

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
Raleigh, North Carolina**

**CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

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**Independent Auditors' Report**

Members of the Supervisory Committee and Board of Directors  
Local Government Federal Credit Union and Subsidiaries  
Raleigh, North Carolina

We have audited the accompanying consolidated financial statements of Local Government Federal Credit Union and Subsidiaries (the Credit Union), which comprise the consolidated statements of financial condition as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), members' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Local Government Federal Credit Union and Subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

Baltimore, Maryland  
October 30, 2013

**CONSOLIDATED FINANCIAL STATEMENTS**

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 63,225,312	\$ 336,445,326
Investment securities:		
Available-for-sale	348,071,707	103,809,177
Certificates of deposit	500,000	500,000
Federal Home Loan Bank stock, at cost	1,479,300	1,731,800
Loans held-for-sale	17,607,948	4,892,246
Loans to members, net of allowance for loan losses	797,028,632	717,601,500
Accrued interest receivable	3,289,175	2,159,021
Due from State Employees' Credit Union	8,534,273	-
Premises and equipment, net	21,388,786	19,515,835
NCUSIF deposit	11,096,305	10,425,038
Credit Union owned life insurance	19,623,539	18,942,224
Other assets	16,564,058	12,355,037
<b>TOTAL ASSETS</b>	<b>\$ 1,308,409,035</b>	<b>\$ 1,228,377,204</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Members' share and savings accounts	\$ 1,210,509,689	\$ 1,121,779,949
Accrued interest payable	1,243,165	927,616
Due to State Employees' Credit Union	-	7,597,036
Accrued expenses and other liabilities	2,390,054	1,739,596
Total liabilities	1,214,142,908	1,132,044,197
<b>MEMBERS' EQUITY, substantially restricted</b>		
Regular reserve	8,568,384	8,568,384
Undivided earnings	100,066,304	87,639,356
Accumulated other comprehensive income (loss)	(14,368,561)	125,267
Total members' equity	94,266,127	96,333,007
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 1,308,409,035</b>	<b>\$ 1,228,377,204</b>

The accompanying notes are an integral part of the consolidated financial statements.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>INTEREST INCOME</b>		
Loans to members	\$ 38,119,893	\$ 38,136,218
Investment securities and cash equivalents	<u>4,162,616</u>	<u>1,338,965</u>
Total interest income	42,282,509	39,475,183
<b>INTEREST EXPENSE</b>		
Members' share and savings accounts	<u>8,025,638</u>	<u>9,075,088</u>
Net interest income before provision for loan losses	34,256,871	30,400,095
<b>PROVISION FOR LOAN LOSSES</b>	<u>3,290,000</u>	<u>4,015,000</u>
Net interest income after provision for loan losses	<u>30,966,871</u>	<u>26,385,095</u>
<b>NON-INTEREST INCOME</b>		
Fees and charges	19,685,133	18,606,405
Other non-interest income	<u>2,951,976</u>	<u>1,804,342</u>
Total non-interest income	<u>22,637,109</u>	<u>20,410,747</u>
<b>NON-INTEREST EXPENSES</b>		
Compensation and benefits	10,161,417	7,198,497
Occupancy	1,052,401	773,634
Operations	21,082,342	20,033,172
Other expense	<u>8,880,872</u>	<u>9,926,073</u>
Total non-interest expenses	<u>41,177,032</u>	<u>37,931,376</u>
<b>NET INCOME</b>	<u>\$ 12,426,948</u>	<u>\$ 8,864,466</u>

The accompanying notes are an integral part of the consolidated financial statements.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>NET INCOME</b>	<u>\$ 12,426,948</u>	<u>\$ 8,864,466</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Reclassification adjustment for realized gains and (losses) on investments included in net income	86,603	(10,084)
Unrealized holding losses on investments classified as available-for-sale	<u>(14,580,431)</u>	<u>(128,357)</u>
Total other comprehensive income (loss)	<u>(14,493,828)</u>	<u>(138,441)</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u><u>\$ (2,066,880)</u></u>	<u><u>\$ 8,726,025</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY  
Years Ended June 30, 2013 and 2012**

	<u>Regular Reserve</u>	<u>Undivided Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>BALANCES, JUNE 30, 2011</b>	\$ 8,568,384	\$ 78,774,890	\$ 263,708	\$ 87,606,982
Net income	-	8,864,466	-	8,864,466
Other comprehensive loss	-	-	(138,441)	(138,441)
<b>BALANCES, JUNE 30, 2012</b>	8,568,384	87,639,356	125,267	96,333,007
Net income	-	12,426,948	-	12,426,948
Other comprehensive loss	-	-	(14,493,828)	(14,493,828)
<b>BALANCES, JUNE 30, 2013</b>	<u>\$ 8,568,384</u>	<u>\$ 100,066,304</u>	<u>\$ (14,368,561)</u>	<u>\$ 94,266,127</u>

The accompanying notes are an integral part of the consolidated financial statements.



**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 12,426,948	\$ 8,864,466
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,390,375	1,183,807
Amortization of premiums and discounts, net	1,574,349	(70,794)
Provision for loan losses	3,290,000	4,015,000
Proceeds from sale of loans held-for-sale	136,634,949	41,886,529
Origination of loans held-for-sale	(149,350,651)	(41,615,977)
Gain on disposition of property and equipment	239	-
Effects of changes in operating assets and liabilities:		
Accrued interest receivable	(1,130,154)	717,613
Other assets	(4,209,021)	(4,146,625)
Credit Union owned life insurance	(681,315)	(973,986)
Due from State Employees' Credit Union	(8,534,273)	13,715,928
Due to State Employees' Credit Union	(7,597,036)	7,597,036
Accrued interest payable	315,549	230,271
Accrued expenses and other liabilities	650,458	583,516
Net cash provided by (used in) operating activities	(15,219,583)	31,986,784
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities of available-for-sale securities	90,210,956	165,000,000
Proceeds from sales of available-for-sale securities	58,164,970	-
Purchases of available-for-sale securities	(408,706,633)	(143,400,000)
Proceeds from repayments or maturity of certificates of deposit	-	10,705,664
Purchases of certificates of deposit	-	(374,233)
Refunds (proceeds) from Federal Home Loan Bank stock	252,500	(58,400)
Loans to members, net of principal collections	(82,717,132)	4,477,034
Increase in NCUSIF deposit	(671,267)	(528,723)
Purchases of premises and equipment	(3,263,565)	(2,496,645)
Net cash provided by (used in) investing activities	(346,730,171)	33,324,697
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in members' share and savings accounts	88,729,740	60,617,005
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(273,220,014)	125,928,486
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	336,445,326	210,516,840
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 63,225,312	\$ 336,445,326
<b>ADDITIONAL CASH FLOW INFORMATION</b>		
Cash paid during the year for interest as follows:		
Dividends on members' share and savings accounts	\$ 7,710,089	\$ 8,844,817
Transfers from loans to members to real estate owned	\$ 3,669,592	\$ 3,616,326
Change in unrealized gains (losses) on securities available-for-sale	\$ (14,493,828)	\$ (138,441)

The accompanying notes are an integral part of the consolidated financial statements.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Local Government Federal Credit Union (Credit Union) is a federally chartered credit union organized under the Federal Credit Union Act and administratively responsible to the National Credit Union Administration. The primary purpose is to promote thrift among, and create a source of credit for its members. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws. The Credit Union's primary source of revenue is providing loans to its members.

The Credit Union serves its members through the State Employees' Credit Union branch network. This network includes 249 offices in 170 communities.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned Credit Union Service Organization (CUSO) subsidiaries, LGFCU Financial Partners, LLC (LGFCUFP) and LGFCU Trustee, LLC. The subsidiaries are engaged in providing business loans to local government entities as well as acting in the capacity of trustee under the deeds of trust serving loans made by LGFCU and LGFCUFP. No significant net income is derived from the Credit Union's CUSO's. All significant intercompany accounts and transactions have been eliminated during consolidation.

**Basis of Accounting**

The Credit Union employs the accrual basis of accounting under which income is recorded when earned and liabilities and expenses are recorded when incurred. Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on member share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union.

**Use of Estimates in Preparing Consolidated Financial Statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentrations of Credit Risk**

The Credit Union provides a variety of financial services to its members, most of whom are employees of local governments and selected employee groups within the region of North Carolina. The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside in North Carolina. During the year-ended June 30, 2009 and continuing into 2013, the financial deterioration resulting from the economic conditions in this region has resulted in loan losses for the Credit Union and declines in fair value of investments for those with whom it does business, including corporate credit unions. The Credit Union continually monitors its overall operations, including the loan and investment portfolios, for potential impairment.

The loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for automobile and residential real estate loans. The Credit Union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the Credit Union enforces its first lien holder status and repossesses the collateral. The Credit Union has full and complete access to repossessed collateral. Repossessed collateral normally consists of vehicles and residential real estate.

**Cash and Cash Equivalents**

Cash consists of funds due from banks, corporate credit unions and cash in vaults and on hand. For purposes of the Consolidated Statements of Cash Flows, the Credit Union considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Amounts due from other financial institutions may, at times, exceed federally insured limits.

**Investment Securities**

"Available-for-sale" securities are recorded at fair value, with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income (loss).

The Credit Union evaluates debt securities for other-than-temporary impairment (OTTI), at least quarterly which is primarily codified in ASC 320-10. This guidance amends the recognition guidance for OTTI of debt securities and expands financial statement disclosures for OTTI on debt securities. The guidance replaces the "intent and ability" indication in current guidance by specifying that (a) if the Credit Union does not have the intent to sell a debt security prior to recovery and (b) it is more-likely-than-not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell the security and it is more-likely-than-not the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income (loss).

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investment Securities** (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Credit Union does not maintain a trading or held-to-maturity portfolio. Other investments, which include interest-bearing deposits in other financial institutions, are classified separately and are stated at cost as they are also subject to OTTI evaluation.

**Federal Home Loan Bank Stock**

The Credit Union, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB Atlanta in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. In 2009, the FHLB suspended stock redemptions on advance pay offs. All capital stock held at that point represents the current minimum investment requirement. There is no ready market value for the FHLB stock; therefore, it has no quoted market value and is reported on the Consolidated Statements of Financial Condition at cost. FHLB Atlanta allows any member to withdraw from membership upon five years' written notice to the Bank and redeem at par the member's stock upon withdrawal from membership. The FHLB has consistently declared stock dividends from the third quarter 2009 through the end of fiscal year ending June 30, 2013. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB.

**Loans Held-For-Sale**

Loans held-for-sale are those loans the Credit Union has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or fair value. Cost includes the net of deferred loan origination fees and costs. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made without recourse, except for instances of borrower fraud or default within the first 120 days, which is the normal industry practice.

The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. As of June 30, 2013 and 2012, the Credit Union had no mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

**Loans to Members**

The Credit Union grants mortgage, member business and consumer loans to members. A substantial portion of the loan portfolio is represented by automobile and real estate loans to members. A substantial portion of its members' ability to honor their loan agreements is dependent upon the economic stability of the various groups comprising the Credit Union's field of membership.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loans to Members** (continued)

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Consumer loans are typically charged-off no later than 180 days past due. Loans may be charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due loan status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or that are charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Credit Union does not charge fees on personal loans. Fees are charged on mortgage loans; however, they are remitted to State Employees' Credit Union as compensation for originating the loans on behalf of the Credit Union.

**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans classified as troubled debt restructurings are separately evaluated for impairment.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Loan Losses (continued)**

expected losses given default derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Specific allowances for loan losses are established for large non-homogeneous impaired loans on an individual basis. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement such as troubled debt restructurings (TDR). A loan is classified as a TDR when a borrower is experiencing financial difficulties that lead to a restructuring of the loan where the Credit Union grants concessions to the member in the restructuring that it would not otherwise consider. These concessions generally include an extension of the maturity date or an interest rate reduction.

**Off-Balance Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Collateral in Process of Liquidation and Foreclosed Assets**

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses.

**Premises and Equipment**

Land is carried at cost. Buildings, furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

**Valuation of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

**Credit Union Owned Life Insurance**

The Credit Union has purchased life insurance policies on certain key executives. The policies are recorded as their cash surrender value, or the amount that can be realized, if lower.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013 and 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**NCUSIF Deposit and Insurance Premiums**

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

A credit union is required to pay an annual insurance premium based on a percent of its total insured shares as declared by the NCUA Board, unless the payment is waived by the NCUA Board.

**Members' Share and Savings Accounts**

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

**Members' Equity**

The Credit Union is required, by regulation, to maintain a regulatory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

**Income Taxes**

The Credit Union is exempt, by statute, from federal and state income taxes and sales taxes. However, the Credit Union is not exempt from other forms of taxation including property taxes and payroll taxes.

**Pension Plan – 401(k)**

The Credit Union has a qualified 401(k) plan covering substantially all of its employees. The Credit Union policy is to fund contributions as accrued.

**Advertising Costs**

Advertising costs are charged to operations when incurred. Advertising expense totaled \$1,903,012 and \$1,738,222 for the years ended June 30, 2013 and 2012, respectively.



**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the Consolidated Statements of Financial Condition. For 2013 and 2012, other comprehensive income (loss) includes reclassification adjustments for realized gains and losses on investments included in net income.

**Reclassifications**

Certain items included in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications have no effect on the net income or undivided earnings previously reported.

**NOTE 2 – RESTRICTIONS ON CASH**

The Credit Union is required to maintain balances with a corporate credit union as membership shares that are uninsured and require a notice before withdrawal. Membership share balances were \$897,211 at June 30, 2013 and 2012.

**NOTE 3 – INVESTMENT SECURITIES**

The amortized cost and estimated fair value of investment securities available-for-sale are as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>June 30, 2013</b>				
U.S. Government and federal agency securities	<u>\$ 362,440,268</u>	<u>\$ 20,781</u>	<u>\$ 14,389,342</u>	<u>\$ 348,071,707</u>
<b>June 30, 2012</b>				
U.S. Government and federal agency securities	<u>\$ 103,683,910</u>	<u>\$ 134,996</u>	<u>\$ 9,729</u>	<u>\$ 103,809,177</u>

Gross realized gains of \$89,572 and \$10,084 from sales of securities available-for-sale were realized in 2013 and 2012, respectively.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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**NOTE 3 – INVESTMENT SECURITIES (CONTINUED)**

The amortized cost and fair values of investment securities available for sale at June 30, 2013 and 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Available for Sale</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ -	\$ -	\$ 18,456,301	\$ 18,496,136
Due in one year through five years	<u>362,440,268</u>	<u>348,071,707</u>	<u>85,227,609</u>	<u>85,313,041</u>
<b>Total</b>	<u>\$ 362,440,268</u>	<u>\$ 348,071,707</u>	<u>\$ 103,683,910</u>	<u>\$ 103,809,177</u>

**Temporarily Impaired Investment Securities**

Information pertaining to securities with gross unrealized losses at June 30, 2013 and 2012, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	<b>2013</b>			
	<b>Continuous Unrealized Losses Existing</b>			
	<b>Fair Value</b>	<b>Less than 12 months</b>	<b>Greater than 12 months</b>	<b>Total Unrealized Losses</b>
<b>Securities available for sale:</b>				
U.S. Government and Federal agency securities	<u>\$ 341,340,662</u>	<u>\$ (14,389,342)</u>	<u>\$ -</u>	<u>\$ (14,389,342)</u>
	<b>2012</b>			
	<b>Continuous Unrealized Losses Existing</b>			
	<b>Fair Value</b>	<b>Less than 12 months</b>	<b>Greater than 12 months</b>	<b>Total Unrealized Losses</b>
<b>Securities available for sale:</b>				
U.S. Government and Federal agency securities	<u>\$ 13,015,289</u>	<u>\$ (9,729)</u>	<u>\$ -</u>	<u>\$ (9,729)</u>

Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union does not intend to sell and will not be required to sell these investment securities prior to recovery of the amortized cost basis.

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**NOTE 3 – INVESTMENT SECURITIES (CONTINUED)**

**Temporarily Impaired Investment Securities (Continued)**

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such change could materially affect the amounts reported in the Consolidated Statements of Financial Condition.

**NOTE 4 – LOANS TO MEMBERS**

The composition of loans to members at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Commercial:		
Member business loans	\$ 32,900,728	\$ 32,801,833
Real estate:		
First Mortgage	366,214,393	390,213,426
Home Equity Line	49,493,770	51,973,752
Total real estate	<u>415,708,163</u>	<u>442,187,178</u>
Consumer:		
New Auto	75,724,081	25,388,196
Used Auto	187,187,178	144,983,822
Credit Card	28,434,848	24,153,934
Other	63,111,135	53,835,765
Total consumer	<u>354,457,242</u>	<u>248,361,717</u>
Less allowance for loan losses	<u>(6,037,501)</u>	<u>(5,749,228)</u>
<b>Total</b>	<u>\$ 797,028,632</u>	<u>\$ 717,601,500</u>

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2013 are as follows:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for loan losses:</b>				
Beginning balance	\$ 82,301	\$ 2,809,518	\$ 2,857,409	\$ 5,749,228
Provision for loan losses	250	3,012,314	277,436	3,290,000
Recoveries	-	-	277,973	277,973
Charge-offs	-	(1,535,644)	(1,744,056)	(3,279,700)
<b>Ending balance</b>	<u>\$ 82,551</u>	<u>\$ 4,286,188</u>	<u>\$ 1,668,762</u>	<u>\$ 6,037,501</u>
Ending balance:				
Individually evaluated for impairment	\$ -	\$ 3,546,484	\$ 362,076	\$ 3,908,560
Collectively evaluated for impairment	<u>82,551</u>	<u>739,704</u>	<u>1,306,686</u>	<u>2,128,941</u>
<b>Total</b>	<u>\$ 82,551</u>	<u>\$ 4,286,188</u>	<u>\$ 1,668,762</u>	<u>\$ 6,037,501</u>
<b>Loans to members:</b>				
Ending balance:				
Individually evaluated for impairment	\$ -	\$ 56,062,557	\$ 5,185,482	\$ 61,248,039
Collectively evaluated for impairment	<u>32,900,728</u>	<u>359,645,606</u>	<u>349,271,760</u>	<u>741,818,094</u>
<b>Total</b>	<u>\$ 32,900,728</u>	<u>\$ 415,708,163</u>	<u>\$ 354,457,242</u>	<u>\$ 803,066,133</u>

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2012 are as follows:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for loan losses:</b>				
Beginning balance	\$ 61,446	\$ 2,097,604	\$ 2,133,359	\$ 4,292,409
Provision for loan losses	20,855	2,005,172	1,988,973	4,015,000
Recoveries	-	-	260,660	260,660
Charge-offs	-	(1,293,258)	(1,525,583)	(2,818,841)
<b>Ending balance</b>	<u>\$ 82,301</u>	<u>\$ 2,809,518</u>	<u>\$ 2,857,409</u>	<u>\$ 5,749,228</u>
Ending balance:				
Individually evaluated for impairment	\$ -	\$ 1,417,755	\$ -	\$ 1,417,755
Collectively evaluated for impairment	<u>82,301</u>	<u>1,391,763</u>	<u>2,857,409</u>	<u>4,331,473</u>
<b>Total</b>	<u>\$ 82,301</u>	<u>\$ 2,809,518</u>	<u>\$ 2,857,409</u>	<u>\$ 5,749,228</u>
<b>Loans to members:</b>				
Ending balance:				
Individually evaluated for impairment	\$ -	\$ 45,881,884	\$ -	\$ 45,881,884
Collectively evaluated for impairment	<u>32,801,833</u>	<u>396,305,294</u>	<u>248,361,717</u>	<u>677,468,844</u>
<b>Total</b>	<u>\$ 32,801,833</u>	<u>\$ 442,187,178</u>	<u>\$ 248,361,717</u>	<u>\$ 723,350,728</u>

Commercial Participation and Small Business Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's members' business loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of member business loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the market area.

The Credit Union utilizes a risk rating matrix to assign risk ratings to each of its member business loans. The risk ratings can be grouped into seven major categories, defined as follows:

**Prime Credit** – are loans to the most creditworthy borrowers and are secured by cash or cash equivalents (i.e., CD's).

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

**Satisfactory Credit** – are loans to borrowers who exhibit a satisfactory credit/financial history, contain acceptable loan structures, and demonstrate ability to repay. Current financial information to support the borrower’s ability to repay is maintained in the credit files. It is expected that the majority of the loans made would fall under this category.

**Minimum Acceptable Credit** – are loans which exhibit all the characteristics of a Satisfactory Credit but warrant more than the normal level of Loan Officer supervision due to:

- Circumstances which raise the level of loan risk (i.e., start-up operations, new leadership, heavy leverage, interim losses).
- Adverse, extraordinary, events that have affected, or could affect the borrower’s cash flow, financial condition, or ability to continue operating (i.e., death, fire, natural disaster).
- Loans that require more than the normal servicing requirements (i.e. construction loans, etc).
- Existing technical exceptions which raise some doubts about the perfection of collateral position, or the continued financial capacity of the borrower.

**Deteriorating Credit** – are loans that exhibit potential weaknesses that deserve close attention. If left uncorrected these weaknesses may result in a decline of the repayment prospects and in the Credit Union’s credit position. These loans exhibit deteriorating trends due to adverse conditions or other economic factors. The borrower exhibits the ability to restructure this debt; however, the collateral margins may be slim. Projections reflect the capacity to support repayment of current debt.

**Substandard** – are loans which are inadequately protected by the current worth and paying capacity of the borrower or of the collateral pledged, if any. These loans exhibit a well-defined weakness or are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected. These weaknesses may be characterized by consistent past due performance, operating losses and/or questionable collateral values. This rating will most likely apply to non-accrual loans, foreclosures and repossessions. Substandard borrowers exhibit well-defined weaknesses that jeopardize the liquidation of the debt including significant financial or liquidity problems. Even though secondary support for the credit may be present, projected cash flow available to service debt is insufficient.

**Doubtful** – are loans which exhibit all of the characteristics of a Substandard loan with the added provision that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. The probability of some loss is extremely high, but because of certain important and pending factors (i.e., liquidation, capital injection, refinancing plans, and perfection of liens), the amount of loss cannot yet be determined. Determination of the pending factors should be resolved within six months and the loan partially or fully charged-off or moved to Substandard. All doubtful assets must be placed on non-accrual.

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

**Loss** – are loans which are considered uncollectible and of such little value that their continuance as active loans of the Credit Union is not necessary. This classification does not mean that the loss has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing it off.

The commercial loan credit risk profile by internally assigned risk ratings by class at June 30 is as follows:

	<b>Member Business</b>	
	<b>2013</b>	<b>2012</b>
Prime Credit	\$ 40,930	\$ 46,000
Satisfactory Credit	32,859,798	32,591,075
Minimum Acceptable Credit	-	164,758
<b>Total commercial loans</b>	<b>\$ 32,900,728</b>	<b>\$ 32,801,833</b>

Residential Real Estate and Consumer Loan Credit Quality Indicators: As part of the on-going monitoring of the credit quality of the Credit Union's loan portfolio, management tracks the loans' performance and when the loan becomes 90 days past due these are classified as non-performing loans.

The residential real estate credit risk profile based on members' payment activity by class at June 30 is as follows:

	<b>Home Equity</b>		
	<b>First Mortgage</b>	<b>Line</b>	<b>Total</b>
<b>2013</b>			
Performing	\$ 363,099,420	\$ 49,256,159	\$ 412,355,579
Non-performing	3,114,973	237,611	3,352,584
	<u>\$ 366,214,393</u>	<u>\$ 49,493,770</u>	<u>\$ 415,708,163</u>
<b>2012</b>			
Performing	\$ 381,967,626	\$ 51,485,866	\$ 433,453,492
Non-performing	8,245,800	487,886	8,733,686
	<u>\$ 390,213,426</u>	<u>\$ 51,973,752</u>	<u>\$ 442,187,178</u>

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

The consumer credit risk profile based on members' payment activity by class at June 30 is as follows:

	<u>New Auto</u>	<u>Used Auto</u>	<u>Credit Card</u>	<u>Other</u>	<u>Total</u>
<b>2013</b>					
Performing	\$ 75,641,516	\$ 186,710,587	\$ 28,227,955	\$ 62,783,739	\$ 353,363,797
Non-performing	82,565	476,591	206,893	327,396	1,093,445
	<u>\$ 75,724,081</u>	<u>\$ 187,187,178</u>	<u>\$ 28,434,848</u>	<u>\$ 63,111,135</u>	<u>\$ 354,457,242</u>
<b>2012</b>					
Performing	\$ 25,329,962	\$ 144,659,382	\$ 24,026,559	\$ 53,564,672	\$ 247,580,575
Non-performing	58,234	324,440	127,375	271,093	781,142
	<u>\$ 25,388,196</u>	<u>\$ 144,983,822</u>	<u>\$ 24,153,934</u>	<u>\$ 53,835,765</u>	<u>\$ 248,361,717</u>

Information concerning impaired loans by loan class as of June 30, 2013 is as follows:

	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
<b><i>With no specific reserve recorded:</i></b>			
<b><u>Real Estate:</u></b>			
First Mortgage	\$ 22,427,750	\$ -	\$ 25,525,848
<b><i>With specific reserve recorded:</i></b>			
<b><u>Real Estate:</u></b>			
First Mortgage	\$ 29,843,836	\$ (3,326,608)	\$ 23,550,887
Home Equity Line	3,790,971	(219,876)	-
<b>Total</b>	<u>\$ 33,634,807</u>	<u>\$ (3,546,484)</u>	<u>\$ 23,550,887</u>
<b><u>Consumer:</u></b>			
New Auto	\$ 732,837	\$ (47,634)	\$ 366,419
Used Auto	2,367,705	(153,901)	1,183,852
Other	2,084,940	(160,541)	1,042,470
<b>Total</b>	<u>\$ 5,185,482</u>	<u>\$ (362,076)</u>	<u>\$ 2,592,741</u>
Real Estate	\$ 56,062,557	\$ (3,546,484)	\$ 49,076,735
Consumer	5,185,482	(362,076)	2,592,741
<b>Total</b>	<u>\$ 61,248,039</u>	<u>\$ (3,908,560)</u>	<u>\$ 51,669,476</u>



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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

Information concerning impaired loans by loan class as of June 30, 2012 is as follows:

	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
<i>With no specific reserve recorded:</i>			
<b><u>Real Estate:</u></b>			
First Mortgage	\$ 28,623,946	\$ -	\$ 25,519,431
<i>With specific reserve recorded:</i>			
<b><u>Real Estate:</u></b>			
First Mortgage	\$ 17,257,938	\$ (1,417,755)	\$ 16,941,824
<b>Total Real Estate</b>	<b>\$ 45,881,884</b>	<b>\$ (1,417,755)</b>	<b>\$ 42,461,255</b>

Interest collected on impaired loans for the years ended June 30, 2013 and 2012 was not significant as interest is not accrued on non-accrual loans or other loans past-due 90 days or more.

A summary of nonaccrual loans by class at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
<b><u>Real Estate:</u></b>		
First Mortgage	\$ 3,114,973	\$ 8,245,800
Home Equity Line	237,611	487,886
<b><u>Consumer:</u></b>		
New Auto	82,565	58,234
Used Auto	476,591	324,440
Credit Card	206,893	127,375
Other	327,396	271,093
<b>Total</b>	<b>\$ 4,446,029</b>	<b>\$ 9,514,828</b>

Interest income foregone on nonaccrual loans was immaterial for the years ended June 30, 2013 and 2012.

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

A summary of past due loans by class as of June 30, 2013 are as follows:

	<u>30-59 Days</u>	<u>60-90 Days</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans to Members</u>
<b><u>Commercial:</u></b>						
Member Business	\$ -	\$ -	\$ -	\$ -	\$ 32,900,728	\$ 32,900,728
<b><u>Real estate:</u></b>						
First Mortgage	549,072	8,320,009	3,114,973	11,984,054	354,230,339	366,214,393
Home Equity Line	104,978	139,922	237,611	482,511	49,011,259	49,493,770
<b><u>Consumer:</u></b>						
New Auto	251,817	67,185	82,565	401,567	75,322,514	75,724,081
Used Auto	1,252,725	435,203	476,591	2,164,519	185,022,659	187,187,178
Credit Card	1,428,108	270,998	206,893	1,905,999	26,528,849	28,434,848
Other	400,046	173,291	327,396	900,733	62,210,402	63,111,135
	<u>\$ 3,986,746</u>	<u>\$ 9,406,608</u>	<u>\$ 4,446,029</u>	<u>\$ 17,839,383</u>	<u>\$ 785,226,750</u>	<u>\$ 803,066,133</u>

A summary of past due loans by class as of June 30, 2012 are as follows:

	<u>30-59 Days</u>	<u>60-90 Days</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans to Members</u>
<b><u>Commercial:</u></b>						
Member Business	\$ -	\$ -	\$ -	\$ -	\$ 32,801,833	\$ 32,801,833
<b><u>Real estate:</u></b>						
First Mortgage	716,055	5,353,205	8,245,800	14,315,060	375,898,366	390,213,426
Home Equity Line	359,103	158,164	487,886	1,005,153	50,968,599	51,973,752
<b><u>Consumer:</u></b>						
New Auto	119,540	18,754	58,234	196,528	25,191,668	25,388,196
Used Auto	883,678	188,208	324,440	1,396,326	143,587,496	144,983,822
Credit Card	1,164,529	184,565	127,375	1,476,469	22,677,465	24,153,934
Other	386,378	101,662	271,093	759,133	53,076,632	53,835,765
	<u>\$ 3,629,283</u>	<u>\$ 6,004,558</u>	<u>\$ 9,514,828</u>	<u>\$ 19,148,669</u>	<u>\$ 704,202,059</u>	<u>\$ 723,350,728</u>

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

A summary of loan modifications by class during the years ended June 30 are as follows:

	<b>Number of Contracts</b>	<b>Pre-Modification Outstanding Balance</b>
<b>2013</b>		
<b><i>Troubled Debt Restructurings:</i></b>		
<b><i>Real Estate:</i></b>		
First Mortgage	48	\$ 5,886,224
Home Equity Line	89	2,316,413
Total Real Estate	137	\$ 8,202,637
<b><i>Consumer:</i></b>		
New Auto	50	\$ 514,096
Used Auto	304	2,008,651
Other	231	1,417,648
Total Consumer	585	\$ 3,940,395
Total	722	\$ 12,143,032
<b>2012</b>		
<b><i>Troubled Debt Restructurings:</i></b>		
<b><i>Real Estate:</i></b>		
First Mortgage	27	\$ 4,030,617

The post-modification outstanding balance for the years ended June 30, 2013 and 2012 is not materially different than the pre-modification outstanding balance.

During 2013, the Credit Union prospectively changed its accounting policy related to loan modifications and TDR's as discussed below.

During the fiscal year ended June 30, 2012, the Credit Union collectively evaluated the entire consumer loan portfolio for impairment. For the fiscal year ended June 30, 2013, the Credit Union identified and segregated into a separate pool the consumer loan portfolio for identified TDR's for impairment evaluation. The total balance for consumer loan TDR's was \$8,976,453, with \$3,940,395 in loan modifications resulting in TDR's during 2013.

The Credit Union also changed its thresholds for evaluating real estate loans for concessions and indicators of member distress meriting TDR status during the fiscal year ended June 30, 2013, resulting in an increase of loans considered TDR's of \$16,638,180 at June 30, 2012 to \$37,412,207 at June 30, 2013, of which, \$8,202,637 were modified in 2013.

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**NOTE 4 – LOANS TO MEMBERS (CONTINUED)**

Management defines a default on a TDR loan as achieving a 90 days past due status after the initial modification. A summary of TDR's by class that were granted and subsequently defaulted during the years ended June 30 are as follows:

	<b>Number of Contracts</b>	<b>Recorded Investment</b>
<b>2013</b>		
<i>TDR's that subsequently defaulted:</i>		
<i><u>Real Estate:</u></i>		
First Mortgage	11	\$ 1,949,227
<b>2012</b>		
<i>TDR's that subsequently defaulted:</i>		
<i><u>Real Estate:</u></i>		
First Mortgage	9	\$ 1,526,055

**NOTE 5 – PREMISES AND EQUIPMENT**

Premises and equipment at June 30 is summarized as follows:

	<b>2013</b>	<b>2012</b>
Land	\$ 1,242,475	\$ 1,242,475
Building	19,553,822	18,735,555
Leasehold improvements	436,107	-
Furniture and equipment	2,464,048	1,613,206
Computer equipment	3,424,122	2,429,008
Automobiles	374,061	276,782
	27,494,635	24,297,026
Less accumulated depreciation and amortization	(6,105,849)	(4,781,191)
<b>Total</b>	<b>\$ 21,388,786</b>	<b>\$ 19,515,835</b>

Depreciation and amortization expense amounted to \$1,390,375 and \$1,183,807 for the years ended June 30, 2013 and 2012, respectively.

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**NOTE 6 – OPERATING LEASES**

At June 30, 2013, the Credit Union had extended leases for tenants in its administration building under noncancelable operating leases expiring in various years through 2021. Future minimum lease income under these leases at June 30, 2013 is as follows:

2014	\$ 345,504
2015	345,504
2016	345,504
2017	345,504
2018	345,504
Thereafter	<u>262,231</u>
<b>Total</b>	<b><u>\$ 1,989,751</u></b>

Portions of the following asset have been leased to tenants of the Credit Union:

Building	\$ 19,553,822
Less accumulated depreciation	<u>(2,780,279)</u>
<b>Carrying amount of leased asset</b>	<b><u>\$ 16,773,543</u></b>

Rental income was \$292,240 and \$286,188 for the years ended June 30, 2013 and 2012, respectively. This is included in Other non-interest income in the Consolidated Statements of Income.

**LOCAL GOVERNMENT FEDERAL CREDIT UNION  
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**NOTE 7 – MEMBERS’ SHARE AND SAVINGS ACCOUNTS**

Members’ share and savings accounts at June 30 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Regular share accounts	\$ 247,058,233	\$ 199,095,759
Share draft accounts	192,036,136	165,841,918
Money market accounts	356,853,040	339,020,331
IRA share accounts	<u>145,781,163</u>	<u>134,917,493</u>
Total share accounts	<u>941,728,572</u>	<u>838,875,501</u>
Share term certificates:		
0.00% to 0.99%	109,552,398	50,750
1.00% to 1.99%	76,316,289	166,666,521
2.00% to 2.99%	76,814,732	105,655,063
3.00% to 3.99%	6,091,354	10,526,123
4.00% to 4.99%	-	-
5.00% to 5.99%	<u>6,344</u>	<u>5,991</u>
Total certificate amounts	<u>268,781,117</u>	<u>282,904,448</u>
<b>Total members' share and savings accounts</b>	<u><u>\$ 1,210,509,689</u></u>	<u><u>\$ 1,121,779,949</u></u>

Scheduled maturities of share term certificates for years ending June 30 are as follows:

2014	\$ 182,174,956
2015	50,646,194
2016	23,675,678
2017	10,769,504
2018	1,508,441
Thereafter	<u>6,344</u>
<b>Total</b>	<u><u>\$ 268,781,117</u></u>

Time deposits greater than \$100,000 were approximately \$76,761,000 and \$78,909,000 at June 30, 2013 and 2012, respectively.

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**NOTE 8 – LINE OF CREDIT**

The Credit Union maintains lines-of-credit with various financial institutions as described below:

	<b>2013</b>		
	<b>Federal Reserve</b>	<b>Federal Home</b>	<b>Total Line</b>
	<b>Bank Line</b>	<b>Loan Bank</b>	
Total available	\$ 138,627,071	\$ 60,000,000	\$ 198,627,071
Borrowed	-	-	-
<b>Remaining available</b>	<u>\$ 138,627,071</u>	<u>\$ 60,000,000</u>	<u>\$ 198,627,071</u>
Term	LOC	LOC	
Rate	0.75%	0.355%	
	<b>2012</b>		
	<b>Federal Reserve</b>	<b>Federal Home</b>	<b>Total Line</b>
	<b>Bank Line</b>	<b>Loan Bank</b>	
Total available	\$ 137,811,894	\$ 100,707,099	\$ 238,518,993
Borrowed	-	-	-
<b>Remaining available</b>	<u>\$ 137,811,894</u>	<u>\$ 100,707,099</u>	<u>\$ 238,518,993</u>
Term	LOC	LOC	
Rate	0.75%	0.400%	

The Federal Reserve Bank line is collateralized by mortgage loans in the amount of \$177,428,387 and \$177,418,603 at June 30, 2013 and 2012, respectively. The Federal Home Loan Bank line is collateralized by investments held in safekeeping for the Credit Union in the amount of \$60,000,000 and \$103,400,000 at June 30, 2013 and 2012, respectively. The Credit Union has the option to increase their Federal Home Loan Bank line up to a maximum of \$131,870,000 with additional investments pledged.

**NOTE 9 – OFF-BALANCE SHEET ACTIVITIES**

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines-of-credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

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**NOTE 9 – OFF-BALANCE SHEET ACTIVITIES (CONTINUED)**

At June 30, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<b>2013</b>	<b>2012</b>
Commitments to grant loans:		
Home-equity lines of credit	\$ 46,626,125	\$ 46,687,363
Credit cards	43,890,862	40,047,697
Other unfunded commitments	47,477,383	43,582,756
<b>Total</b>	<b>\$ 137,994,370</b>	<b>\$ 130,317,816</b>

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing members. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may only be drawn upon to the total extent to which the Credit Union is committed.

**NOTE 10 – CONTINGENCIES AND COMMITMENTS**

The Credit Union is periodically a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the Credit Union's financial condition.

**NOTE 11 – CAPITAL REQUIREMENTS**

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles.

The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.



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**NOTE 11 – CAPITAL REQUIREMENTS (CONTINUED)**

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the following tables) of net worth (as defined in the regulations) to assets and risk-based net worth (RBNW) ratios (as defined). As of June 30, 2013 and 2012, the Credit Union’s RBNW requirement is 7.22% and 4.79%, respectively. Management believes that, as of June 30, 2013, the Credit Union meets all capital adequacy requirements to which it is subject and no conditions or events since the calculation date has changed the Credit Union’s category.

As of June 30, 2013, the most recent call reporting period, the NCUA has categorized the Credit Union as well capitalized under the regulatory framework for Prompt Corrective Action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7.0%. The Credit Union’s actual capital amounts and ratios as of June 30, 2013 and 2012 are presented in the following tables:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action		To Be Well Capitalized Under Prompt Corrective Action	
			Provisions		Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>2013</b>						
Net worth	\$ 108,634,688	8.51%	\$ 76,842,858	6.00%	\$ 89,650,001	7.00%
Risk-based net worth requirement	\$ 92,126,372	7.22%	N/A	N/A	N/A	N/A
<b>2012</b>						
Net worth	\$ 96,207,740	8.23%	\$ 70,086,482	6.00%	\$ 81,767,563	7.00%
Risk-based net worth requirement	\$ 58,533,467	4.79%	N/A	N/A	N/A	N/A

Because the RBNW ratio of 7.22% is less than the net worth ratio of 8.51%, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the average of the current and three preceding quarter-end balances option, as permitted by regulation.

**NOTE 12 – 401(k) RETIREMENT PLAN**

The Credit Union provides a 401(k) employee benefit plan covering substantially all employees who have completed at least one year of service and met minimum age requirements. The Credit Union’s annual contribution is discretionary and was \$722,552 and \$500,260 in 2013 and 2012, respectively.

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**NOTE 13 – RELATED PARTY TRANSACTIONS**

The Credit Union has an agreement with State Employees' Credit Union of North Carolina (SECU) under which SECU provides substantially all of the Credit Union's operating services including member services, branch facilities, and data processing services. SECU is compensated for such services at a rate of twenty five percent of the gross revenue of the Credit Union, which is paid on a monthly basis. During 2013 and 2012, the Credit Union incurred service fees of \$15,773,645 and \$14,538,414, respectively, for services rendered under the agreement with SECU. SECU charges the Credit Union a \$.50 processing charge for the usage of SECU automated teller machines. Total ATM fees paid to SECU were \$1,874,450 and \$1,827,017 for fiscal years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the payable to SECU for services rendered under this agreement was \$169,000 and \$160,000, respectively. The Credit Union had a receivable from SECU of \$8,534,273 and \$0 at June 30, 2013 and 2012, respectively. The Credit Union had a payable to SECU of \$0 and \$7,597,036 at June 30, 2013 and 2012, respectively.

Additionally, in the normal course of business, the Credit Union extends credit to members of the Board of Directors, Supervisory Committee members and executive officers. The aggregate loans to related parties at June 30, 2013 and 2012, were \$11,510,119 and \$7,160,176, respectively. Loans to related parties are made under the same terms available to other members. Deposits from related parties at June 30, 2013 and 2012 amounted to \$1,516,143 and \$1,115,139, respectively.

**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

**Cash and Cash Equivalents:** The carrying amounts of cash and cash equivalents approximate their fair value.

**Available-for-Sale Securities:** The Credit Union utilizes a third-party pricing service (pricing service) to estimate fair value measurements for investment securities. The pricing service evaluates each asset class based on relevant market information considering observable data. The fair value is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. The fair value prices on such securities are reviewed for reasonableness by management. Management assessed the valuation techniques used by the pricing service based on a review of their pricing methodology to ensure proper hierarchy classifications.

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**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

***Certificates of Deposit:*** The carrying amounts of certificates of deposit approximate their fair value.

***Federal Home Loan Bank Stock:*** The carrying amount of the Federal Home Loan Bank stock approximates the fair value.

***Loans Held-for-Sale:*** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate.

***Loans to Members:*** The fair value of fixed-rate loans is estimated by discounting the future cash flows for each loan category using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable-rate loans (primarily real estate and charge cards) is assumed to approximate their carrying amount. Fair values for business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral value, where appropriate.

***Accrued Interest Receivable:*** The carrying amounts of accrued interest receivable approximate their fair value.

***Member Share and Savings Accounts:*** The fair values disclosed for share draft, regular savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on share certificates to a schedule of aggregated expected monthly maturities on share certificates.

***Due to (from) State Employees' Credit Union:*** The carrying amounts of due to or from SECU approximate fair value.

***Accrued Interest Payable:*** The carrying amounts of accrued interest payable approximate their fair values.

***Off-Balance-Sheet Instruments:*** The estimated fair value of the commitments to extend credit represents the Credit Union's potential unfunded commitments under such lines-of-credit.

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**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

The estimated fair values of the Credit Union's financial instruments, none of which are held for trading purposes, are as follows:

	2013		2012	
	Carrying Amount	Approximate Fair Value	Carrying Amount	Approximate Fair Value
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	\$ 63,225,312	\$ 63,225,000	\$ 336,445,326	\$ 336,445,000
Investment securities:				
Available-for-sale	348,071,707	348,072,000	103,809,177	103,809,000
Certificates of deposits	500,000	500,000	500,000	500,000
Federal Home Loan Bank stock	1,479,300	1,479,000	1,731,800	1,732,000
Loans held-for-sale	17,607,948	17,608,000	4,892,246	4,892,000
Loans to members net of allowance for loan losses	797,028,632	799,769,000	717,601,500	719,229,000
Accrued interest receivable	3,289,175	3,289,000	2,159,021	2,159,000
<b>FINANCIAL LIABILITIES</b>				
Members share and savings accounts:				
Share, drafts and money market accounts	\$ 941,728,572	\$ 941,729,000	\$ 838,875,501	\$ 838,876,000
Certificate accounts	268,781,117	269,200,000	282,904,448	283,926,000
Accrued interest payable	1,243,165	1,243,000	927,616	928,000
<b>UNRECOGNIZED FINANCIAL INSTRUMENTS</b>				
Commitments to extend credit	\$ -	\$ 137,994,000	\$ -	\$ 130,318,000

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

GAAP requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied.

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**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be *observable*, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources; or *unobservable*, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

**Level 1 Inputs.** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2 Inputs.** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.), or inputs that are derived principally from or corroborated by market data by correlation or other means.

**Level 3 Inputs.** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, follows. These valuation methodologies were applied to all of the Credit Union's financial assets and financial liabilities carried at fair value.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Credit Union's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Credit Union's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Credit Union's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Available-for-sale securities:** Securities listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 2 of the valuation hierarchy.

**Foreclosed Real Estate:** Mortgage loans that have been foreclosed upon by the Credit Union, or where foreclosure is imminent, are included in foreclosed real estate. Based on the requirements of Accounting for the Impairment or Disposal of Long-Lived Assets, foreclosed real estate is considered held for sale, and as such is reported at the lower of cost or fair value. The fair value of foreclosed real estate is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. In accordance with FASB ASC 820, foreclosed real estate where a reserve is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

**Impaired Loans:** Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with “Accounting by Creditors for Impairment of a Loan”. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30 for which a recurring change in fair value has been recorded:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>June 30, 2013</b>				
<b>Recurring:</b>				
U.S. Government and federal agency securities	\$ -	\$ 348,071,707	\$ -	\$ 348,071,707
<b>June 30, 2012</b>				
<b>Recurring:</b>				
U.S. Government and federal agency securities	\$ -	\$ 103,809,177	\$ -	\$ 103,809,177

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**NOTE 14 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Under certain circumstances, the Credit Union makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30 for which a nonrecurring change in fair value has been recorded:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>June 30, 2013</b>				
<b>Nonrecurring:</b>				
Impaired loans	\$ -	\$ -	\$ 31,340,634	\$ 31,340,634
Foreclosed real estate	-	-	2,050,406	2,050,406
Total Nonrecurring:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,391,040</u>	<u>\$ 33,391,040</u>
<b>June 30, 2012</b>				
<b>Nonrecurring:</b>				
Impaired loans	\$ -	\$ -	\$ 15,840,183	\$ 15,840,183
Foreclosed real estate	-	-	1,678,966	1,678,966
Total Nonrecurring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,519,149</u>	<u>\$ 17,519,149</u>

Impaired loans with a book value of \$38,820,289 were written down to \$34,911,729 based upon an estimate of the fair value of the underlying collateral, resulting in a \$3,908,560 impairment reserve recorded in the Allowance for Loan Losses as of June 30, 2013.

Impaired loans with a book value of \$17,257,938 were written down to \$15,840,183 based upon an estimate of the fair value of the underlying collateral, resulting in a \$1,417,755 impairment reserve recorded in the Allowance for Loan Losses as of June 30, 2012.

**NOTE 15 – SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through October 30, 2013, the date the consolidated financial statements were available to be issued.

On July 25, 2013, the NCUA Board approved a 2013 Temporary Corporate Credit Union Stabilization Fund assessment of 8 basis points of insured shares as measured on June 30, 2013. The purpose of assessment is to raise funds to help cover corporate credit union losses. The assessment resulted in an expense to the Credit Union of \$955,000 and was recorded in September 2013.

This information is an integral part of the accompanying consolidated financial statements.