this credit union. A portion of that could

have been distributed in the form of dividends to you as owners of this credit union. However, the future of the national and State economy remain uncertain. Also uncertain are future regulatory requirements that all credit unions must follow. Issues, such as the taxation of credit unions, remain on the horizon.

In view of this uncertainty, your Board of Directors decided to act conservatively, and retain the profits in the credit union until it can get a better picture of what will be required of this credit union in the next year or so. Only by acting in such a careful and prudent manner can your credit union continue to provide you, the members, with a safe place to meet all of your financial needs.

To the Board of Directors, Management and Staff, thank you for your outstanding and dedicated work throughout the past year. To the membership, the 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



2012 was a very good year for your credit union in terms of the financial performance of Kauai Community Federal Credit Union. Assets grew by \$17.2 million (5.5%) and Membership Savings increased by \$13.0 million (4.5%). Although our Loan portfolio

decreased by \$1.1 million (1.3%), the decrease was minimal as compared to industry standards during a recessionary period. Most notable was KCFCU's annual net income which amounted to nearly \$4.2 million and the growth of KCFCU's Net Worth ratio. KCFCU's Net Worth ratio grew at an annualized rate of 16.4% - nearly three times more than the annualized growth rate of Assets. This is a significant enhancement to the financial strength of your credit union.

KCFCU's primary purpose is to meet the membership's financial needs and to provide opportunities that enable members and their families to succeed. During the last three years, as we faced the challenges of a deep recession on Kauai, we continued to operate by offering affordable, low cost loans and financial services. This was possible primarily due to the KCFCU membership. I would like to take this opportunity to thank you, the membership, for your tremendous support and loyalty during the difficult economic times.

In response to the challenges of operating under recessionary conditions, we reduced our workforce from 83 to 67 employees through attrition. At the same time, we successfully maintained all of our member services, added new services, and our assets and membership continued to grow. Fewer employees, more services and credit union growth placed more responsibilities on KCFCU's staff. As always, they put their best efforts in serving you with friendly, courteous and efficient service in the spirit of KCFCU's long-term tradition of putting members first. I would like to thank our staff for

their dedication and commitment to KCFCU and its membership.

In 2013, our plans are to increase the number of employees in our loan and member services departments. Our goal is to serve you faster and more efficiently. For members who prefer to receive financial services electronically, our online loan application program and money transfer programs are being enhanced for added convenience.

We recognize our members' financial needs change over time. In 2013, we will conduct a comprehensive member survey to assess our performance and to determine the financial needs of KCFCU's membership. If you receive a survey questionnaire, please take the time to complete it and return it as directed. Your opinion will be valuable to us as we strive to meet the expectations of the membership.

With our eyes on the future, Kauai Community Federal Credit Union is effectively positioned for continued success. As your needs change, we will change to meet them. My sincere appreciation to the leadership of our Board of Directors, the dedication of Committee members and the quality of work and enthusiasm provided by our Management and Staff. I'd also like to thank you, the membership, for your continued support. We exist 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 2012, the Credit Committee approved 2,854 loans totaling \$52,832,236.78. 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,

Stephen Fujii,
Chairman

Committee Members:
Mitchell Ikeda
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 Kwok & 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, 2012.

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

CONTACT INFORMATION

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OFFICE LOCATIONS

Kukui Grove
Lihue
Kapaa
Eleele
Waimea



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



03/2012

B A L L O T
