

INNOVATION | GROWTH | TRUST



2013 ANNUAL REPORT

Federally insured by NCUA

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is appointed by the Board of Directors to provide oversight to Credit Union operations, ensuring that the Credit Union complies with regulations governing federally chartered credit unions. The Committee meets monthly to identify risks and other issues facing the Credit Union, reviews the results of operations and annual inspections by regulators, and monitors any corrective action recommended during those examinations. A Committee Member also attends all Board of Directors meetings to ensure that the Board is capably and thoughtfully conducting the business of the members.

The Committee also engages a public accounting firm to audit the annual financial statements of the Credit Union. The audit includes a verification

of member data and the Supervisory Committee relies on Credit Union members to report discrepancies on account statements. For the year ended December 31, 2013, the Credit Union had no unresolved discrepancies in accounts. It also received an unqualified opinion on its financial statements by CPAs Turner, Warren, Hwang & Conrad. The Committee has concluded, based on the results of examinations and audits, that the Credit Union is safe and sound.

On behalf of the members of the Committee, we look forward to another year working with the Board, management, staff and our members to ensure the continued success of the Credit Union.

ED NELSON

Chairman of the Supervisory Committee



NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

The financial statements of the Long Beach City Employees Federal Credit Union (Credit Union) are a partial presentation of the financial position and results of operations of the Credit Union as of and for the year ended December 31, 2013 and are not a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Credit Union's audited financial statements for the year ended December 31, 2013 from which this selected information has been derived.

The Credit Union's full disclosure financial statements have been audited by Certified Public Accountants, Turner, Warren, Hwang & Conrad, for which an unqualified opinion was rendered on April 4, 2014.

The audited financial statements, including auditors' report and notes to the financial statements will be provided upon request.



STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2013

ASSETS

Cash and cash equivalents	\$ 39,969,338
Investments	
Securities available for sale	164,892,187
Securities held to maturity	18,176,000
Loans to members	76,204,162
Accrued interest receivable	527,012
Property and equipment	1,472,479
Share insurance deposit	2,881,067
Other assets	300,860
Total assets	<u>\$304,423,105</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Members' share accounts	\$278,663,971
Accrued share accounts and other liabilities	164,748
Total liabilities	<u>278,828,719</u>

Members' equity:

Regular reserve	20,000,000
Undivided earnings	9,206,385
Accumulated other comprehensive loss	(3,611,999)
Total members' equity	<u>25,594,386</u>
Total liabilities and members' equity	<u>\$304,423,105</u>

STATEMENT OF OPERATIONS

DECEMBER 31, 2013

INTEREST INCOME

Loans to members	\$ 4,029,002
Investments and interest bearing accounts	1,553,354
Total interest income	<u>5,582,356</u>

INTEREST EXPENSE

Members' share accounts	922,944
Total interest expense	<u>922,944</u>

NET INTEREST EXPENSE 4,659,412

PROVISION FOR LOAN LOSSES

(324,000)

NET INTEREST INCOME
AFTER PROVISION
FOR LOAN LOSSES 4,983,412

NON-INTEREST INCOME

Fees and charges	373,899
Other	8,100
Total non-interest income	<u>381,999</u>

NON-INTEREST EXPENSE

Compensation and benefits Operations	2,030,763
Occupancy	1,060,134
NCUSIF premium assessment	148,316
Total non-interest expense	<u>230,485</u>
Total non-interest expense	<u>3,469,698</u>

NET INCOME \$ 1,895,713

VOLUNTEERS & MANAGEMENT

BOARD OF DIRECTORS

Charles Parkin
President/Chairman

Terry Evans
First Vice Chairman

Malcolm Oscarson
Second Vice Chairman

John Kruse
Secretary/Treasurer

Beverly Bartlow-Nieves
Director

Tom Modica
Director

Amy Manning
Director

SUPERVISORY COMMITTEE

Ed Nelson
Chairman

Pat Burns
Vice Chairman

Linda Vu
Committee Member

Eugene Fong
Committee Member

John Keisler
Committee Member

MANAGEMENT

Kathleen O'Connell
Chief Executive Officer

Rahul Kachru
Chief Operating Officer

Vince DeVito
Manager, I.T.

Matt Johnson
Branch Manager

Mike Spray
Manager, I.T. and Security Systems

Sue Frederickson
Manager, Accounting and Human Resources

Kathy Stotts
Supervisor, Loan Operations

PRODUCTS & SERVICES

PRODUCTS

Competitive Savings Accounts

Free Checking Accounts

Debit Card

LOAN SERVICES

First Mortgages
(fixed and variable rates)

Second Mortgages

Second Homes

Income Property

Vacation Homes

Vehicle Loans

RV and Boat Loans

Recreational Equipment

Unsecured Loans

ADDITIONAL SERVICES

Payroll Deposit

Direct Deposit

Online Banking

Online Bill Pay

E-Statements

CHAIRMAN'S MESSAGE

It's been another great year for the Long Beach City Employees Federal Credit Union. We closed out the year having accomplished much, including the transformation of our branch to a state-of-the-art financial center. The reception from members has been very positive, but we know there are other improvements that will be necessary to build on the strength and success we've enjoyed for the past 77 years.

Many of the Board's strategic initiatives have focused on the implementation of technologies to more efficiently conduct business and reach our members. In 2011, we conducted a member survey and heard overwhelmingly good feedback. But members pleaded for the elimination of the \$0.25 debit card transaction fee, the installation of an after-hours ATM, and the extension of hours of operation. We've done all that and more, and are looking for even better ways to build member satisfaction.

In late 2013, the Board of Directors completed a leadership transition plan following the retirement of Chief Executive Officer Dennis Anderson. With the appointment of Kathleen O'Connell, CEO, and Rahul Kachru, Chief Operations Officer, the Board will embark on additional strategic initiatives designed to meet and exceed our members' expectations of their primary financial institution.

We are grateful to the thousands of employees, volunteers and members who have made the Credit Union everything it is today, and who have laid the foundation for what our Credit Union will be tomorrow.

With appreciation,

CHARLIE PARKIN
President/Chairman of the Board



TREASURER'S REPORT

I am pleased to report that for the 3rd straight year, the Credit Union realized net income and grew its capital. Net income of \$1.9 million contributed to the growth in net worth from 8.47% at December 31, 2012 to 9.61% at December 31, 2013.

The Credit Union's balance sheet is strong, reflecting total assets of \$304 million at December 31, 2013, down \$23 million from the prior year. The reduction results from a decline in deposits, some likely redirected into higher yield, but longer term, investment vehicles. While we recognize the fatigue our members are experiencing with regard to historically low dividends, our dividend rates remain competitive in the market and will be adjusted when economic indicators so signal.

With historically low rates, the Credit Union's average yield on its \$183 million investment portfolio remained disappointing at 0.67% in 2013. The yield on the Credit Union's \$77 million loan portfolio, however, remained a healthy 5%. The challenge, then, in the coming year will be to convert matured investments to loans. This will increase the Credit Union's return on assets and more

importantly, provide members with the credit they need and allow us to improve our dividend rates.

The Credit Union's expense ratio (operating expenses divided by average assets) remains one of the industry's lowest at 1.1%, versus a peer average of 3.7%. Management and the Board expect this measure of efficiency to remain stable despite increased investment in facilities and technology. In large part, the Credit Union's controllable expenses are driven by contracted services and management will continue to negotiate the most economical contracts possible.

While there remains uncertainty in the financial markets, the Credit Union is actively monitoring the actions of the Federal Reserve, the debt and equity markets, and other economic indicators. It is quite obvious that we are over the worst of the financial crisis and we look forward to a better outlook, greater stability and improved service to our loyal members in 2014.

JOHN KRUSE
Secretary/Treasurer





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