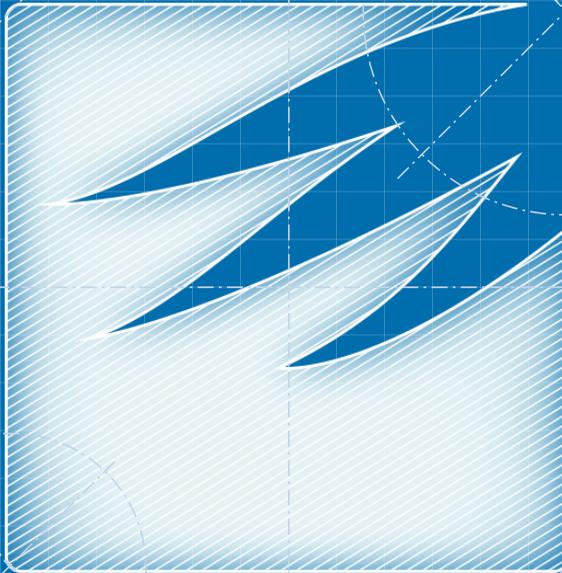


2015 Annual Report to the Membership

# MEETING THE PACE OF FINANCIAL INNOVATION



Federally insured by NCUA

**LGFCU**<sup>®</sup>  
LOCAL GOVERNMENT  
FEDERAL CREDIT UNION



## Chairman's Letter

### To Our Members/Owners:

With this 2015 Annual Report, I conclude my second year as Chairman of the Local Government Federal Credit Union Board of

Directors. It continues to be a pleasure serving as one of your representatives on the Board. Here, I take this opportunity to reflect on what kind of financial institution you have in LGFCU. I want you to know why I'm so honored to serve on your Credit Union Board.

The talk these days focuses on inequalities in the financial services world. Wall Street fat cats are often criticized as being self-serving and unscrupulous. Some banks are considered too big to fail. Congress feared for the public so much it created a federal agency to protect consumers. These messages have become part of a call to do business differently.

Some consumers believe the deck is stacked against them. Members, like most folks, want equal opportunity to affordable financial services. Members want financial services that are not rigged to exploit them. Members need a financial provider that has no conflicts of interests with third parties. Members deserve straight answers to today's questions for tomorrow's challenges.

Sadly, not all financial institutions promote safe services. In fact, some financial products have been shown to be harmful to consumers and their communities. This is particularly alarming because some consumers are misled to believe the services they enlisted are in their best interests. In some instances, missteps in choosing financial products have led to disastrous consequences.

No wonder there is public outcry for fairness in financial services. Consumers are looking for new choices. For this reason, some are experimenting with non-traditional providers. Some of these novel financial players entered the marketplace touting they are different. Many newcomers seek to skirt financial regulations to save money and compete. These intentions may be all well and good, but it's better for consumers to exercise more caution when it comes to their money.

It matters who one trusts for financial services. Members trust LGFCU for good reasons. First, LGFCU is a financial cooperative owned by the members.

This is not just a good marketing slogan. It turns out that ownership is a clear measure of a company's priorities. Ownership determines with whom an organization places its highest importance. The owners have the most at stake. The owners have the most power in a cooperative. At LGFCU, members are the owners. It's the members that matter the most.

Members trust LGFCU because its leaders represent them. The LGFCU Board of Directors is elected by the membership, from the membership. We repeatedly mention this and want to make sure you know this is no small feature of your Credit Union. An institution's leaders are supposed to exercise fiduciary duties that ensure its members are the foremost priority in all decisions. We believe the priority of members' interests happens when the leadership is a part of the membership. This is what occurs at LGFCU. The elected directors come from you. There are no outside influences that get between their duties to you. The directors' decisions reflect the issues that are important to you, in your lives.

Finally, we believe members trust LGFCU because we honestly consider all members equal. This is not what you usually hear from a financial institution. You might have been led to believe that folks with more money on deposit are more valued members. Not true at LGFCU. One guiding principle of a cooperative is that all members are treated the same without regard to rank and class. We intend for all members to be successful regardless of their financial means. This simple idea further separates LGFCU from most other financial institutions.

As your Credit Union, LGFCU has a vested stake in your success. To be effective, LGFCU needs to see you prosper as members. It is up to you to define prosperity. Regardless of whether you measure success in terms of a secure retirement, a home of your own, or just not having to worry about money, your success is linked to the Credit Union.

On behalf of the Board of Directors, we are grateful for your membership and support. We look forward to another year of improving the lives of all members.

Respectfully,

**Jeanne Erwin**

Chairman, Board of Directors

# Our Volunteers

Our volunteers play a crucial role in the success of LGFCU. The members below are just some of the many men and women who offer their time and talents to benefit us all. Thank you for all that you do.

## Board of Directors

The LGFCU Board of Directors is comprised of nine member volunteers who are elected by the membership and set general policies and procedures for the Credit Union.



*Chairman*  
**Jeanne Erwin**  
Cary



*Treasurer*  
**Aaron Noble**  
Burlington



*Director*  
**Lin Jones**  
Durham



*Vice Chairman*  
**Willie Best**  
Chapel Hill



*Director*  
**Ruth Barnes**  
Atlantic Beach



*Director*  
**Paul Miller**  
Snow Hill



*Secretary*  
**David Dear**  
Shelby



*Director*  
**Kellie Blue**  
Pembroke



*Director*  
**Ken Noland**  
Wilkesboro

## Directors Emeritus

Frances Efird, Cary  
Al Richardson, Black Mountain  
Jack Scoville, Cary

## Advisory Council

The Advisory Council members serve as LGFCU advocates in their communities, acting as ambassadors to potential members and a source of information to existing members. As of December 31, 2015 there were 469 members.

## Supervisory Committee

The Supervisory Committee's primary duty is to inspect the Credit Union's records for accuracy, its assets for security and its procedures for the proper handling and use of funds.

**Chairman Lee Smiley**, City of Durham  
**Ryan Draughn**, NCLM, City of Raleigh  
**Patty Gravinese**, Research Triangle Park  
**Emily Lucas**, Wake County  
**Michelle Price**, Town of Cary

## Loan Review Committee

**Chairman Tony King**, Town of Louisburg  
**Jim Baker\***, Chapel Hill  
**Nancy Held\***, Clayton  
**Pam Hurdle**, Town of Hertford  
**Dale Johnson\***, Raleigh  
**Caroline Lee**, City of Raleigh  
**Wilbert McAdoo\***, Hillsborough  
**Nancy Medlin**, Town of Clayton  
**Charles Murray\***, Louisburg  
**Cheryl Perry**, Town of Cary  
**Jean Stowers**, Town of Smithfield  
**Sam Tingler**, Town of Cary  
**Charles Weber\***, Olympia, WA  
**Mark Williams**, Town of Wake Forest

\* retired

# MEETING THE PACE OF FINANCIAL INNOVATION

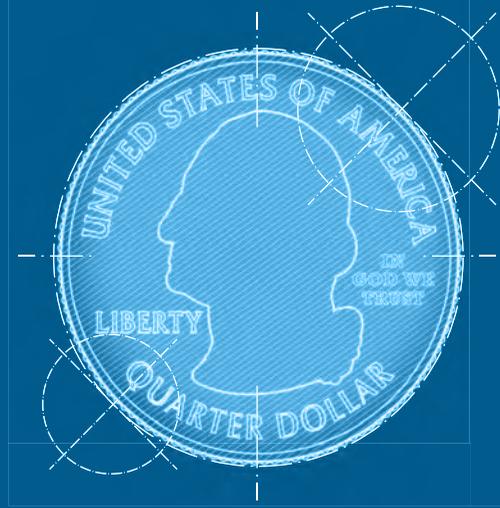
When member Eric Johnson started his career he was ready to conquer the world. First step: get a new car.

"It was 1978 and I remember going to the branch. I sat in front of the president of my hometown bank and asked for a car loan," explains Johnson, LGFCU's Vice President of Information Technology.

Like every bank customer during those early years, Johnson relied on the only way to conduct business: face-to-face in the local branch.

Today, the financial services terrain is different. You can still visit a branch, but you can also check your balance at an ATM, view your e-statements online or pay with your mobile phone instead of writing a check.

In effect, we're looking at a modified blueprint for financial services. We're taking those plans and exploring ways to innovate, adapt, and improve your financial life.



## SERVICE IN EVERY DIRECTION

Computers have ushered in a major shift in how consumers transact business today. They can conduct account transactions 24/7 and see results in real time.

"The computer generation opened a lot of doors for our members," recalls Mary Hunnicutt, LGFCU Advisory Council member, Albemarle Sound region. Between 1981 and 1997, Mary worked at a credit union in Atlanta — the peak of the personal computing era.

"I remember reading about a 'checkless society,'" says Mary, who works for Perquimans County government. "I thought, 'I'm not sure I believe it.' Now it's here. All we need is a little plastic card to buy what we want."

Change would come once again. The little plastic card has replaced cash as the preferred payment option. And just like cash, the debit card's widespread availability has become a target for thieves. Recognizing the threat, LGFCU added the new EMV (Europay, MasterCard and Visa®) smart chip to debit cards for enhanced security. Many countries around the world are already using this technology to help keep users' financial data safe.



Our lives have become more fast-paced and on the go. We know that online and mobile banking channels are an important tool for transactions like billpay or money transfers. So we improved our online and mobile experience.

In fact, billpay has become one of the top reasons online banking has taken off. According to a 2013 Federal Reserve Payments Study, online payments accounted for 61 percent of total payments nationwide in 2012 and are expected to continue to grow. Physical checks, in contrast, accounted for only 33 percent.

Now you can do even more with your device. By pairing your smart phone with your debit or credit card you create a mobile wallet. Then you can click or tap to securely pay for goods with mobile payment options like Android Pay, Apple Pay and Samsung Pay.

## NEW POINTS TO PLOT

The way institutions deliver products and services is not the same as they did yesterday. And we have every expectation tomorrow's banking plans will change too. In the next 30 years North Carolina's population is predicted to increase by some five million people — the size of South Carolina's population today!

A growing population often means more diverse financial needs of the membership. You should know that your Credit Union intentionally plans for the future. We anticipate what it will mean to provide essential financial services. One of the biggest influences on financial services of the future will be the evolution of technology.

We know technology can be an empowering resource for LGFCU members. New delivery channels and tools give members the ability to conduct financial transactions anytime, anywhere. Here are some of the trends we see taking place:

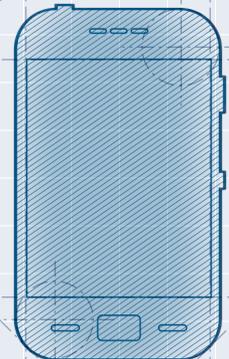
**FinTech** is an industry term for companies focused on technology as a delivery method for financial services. Admittedly, some have fancy new features. It's important, however, to exercise caution; take a close look under the hoods of these new companies. Make sure they have the same values you appreciate in your LGFCU.

**Peer-to-peer** digital lending platforms allow consumers to loan money directly to one another. This is an intriguing idea for consumers who want a more community feel to borrowing money. You already have that. When you borrow money from LGFCU, you are getting a loan from your fellow members. We are the original community-based peer-to-peer service provider.

**Money Management** is the buzzword for mobile apps and such to help you track your finances. There's no mystery behind the growth of these apps. Many companies make money by aggregating your financial information and selling the insights to advertisers. Compass by LGFCU is a money management tool that gives members a view of all their financial accounts in one useful place. You can even check your account with our app on the go.

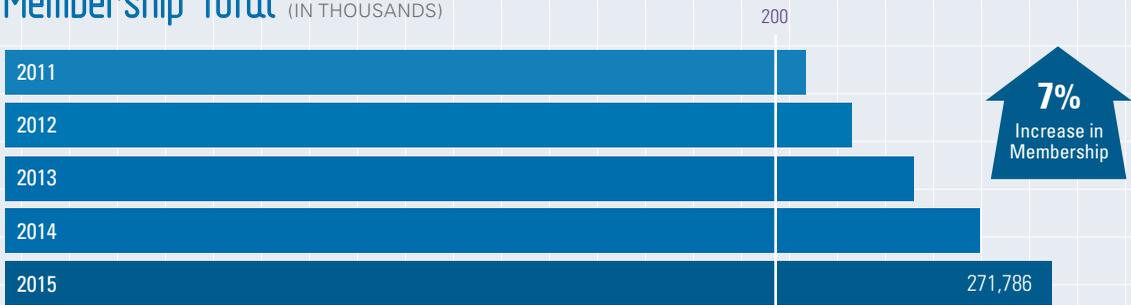
What's important to know is we don't sell your information and we don't have ulterior motives.

**We exist to serve you.**

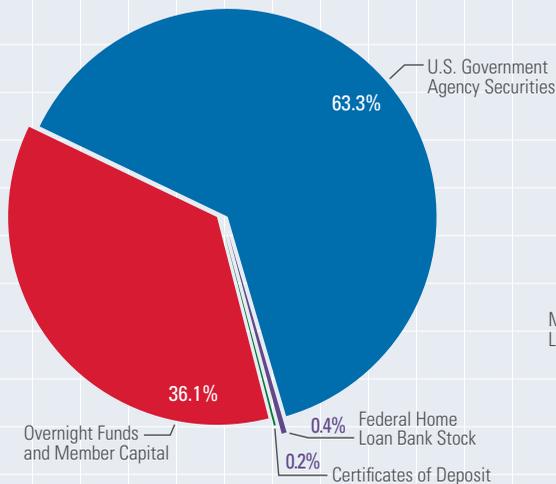


# Our Numbers

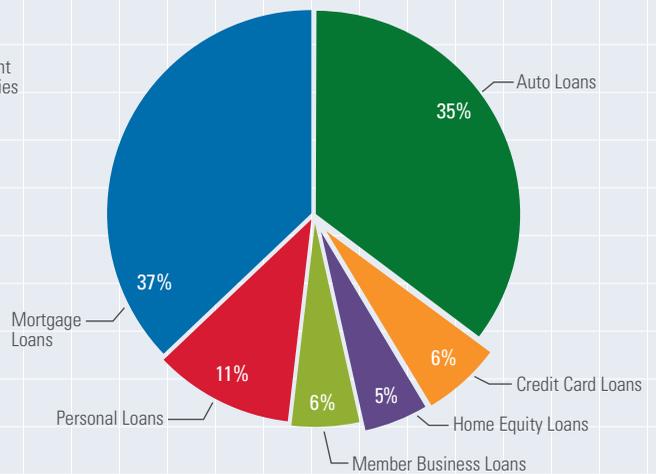
## Membership Total (IN THOUSANDS)



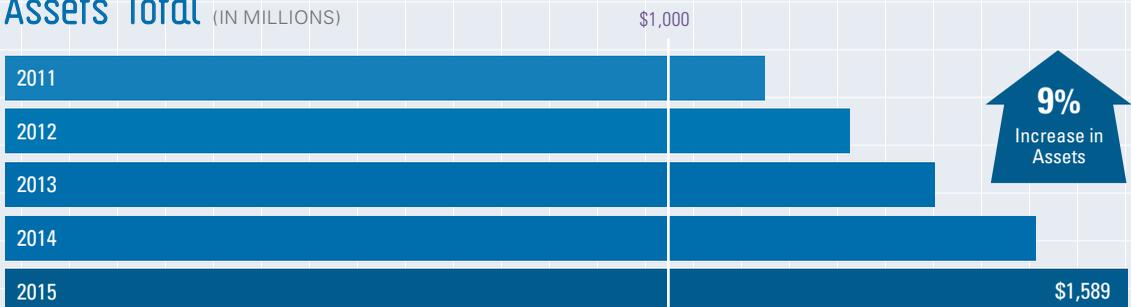
## 2015 Investment Portfolio Mix



## 2015 Loan Portfolio Mix



## Assets Total (IN MILLIONS)



## Statements of Financial Condition

(December 31, UNAUDITED)

Assets	2015	2014
Cash and Investments	\$343,333,764	\$358,610,660
Mortgage Loans	\$425,655,819	\$397,890,367
Personal Loans	\$126,410,828	\$100,970,843
Member Business Loans	\$61,216,750	\$49,727,747
Home Equity Loans	\$57,789,874	\$52,605,378
Auto Loans	\$403,968,705	\$364,591,012
Credit Card Loans	\$71,419,149	\$59,675,317
Allowance for Loan Losses	(\$7,621,824)	(\$7,347,860)
Net Loans	\$1,138,839,300	\$1,018,112,804
National Share Insurance	\$13,503,243	\$12,628,748
Other Assets	\$92,955,143	\$68,706,641
<b>Total Assets</b>	<b>\$1,588,631,450</b>	<b>\$1,458,058,853</b>
<b>Liabilities &amp; Equity</b>	<b>2015</b>	<b>2014</b>
Payables	\$11,718,872	\$5,435,646
Share Accounts	\$334,592,813	\$287,316,652
Share Draft Accounts	\$261,522,041	\$233,776,951
Money Market Accounts	\$407,678,155	\$381,394,687
Individual Retirement Accounts	\$165,824,597	\$157,785,962
Share Certificates	\$263,437,848	\$264,823,576
Total Deposits	\$1,433,055,454	\$1,325,097,828
<b>Total Reserves &amp; Undivided Earnings</b>	<b>\$143,857,125</b>	<b>\$127,525,379</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$1,588,631,450</b>	<b>\$1,458,058,853</b>

## Statements of Income

(December 31, UNAUDITED)

Operating Income	2015	2014
Investment Income	\$4,963,290	\$6,745,273
Mortgage Loans	\$16,530,321	\$16,411,882
Personal Loans	\$11,964,965	\$9,149,910
Home Equity Loans	\$2,806,919	\$2,633,062
Auto Loans	\$15,349,325	\$12,114,190
Credit Card Loans	\$5,929,802	\$4,429,415
Member Business Loans	\$1,736,468	\$1,416,279
<b>Total Loan Income</b>	<b>\$54,317,800</b>	<b>\$46,154,738</b>
Other Operating Income	\$30,014,878	\$28,345,000
<b>Total Income</b>	<b>\$89,295,968</b>	<b>\$81,245,011</b>
<b>Operating Expenses</b>	<b>2015</b>	<b>2014</b>
Operating Expenses	\$65,522,678	\$56,463,069
Interest on Borrowed Funds	\$0	\$4,438
Share Accounts	\$837,091	\$685,407
Share Draft Accounts	\$325,877	\$286,632
Money Market Accounts	\$1,384,104	\$1,304,227
Individual Retirement Accounts	\$1,738,079	\$1,635,956
Share Certificates	\$3,118,050	\$3,457,143
<b>Total Deposit Expense</b>	<b>\$7,403,202</b>	<b>\$7,369,365</b>
<b>Total Expenses</b>	<b>\$72,925,880</b>	<b>\$63,836,872</b>
<b>Net Operating Income</b>	<b>\$16,370,088</b>	<b>\$17,408,139</b>

## Nature of Operations

Local Government Federal Credit Union (the "Credit Union") is a not-for-profit cooperative that serves employees of local government units. The Credit Union is organized under the laws of the Federal Credit Union Act and is exempt, by statute, from federal and state income and sales taxes.

The Credit Union serves its members through the State Employees' Credit Union (SECU) network. This network includes more than 250 branches and nearly 1,100 ATMs in all of North Carolina's 100 counties. The Credit Union's primary source of revenue is its loan portfolio.

## Audited Financial Statements

The financial reports provided here have not been audited. The Credit Union's accounting firm, CliftonLarsonAllen LLP, has audited financial statements for the annual periods ending June 30, 2015 and June 30, 2014, which are posted on the Credit Union's website at [www.lgfcu.org](http://www.lgfcu.org). These financial statements include a more in-depth financial analysis and extensive footnote disclosures that provide additional information on the results of the Credit Union for the respective period ends as noted above.



*/ To improve the lives of our members /*



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