LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
Raleigh, North Carolina

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

TABLE OF CONTENTS

CliftonLarsonAllen LLP
www.claconnect.com

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014

CONSOLIDATED FINANCIAL STATEMENTS

LOCAL GOVERNMENT FEDERAL CREDIT UNION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 71,514,798	$ 62,328,101
Investment securities:		
Available-for-sale	303,330,842	348,071,707
Other investments	2,730,411	2,876,511
Loans held-for-sale	18,832,423	17,607,948
Loans to members, net of allowance for loan losses	942,088,941	797,028,632
Accrued interest receivable	3,425,163	3,289,175
Due from State Employees' Credit Union	-	8,534,273
Premises and equipment, net	27,100,956	21,388,786
NCUSIF deposit	11,913,388	11,096,305
Credit Union owned life insurance	20,222,944	19,623,539
Split-dollar collateral assignment life insurance	12,755,052	9,081,182
Other assets	4,555,122	7,482,876
TOTAL ASSETS	$ 1,418,470,040	$ 1,308,409,035
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' share and savings accounts	$ 1,286,158,300	$ 1,211,456,858
Accrued interest payable	383,603	295,996
Due to State Employees' Credit Union	13,586,549	-
Accrued expenses and other liabilities	4,260,676	2,390,054
Total liabilities	1,304,389,128	1,214,142,908
MEMBERS' EQUITY		
Regular reserve	8,568,384	8,568,384
Undivided earnings	114,805,314	100,066,304
Accumulated other comprehensive loss	(9,292,786)	(14,368,561)
Total members' equity	114,080,912	94,266,127
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 1,418,470,040	$ 1,308,409,035

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, 2014 and 2013

	2014	2013
INTEREST INCOME		
Loans to members	$ 42,012,003	$ 38,119,893
Investment securities and cash equivalents	7,247,475	4,162,616
Total interest income	49,259,478	42,282,509
INTEREST EXPENSE		
Members' share and savings accounts	7,556,127	8,025,638
Net interest income before provision for loan losses	41,703,351	34,256,871
PROVISION FOR LOAN LOSSES	3,262,500	3,290,000
Net interest income after provision for loan losses	38,440,851	30,966,871
NON-INTEREST INCOME		
Service charges and fees	21,674,500	19,685,133
Other non-interest income	2,930,474	2,951,976
Total non-interest income	24,604,974	22,637,109
NON-INTEREST EXPENSE		
Compensation and benefits	12,177,900	10,161,417
Occupancy	1,372,423	1,052,401
Operations	24,059,142	21,082,342
Other expense	10,697,350	8,880,872
Total non-interest expense	48,306,815	41,177,032
NET INCOME	$ 14,739,010	$ 12,426,948

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, 2014 and 2013

	2014	2013
NET INCOME	$ 14,739,010	$ 12,426,948
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification adjustment for realized gains and (losses) on investments included in net income	(393,612)	86,603
Unrealized holding gains and (losses) on investments classified as available-for-sale	5,469,387	(14,580,431)
Total other comprehensive income (loss)	5,075,775	(14,493,828)
COMPREHENSIVE INCOME (LOSS)	$ 19,814,785	$ (2,066,880)

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, 2014 and 2013

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES, JUNE 30, 2012	$ 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)
BALANCES, JUNE 30, 2013	8,568,384	100,066,304	(14,368,561)	94,266,127
Net income	-	14,739,010	-	14,739,010
Other comprehensive income	-	-	5,075,775	5,075,775
BALANCES, JUNE 30, 2014	$ 8,568,384	$ 114,805,314	$ (9,292,786)	$ 114,080,912

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,739,010	$ 12,426,948
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,757,875	1,390,375
Amortization of premiums and discounts, net	1,589,639	1,574,349
Provision for loan losses	3,262,500	3,290,000
Gain on disposition of property and equipment	2,762	239
Realized (gain) / loss on sale of available-for-sale securities	530,417	(89,572)
Effects of changes in operating assets and liabilities:		
Loans held-for-sale	(1,224,475)	(12,715,702)
Accrued interest receivable	(135,988)	(1,130,154)
Other assets	4,766,054	(426,742)
Credit Union owned life insurance	(599,405)	(681,315)
Split-dollar collateral assignment life insurance	(3,673,870)	(3,782,279)
Due from State Employees' Credit Union	8,534,273	(8,534,273)
Due to State Employees' Credit Union	13,586,549	(7,597,036)
Accrued interest payable	87,607	315,549
Accrued expenses and other liabilities	1,870,622	650,458
Net cash provided by (used in) operating activities	45,093,570	(15,309,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of available-for-sale securities	27,018,796	90,210,956
Proceeds from sales of available-for-sale securities	41,787,827	58,254,542
Purchases of available-for-sale securities	(21,110,039)	(408,706,633)
Proceeds from repayments or maturity of certificates of deposit	350,000	-
Purchases of certificates of deposit	(500,000)	-
Refunds from Federal Home Loan Bank stock	296,100	252,500
Loans to members, net of principal collections	(150,161,109)	(82,717,132)
Increase in NCUSIF deposit	(817,083)	(671,267)
Retirements of premises and equipment	2,117	-
Purchases of premises and equipment	(7,474,924)	(3,263,565)
Net cash used in investing activities	(110,608,315)	(346,640,599)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share and savings accounts	74,701,442	88,729,740
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,186,697	(273,220,014)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	62,328,101	335,548,115
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 71,514,798	$ 62,328,101
ADDITIONAL CASH FLOW INFORMATION		
Dividends on members' share and savings accounts	$ 7,468,520	$ 7,710,089
Transfers from loans to members to real estate owned	$ 1,838,300	$ 3,669,592

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

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 of 1934 and administratively responsible to the National Credit Union Administration (NCUA). The primary purpose is to promote thrift among, and create a source of credit for its members. 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 255 offices in 171 communities.

Membership

Participation in the Credit Union is limited to those individuals that qualify for membership as defined in the Credit Union's Charter and Bylaws. The primary field of membership consists of local government employees, elected and appointed officials, volunteers and their families in North Carolina.

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.

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.

Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, the valuation of securities and the fair value of financial instruments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments with Concentrations of Credit Risk

The Credit Union may be exposed to credit risk from a regional economic standpoint because a significant concentration of its borrowers work or reside within a geographical field of membership.

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Financial Condition and Consolidated Statements of Cash Flows, cash and cash equivalents include funds due from banks, corporate credit unions and cash in vaults and on hand, and highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the Board of Directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Investment Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income (Loss). Realized gains and losses on securities available-for-sale are included in other income or expense and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income (Loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary impairment (OTTI) is recorded as a loss in noninterest income.

Federal Home Loan Bank stock and certificates of deposit are stated at cost, and are subject to OTTI evaluation.

The Credit Union did not record any OTTI during the years ended June 30, 2014 and 2013.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held-For-Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate, as determined by outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income. Realized 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 and are sold without the mortgage servicing rights retained by the Credit Union.

Loans to Members, Net of Allowance for Loan Losses

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.

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 certain consumer 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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, and the 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.

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 for one year and 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.

Specific allowances for loan losses are established for 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. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

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 member business, and residential real estate 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, less estimated selling costs, if the loan is collateral dependent.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

- **Consumer**: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

- **Real Estate**: This portfolio consists of residential mortgage loans. The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial: Typical industry commercial portfolios consist of member business loans secured by real estate generally possessing a higher inherent risk of loss than residential real estate portfolio segments. LGFCU provides loans for apparatus, equipment, real estate and construction for North Carolina Fire, Rescue, and EMS Departments. Historically and currently, losses in this portfolio have been minimal.

The Credit Union assigns a risk rating to member business loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The risk ratings can be grouped into the following 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).

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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.

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.

Transfers of Financial Assets

Transfers of financial assets or a participating interest in an entire financial asset 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 (free of conditions that constrain it from taking advantage of that 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.

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.

Foreclosed and Repossessed Assets and Collateral in Process of Liquidation

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. As of June 30, 2014 and 2013, the amount of foreclosed assets and collateral in process of liquidation included in other assets totaled $2,010,874 and $3,153,609, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment, Net

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, fixtures, 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.

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (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.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. It is anticipated that the NCUA Board will assess annual premiums to repay these stabilization costs through the year 2021 at its discretion.

In 2012, the NCUA Board assessed a single premium for the CCUSF calculated at 0.095 percent of June 30, 2012 insured shares. The impact of this transaction was approximately $1,051,010 and was recorded by the Credit Union during the year ended December 31, 2012. In 2013, the NCUA Board assessed a single premium for the CCUSF calculated at 0.08 percent of June 30, 2013 insured shares. The impact of this transaction was approximately $955,207 and was recorded by the Credit Union during the year ended December 31, 2013. These costs are reflected as Other Expense on the Consolidated Statements of Income for the years ended June 30, 2014 and 2013.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which is set in advance, is 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 statutory regular reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings, and is not available for the payment of interest and dividends.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive Income/Loss

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Accumulated other comprehensive income (loss) recognized as a separate component of members' equity, includes valuation adjustments for investment securities available-for-sale.

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes. The income from the CUSO's, both organized as an LLC, flows through to the Credit Union, and therefore are not subject to federal and state income taxes.

Retirement Plans

401(k) Plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions as approved by the Board of Directors. The Credit Union's contributions to the plan were $834,586 and $722,552 for the years ended June 30, 2014 and 2013, respectively.

Life Insurance Policies

The Credit Union is the owner and substantial beneficiary of several life insurance policies on certain key executives. The policies are recorded at cash surrender value and increases or decreases in cash surrender values (CSV) are included in Other Non-Interest Income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split Dollar Life Insurance

The Credit Union has paid funds into life insurance policies and funding accounts connected to the policies on behalf of select executives. The executive owns the policy on his life and the related accounts, but the Credit Union holds a first lien on the policy and account as security for repayment of the advanced funds plus compounded interest at the long-term applicable federal rate.

During life the executives can borrow from the policy cash values to supplement retirement income. Executive borrowing is strictly limited so that it never puts the policy at risk of lapsing.

As early as possible after specified dates, the Credit Union is repaid the amount it originally paid into the policy and accounts. Then, at the executive's death, the death proceeds are allocated to (i) repay the insurance carrier for the executive's retirement loans, (ii) pay the Credit Union any original funding amount not recovered from the policy during the executive's life, (iii) pay the Credit Union the interest on its funding amount, and (iv) provide a death benefit for the executive's beneficiaries.

The total value of the loans was approximately $12,755,100 and $9,081,200 at June 30, 2014 and 2013, respectively.

Advertising Costs

Advertising and promotion costs which totaled approximately $2,362,100 and $1,903,000 for the years ended June 30, 2014 and 2013, respectively, are expensed as incurred.

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

> Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.
>
> Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through October 30, 2014, the date the consolidated financial statements were available to be issued.

Reclassifications

Data in the 2013 consolidated financial statements has been reclassified to conform with the presentation of the 2014 consolidated financial statements. This reclassification did not have any change on net income or members' equity.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities available-for-sale are as follows as of June 30:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2014				
Federal agency mortgage backed securities	$ 214,454,798	$ -	$ 6,010,465	$ 208,444,333
Collateralized mortgage obligation securities	49,757,693	-	1,948,288	47,809,405
Collateralized mortgage backed securities	47,417,549	-	1,314,344	46,103,205
Small business administration securities	993,588	-	19,689	973,899
	$ 312,623,628	$ -	$ 9,292,786	$ 303,330,842

NOTE 2 – INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2013				
Federal agency mortgage backed securities	$ 244,191,330	$ -	$ 9,407,007	$ 234,784,323
Collateralized mortgage obligation securities	54,548,745	-	1,767,460	52,781,285
Collateralized mortgage backed securities	47,520,714	-	3,197,708	44,323,006
Small business administration securities	16,179,479	20,781	17,167	16,183,093
	$ 362,440,268	$ 20,781	$ 14,389,342	$ 348,071,707

Gross realized gains / (losses) of ($530,417) and $89,572 from sales of securities available-for-sale were realized in 2014 and 2013, respectively.

The amortized cost and fair values of investment securities available for sale at June 30, 2014, 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.

	Amortized Cost	Estimated Fair Value
Federal agency mortgage backed securities:		
Within five to ten years	$ 9,333,866	$ 9,090,146
After ten years	205,120,932	199,354,187
	214,454,798	208,444,333
Collateralized mortgage obligation securities:		
After ten years	49,757,693	47,809,405
Collateralized mortgage backed securities:		
Within five to ten years	47,417,549	46,103,205
Small business administration securities:		
After ten years	993,588	973,899
Total	$ 312,623,628	$ 303,330,842

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

Temporarily Impaired Investment Securities

Information pertaining to securities with gross unrealized losses at June 30, 2014 and 2013, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position, are as follows:

	2014			
	Continuous Unrealized Losses Existing			
	Less than 12 months		Greater than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
Federal agency mortgage backed securities	$ -	$ -	$ 6,010,465	$ 208,444,333
Collateralized mortgage obligation securities	-	-	1,948,288	47,809,405
Collateralized mortgage backed securities	-	-	1,314,344	46,103,205
Small business administration securities	-	-	19,689	973,899
Total	$ -	$ -	$ 9,292,786	$ 303,330,842

	2013			
	Continuous Unrealized Losses Existing			
	Less than 12 months		Greater than 12 months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
Federal agency mortgage backed securities	$ 9,407,007	$ 234,784,323	$ -	$ -
Collateralized mortgage obligation securities	1,767,460	52,781,285	-	-
Collateralized mortgage backed securities	3,197,708	44,323,006	-	-
Small business administration securities	17,167	9,452,048	-	-
Total	$ 14,389,342	$ 341,340,662	$ -	$ -

NOTE 2 – INVESTMENT SECURITIES (CONTINUED)

At June 30, 2014, 46 securities with unrealized losses depreciated 2.97% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. Government, and/or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities and does not relate to credit risk. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities until maturity or for the foreseeable future for those classified as available-for-sale, no declines are deemed to be other than temporary.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other investments at June 30 are summarized as follows:

	2014	2013
Certificates of Deposit	$ 650,000	$ 500,000
Perpetual Contributed Capital Accounts	897,211	897,211
FHLB Stock	1,183,200	1,479,300
Total	$ 2,730,411	$ 2,876,511

Perpetual Contributed Capital Accounts

The Credit Union maintains perpetual contributed capital accounts with First Carolina Corporate Credit Union (Corporate) that are uninsured and redeemable only at the option of the Corporate provided regulatory approval is obtained.

These uninsured deposits are part of the corporate credit unions' regulatory capital and are subject to impairment or loss in the event the corporate credit union is required to merge, is placed into conservatorship, incurs significant loss, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES

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

	2014	2013
Commercial:		
Member Business Loans	$ 40,949,087	$ 32,900,728
Residential Real Estate:		
First Mortgage	376,455,509	366,214,393
Home Equity Line	51,133,640	49,493,770
Total real estate	427,589,149	415,708,163
Consumer:		
New Auto	103,816,547	75,724,081
Used Auto	238,848,294	187,187,178
Credit Card	50,576,805	28,434,848
Other	86,773,001	63,111,135
Total consumer	480,014,647	354,457,242
Less allowance for loan losses	(6,463,942)	(6,037,501)
Total	$ 942,088,941	$ 797,028,632

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific changes in the allowance for loan losses and recorded investment in loans by segment for the year ended June 30, 2014 are as follows:

	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 82,551	$ 3,196,646	$ 2,758,304	$ 6,037,501
Provision for loan losses	49,985	188,118	3,024,397	3,262,500
Recoveries	-	-	281,653	281,653
Charge-offs	(30,150)	(741,497)	(2,346,065)	(3,117,712)
Ending balance	$ 102,386	$ 2,643,267	$ 3,718,289	$ 6,463,942
Ending balance:				
Individually evaluated for impairment	$ 102,386	$ 999,258	$ 116,537	$ 1,218,181
Collectively evaluated for impairment	-	1,644,009	3,601,752	5,245,761
Total	$ 102,386	$ 2,643,267	$ 3,718,289	$ 6,463,942
Loans to members:				
Ending balance:				
Individually evaluated for impairment	$ 40,949,087	$ 61,215,120	$ 6,529,995	$ 108,694,202
Collectively evaluated for impairment	-	366,374,029	473,484,652	839,858,681
Total	$ 40,949,087	$ 427,589,149	$ 480,014,647	$ 948,552,883

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (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:

	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 82,301	$ 2,809,518	$ 2,857,409	$ 5,749,228
Provision for loan losses	250	1,922,772	1,366,978	3,290,000
Recoveries	-	-	277,973	277,973
Charge-offs	-	(1,535,644)	(1,744,056)	(3,279,700)
Ending balance	$ 82,551	$ 3,196,646	$ 2,758,304	$ 6,037,501
Ending balance:				
Individually evaluated for impairment	$ 82,551	$ 1,550,798	$ 427,249	$ 2,060,598
Collectively evaluated for impairment	-	1,645,848	2,331,055	3,976,903
Total	$ 82,551	$ 3,196,646	$ 2,758,304	$ 6,037,501
Loans to members:				
Ending balance:				
Individually evaluated for impairment	$ 32,900,728	$ 56,062,557	$ 5,185,482	$ 94,148,767
Collectively evaluated for impairment	-	359,645,606	349,271,760	708,917,366
Total	$ 32,900,728	$ 415,708,163	$ 354,457,242	$ 803,066,133

The following tables show the member business loan portfolio by internally assigned risk ratings by class at June 30, is as follows:

	Commercial	
	2014	**2013**
Prime Credit	$ -	$ 40,930
Satisfactory Credit	40,940,537	32,859,798
Minimum Acceptable Credit	8,550	-
	$ 40,949,087	$ 32,900,728

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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 following tables show the classes within the homogenous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	Residential Real Estate		
	First Mortgage	Home Equity Line	Total
2014			
Performing	$ 368,835,760	$ 51,029,348	$ 419,865,108
Non-performing	7,619,749	104,292	7,724,041
	$ 376,455,509	$ 51,133,640	$ 427,589,149
2013			
Performing	$ 363,099,420	$ 49,256,159	$ 412,355,579
Non-performing	3,114,973	237,611	3,352,584
	$ 366,214,393	$ 49,493,770	$ 415,708,163

	Consumer				
	New Auto	Used Auto	Credit Card	Other	Total
2014					
Performing	$ 103,669,963	$ 238,090,781	$ 50,134,305	$ 86,396,450	$ 478,291,499
Non-performing	146,584	757,513	442,500	376,551	1,723,148
	$ 103,816,547	$ 238,848,294	$ 50,576,805	$ 86,773,001	$ 480,014,647
	New Auto	Used Auto	Credit Card	Other	Total
2013					
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
	$ 75,724,081	$ 187,187,178	$ 28,434,848	$ 63,111,135	$ 354,457,242

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables show an aging analysis of the loan portfolio at June 30, by time past due:

2014	30-59 Days	60-90 Days	Greater than 90 Days	Total Past Due	Current	Total Loans to Members
Commercial	$ -	$ -	$ -	$ -	$ 40,949,087	$ 40,949,087
Residential Real estate:						
First Mortgage	11,938,961	5,073,346	7,619,749	24,632,056	351,823,453	376,455,509
Home Equity Line	148,683	129,014	104,292	381,989	50,751,651	51,133,640
Consumer:						
New Auto	576,766	63,958	146,584	787,308	103,029,239	103,816,547
Used Auto	2,606,744	847,374	757,513	4,211,631	234,636,663	238,848,294
Credit Card	2,415,466	547,165	442,500	3,405,131	47,171,674	50,576,805
Other	645,436	260,063	376,551	1,282,050	85,490,951	86,773,001
	$ 18,332,056	$ 6,920,920	$ 9,447,189	$ 34,700,165	$ 913,852,718	$ 948,552,883

2013	30-59 Days	60-90 Days	Greater than 90 Days	Total Past Due	Current	Total Loans to Members
Commercial	$ -	$ -	$ -	$ -	$ 32,900,728	$ 32,900,728
Residential Real estate:						
First Mortgage	17,004,379	8,320,009	3,114,973	28,439,361	337,775,032	366,214,393
Home Equity Line	104,978	139,922	237,611	482,511	49,011,259	49,493,770
Consumer:						
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
	$ 20,442,053	$ 9,406,608	$ 4,446,029	$ 34,294,690	$ 768,771,443	$ 803,066,133

The Credit Union had no loans that were greater than 90 days past-due for which the loans were accruing interest at June 30, 2014 and 2013, respectively.

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information concerning impaired loans by loan class as of June 30, 2014 is as follows:

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no specific reserve recorded:			
Residential Real Estate:			
First Mortgage	$ 40,499,538	$ -	$ 31,463,644
With specific reserve recorded:			
Commercial	$ 40,949,087	$ (102,386)	$ 36,924,908
Residential Real Estate:			
First Mortgage	$ 16,469,649	$ (934,295)	$ 23,156,743
Home Equity Line	4,245,933	(64,963)	4,018,452
Total	$ 20,715,582	$ (999,258)	$ 27,175,195
Consumer:			
New Auto	$ 972,271	$ (14,973)	$ 486,136
Used Auto	3,061,632	(47,149)	1,530,816
Other	2,496,092	(54,415)	1,248,046
Total	$ 6,529,995	$ (116,537)	$ 3,264,998
Commercial	$ 40,949,087	$ (102,386)	$ 36,924,908
Residential Real Estate	61,215,120	(999,258)	58,638,839
Consumer	6,529,995	(116,537)	3,264,998
Total	$ 108,694,202	$ (1,218,181)	$ 98,828,744

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no specific reserve recorded:			
Residential Real Estate:			
First Mortgage	$ 22,427,750	$ -	$ 25,525,848
With specific reserve recorded:			
Commercial	$ 32,900,728	$ (82,551)	$ 32,851,281
Residential Real Estate:			
First Mortgage	$ 29,843,836	$ (1,059,771)	$ 23,550,887
Home Equity Line	3,790,971	(491,027)	1,895,486
Total	$ 33,634,807	$ (1,550,798)	$ 25,446,373
Consumer:			
New Auto	732,837	(47,634)	366,419
Used Auto	2,367,705	(170,301)	1,183,852
Other	2,084,940	(209,314)	1,042,470
Total	$ 5,185,482	$ (427,249)	$ 2,592,741
Commercial	$ 32,900,728	$ (82,551)	$ 32,851,281
Residential Real Estate	56,062,557	(1,550,798)	50,972,221
Consumer	5,185,482	(427,249)	2,592,741
Total	$ 94,148,767	$ (2,060,598)	$ 86,416,242

Interest collected on impaired loans for the years ended June 30, 2014 and 2013 was not significant as interest is not accrued on non-accrual loans or other loans past-due 90 days or more.

NOTE 3 – LOANS TO MEMBERS, NET OF ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

	2014	2013
Residential Real Estate:		
First Mortgage	$ 7,619,749	$ 3,114,973
Home Equity Line	104,292	237,611
Consumer:		
New Auto	146,584	82,565
Used Auto	757,513	476,591
Credit Card	442,500	206,893
Other	376,551	327,396
Total	$ 9,447,189	$ 4,446,029
Foregone interest on nonaccrual loans	$ 74,483	$ 14,414

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

A summary of troubled debt restructurings by class that were granted during the year and those that were granted, and subsequently defaulted (became 30 days or more delinquent) during the years ended June 30, 2014 and 2013, are as follows. The aggregate amount of charge-offs as a result of restructuring are not significant. A summary of loan modifications by class during the years ended June 30 are as follows:

	During the Year Ended June 30, 2014			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
First Mortgage	70	$ 8,619,289	-	$ -
Home Equity Line	114	2,747,829	-	-
New Auto	60	789,948	-	-
Used Auto	366	2,651,237	2	8,881
Other	284	1,805,219	2	11,378
	894	$ 16,613,522	4	$ 20,259

	During the Year Ended June 30, 2013			
	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-modification Outstanding Balance	Number of Loans	Post-modification Outstanding Balance
First Mortgage	48	$ 5,886,224	11	$ 1,949,227
Home Equity Line	89	2,316,413	-	-
New Auto	50	514,096	-	-
Used Auto	304	2,008,651	-	-
Other	231	1,417,648	-	-
	722	$ 12,143,032	11	$ 1,949,227

NOTE 4 – PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at June 30 is as follows:

	2014	2013
Land	$ 2,364,437	$ 1,242,475
Building	25,292,057	19,553,822
Leasehold improvements	436,107	436,107
Furniture and equipment	2,509,655	2,464,048
Computer equipment	3,911,139	3,424,122
Automobiles	449,464	374,061
	34,962,859	27,494,635
Less accumulated depreciation and amortization	(7,861,903)	(6,105,849)
Total	$ 27,100,956	$ 21,388,786

NOTE 5 – LEASE COMMITMENTS

The Credit Union leases certain office facilities under non-cancelable operating leases expiring in various years through 2021. Future minimum lease income under these leases at June 30, 2014 is as follows:

2015	$ 116,547
2016	116,547
2017	116,547
2018	116,547
2019	116,547
Thereafter	203,957
Total	$ 786,692

Premises and equipment owned by the Credit Union and held for leasing at June 30 are summarized as follows:

	June 30,	
	2014	2013
Net book value of buildings and improvements	$ 27,100,956	$ 21,388,786

Rental income was $370,489 and $292,240 for the years ended June 30, 2014 and 2013, respectively. This is included in Other Non-Interest Income in the Consolidated Statements of Income.

NOTE 6 – MEMBERS' SHARE AND SAVINGS ACCOUNTS

A summary of members' share and savings accounts by type at June 30 are as follows:

	2014	2013
Regular share accounts	$ 287,398,369	$ 247,058,233
Share draft accounts	204,125,174	192,983,305
Money market accounts	372,969,579	356,853,039
IRA share accounts	153,504,981	145,781,163
Total share accounts	1,017,998,103	942,675,740
Share term certificates:		
0.00% to 0.99%	162,264,033	141,329,740
1.00% to 1.99%	43,838,298	42,140,850
2.00% to 2.99%	29,574,577	42,046,291
3.00% to 3.99%	32,424,313	38,036,472
4.00% to 4.99%	-	5,161,421
5.00% to 5.99%	58,976	66,344
Total certificate amounts	268,160,197	268,781,118
Total members' share and savings accounts	$ 1,286,158,300	$ 1,211,456,858

The aggregate amounts of certificates in denominations of $100,000 or more were approximately $82,553,800 and $76,761,000 at June 30, 2014 and 2013, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled approximately $112,600 and $82,700 at June 30, 2014 and 2013, respectively.

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

2015	$ 183,796,858
2016	43,572,414
2017	21,766,425
2018	15,858,702
2019	3,159,079
Thereafter	6,719
Total	$ 268,160,197

Member accounts are insured to at least $250,000 by the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government.

NOTE 7 – BORROWED FUNDS

At June 30, 2014 and 2013, the Credit Union had available lines of credit of $354,000,000 and $131,870,000 with the FHLB and $138,957,339 and $138,627,071 with the Federal Reserve Bank of Richmond, respectively. The FHLB line is collateralized by investments held in safekeeping for the Credit Union and the Federal Reserve Bank line is collateralized by mortgage loans. The interest rates applied on any borrowing are determined on that date. The lines have no expiration dates, but are subject to review and change by the issuing institutions. There were no balances outstanding on these lines at June 30, 2014 and 2013.

NOTE 8 – 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.

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

	2014	2013
Commitments to grant loans:		
Member business	$ 400,992	$ -
Home-equity lines of credit	50,852,047	46,626,125
Credit cards	100,696,588	43,890,862
Other unfunded commitments	52,168,514	47,477,383
Total	$ 203,717,149	$ 137,994,370

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.

NOTE 8 – OFF-BALANCE SHEET ACTIVITIES (CONTINUED)

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 9 – 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 10 – REGULATORY NET WORTH

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 U.S. generally accepted accounting principles. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of June 30, 2014, the most recent quarterly regulatory filing date, was 6.56%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of June 30, 2014, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of June 30, 2014, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory frame work for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institutions category.

NOTE 10 – REGULATORY NET WORTH (CONTINUED)

The Credit Union's actual capital amounts and ratios as of June 30, are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2014						
Net worth	$ 123,373,698	9.01%	$ 82,122,874	6.00%	$ 95,810,020	7.00%
Risk-based net worth requirement	$ 93,059,023	6.56%	N/A	N/A	N/A	N/A
2013						
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

Because the RBNW ratio of 6.56% is less than the net worth ratio of 9.01%, 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 11 – 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 2014 and 2013, the Credit Union incurred service fees of $18,193,279 and $15,773,645, 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 (ATM). Total ATM fees paid to SECU were $1,939,695 and $1,874,450 for fiscal years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the payable to SECU for services rendered under this agreement was $162,815 and $169,477, respectively.

The Credit Union had a payable to SECU of $13,586,549 and a receivable from SECU of $8,534,273 at June 30, 2014 and 2013, 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. Included in Loans to Members, Net of Allowance for Loan Losses at June 30, 2014 and 2013, are loans to the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff of approximately $14,999,200 and $11,510,100, respectively. The aggregate principal advances and principal repayments are not significant.

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

Members' Shares and Savings Accounts (deposits) from the Credit Union's Board of Directors, Committee Members, and Senior Executive Staff held by the Credit Union at June 30, 2014 and 2013 are approximately $1,768,500 and $1,516,100, respectively.

NOTE 12 – FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Principles to the Consolidated Financial Statements. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis:

	Balance as of June 30,	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2014					
Federal agency mortgage backed securities	$ 208,444,333	$ -	$ 208,444,333	$ -	$ 208,444,333
Collateralized mortgage obligation securities	47,809,405	-	47,809,405	-	47,809,405
Collateralized mortgage backed securities	46,103,205	-	46,103,205	-	46,103,205
Small business administration securities	973,899	-	973,899	-	973,899
Total	$ 303,330,842	$ -	$ 303,330,842	$ -	$ 303,330,842
2013					
Federal agency mortgage backed securities	$ 234,784,323	$ -	$ 234,784,323	$ -	$ 234,784,323
Collateralized mortgage obligation securities	52,781,285	-	52,781,285	-	52,781,285
Collateralized mortgage backed securities	44,323,006	-	44,323,006	-	44,323,006
Small business administration securities	16,183,093	-	16,183,093	-	16,183,093
Total	$ 348,071,707	$ -	$ 348,071,707	$ -	$ 348,071,707

NOTE 12 – FAIR VALUE (CONTINUED)

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities: When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended June 30, 2014 and 2013 consisted of the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
June 30, 2014				
Impaired loans	$ -	$ -	$ 66,976,483	$ (1,218,181)
Foreclosed assets	-	-	1,746,641	(174,400)
Total Nonrecurring:	$ -	$ -	$ 68,723,124	$ (1,392,581)
June 30, 2013				
Impaired loans	$ -	$ -	$ 69,660,419	$ (2,060,598)
Foreclosed assets	-	-	2,818,755	(353,518)
Total Nonrecurring	$ -	$ -	$ 72,479,174	$ (2,414,116)

NOTE 12 – FAIR VALUE (CONTINUED)

Impaired Loans: In accordance with the provisions of the loan impairment guidance, impairment was measured 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. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or 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. 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.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other non-interest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. There were no fair value adjustments for foreclosed assets for the years ended June 30, 2014 and 2013.

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	June 30, 2014			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 66,976,483	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	1,746,641	Appraisal	Appraisal Adjustment	16%

	June 30, 2013			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 69,660,419	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	2,818,755	Appraisal	Appraisal Adjustment	16%

NOTE 12 – FAIR VALUE (CONTINUED)

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the Statements of Financial Condition. 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 estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Credit Union.

The following disclosures represent financial instruments in which the ending balances at June 30, 2014 and 2013 are not carried at fair value in their entirety on the Statements of Financial Condition.

Cash and Cash Equivalents: The carrying amounts approximate their fair value.

Other Investment Securities: The carrying amounts approximate their fair value.

Loans Held-for-Sale: The carrying amounts approximate their fair value.

Loans to Members, Net of Allowance for Loan Losses: 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 real estate and 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 values, where applicable.

Accrued Interest Receivable: The carrying amounts approximate their fair value.

Due to SECU: The carrying amounts approximate their fair value.

Members' 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.

Commitments to Extend Credit: The Credit Union has entered into variable rate loan commitments at June 30, 2014 and 2013. The Credit Union charges no fees for these commitments. Because the rates at which these commitments are entered into do not significantly differ from market rates, they have no quantifiable value.

NOTE 12 – FAIR VALUE (CONTINUED)

Accrued Interest Payable: The carrying amounts approximate their fair value.

Due from SECU: The carrying amounts approximate their fair value.

The following table presents the carrying amounts and estimated fair values of the Credit Union's financial instruments at June 30:

	2014		2013	
	Carrying Amount	Approximate Fair Value	Carrying Amount	Approximate Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	$ 71,514,798	$ 71,515,000	$ 62,328,101	$ 62,328,000
Investment securities:				
Available-for-sale	303,330,842	303,331,000	348,071,707	348,072,000
Other investments	2,730,411	2,730,000	2,876,511	2,877,000
Loans held-for-sale	18,832,423	18,832,000	17,607,948	17,608,000
Loans to members, net of allowance for loan losses	942,088,941	940,620,000	797,028,632	799,769,000
Accrued interest receivable	3,425,163	3,425,000	3,289,175	3,289,000
Due from SECU	-	-	8,534,000	8,534,000
FINANCIAL LIABILITIES				
Members share and savings accounts:				
Share, drafts and money market accounts	$ 1,017,998,103	$ 1,017,998,000	$ 942,675,740	$ 942,676,000
Certificate accounts	268,160,197	268,038,000	268,781,118	269,200,000
Accrued interest payable	383,603	384,000	1,243,165	1,243,000
Due to SECU	13,587,000	13,587,000	-	-
UNRECOGNIZED FINANCIAL INSTRUMENTS				
Commitments to extend credit	$ -	$ 203,717,000	$ -	$ 137,994,000