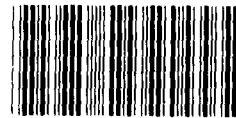


GAO

June 1986

# FINANCIAL AUDIT

## National Credit Union Administration's Financial Statements - FY 1984 and FY 1983



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**Comptroller General  
of the United States****B-215401**

June 16, 1986

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our reviews of the independent certified public accountants' audits of the fiscal year 1984 and 1983 financial statements of the National Credit Union Administration's Operating and Share Insurance funds and the Central Liquidity Facility.

In contracting for the audits, administration officials did not request the auditor of the Operating and Share Insurance funds to prepare reports on internal controls and compliance with laws and regulations, as required by generally accepted government auditing standards. Otherwise, we found nothing to indicate that the auditors' opinions on the financial statements of the funds and the Central Liquidity Facility are inappropriate or cannot be relied on. The auditors' opinions are unqualified, except for the 1983 opinion on the Share Insurance Fund.

The administration regulates and insures federal credit unions and insures state-chartered credit unions which apply and qualify for insurance. It administers the Operating and Share Insurance funds and the Central Liquidity Facility. The Operating Fund is a revolving fund that provides administrative services to the credit union system. The Share Insurance Fund is a revolving fund created to insure member accounts in all federal credit unions and qualifying state credit unions. The Central Liquidity Facility is a government corporation established to meet the cash flow needs of member credit unions. Additional information on the organization and purpose of the funds and the Central Liquidity Facility is provided in the notes to the financial statements, which are included in this report.

The administration contracts for an annual audit of the financial statements of the Operating and Share Insurance funds and the Central Liquidity Facility. Ernst & Whinney audited the Operating and Share Insurance funds, and Price Waterhouse audited the Central Liquidity Facility. Our reviews of the audits were made under provisions of the Federal Credit Union Act of 1934 (12 U.S.C. 1752a(f), 1789(b)(2), and 1795(h)), which authorize us to audit the administration's financial transactions. In addition, we are required to audit the financial transactions of the Share Insurance Fund and the Central Liquidity Facility consistent with the principles and procedures in 31 U.S.C. 9105. In order to fulfill our audit responsibilities, to avoid unnecessary duplication and

expense, and to make the most efficient use of our available resources, we reviewed the work and reports of the independent certified public accountants.

Our reviews were conducted in accordance with generally accepted government auditing standards (GAGAS). To determine the reasonableness of the auditors' work and the extent to which we could rely on it, we

- interviewed administration officials to obtain information about the entities' operations, including their systems of financial records and the preparation of their financial statements;
- interviewed the auditors to identify the audit approach and the methods used to control the quality of audit work;
- evaluated information about the qualifications and independence of the auditors;
- reviewed each entity's financial statements and the auditors' reports for compliance with generally accepted accounting principles and GAGAS; and
- reviewed the auditors' working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods used by the auditors, (3) whether there was a study and evaluation of each entity's internal controls, (4) whether the auditors tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditors' opinions on the financial statements.

## Ernst & Whinney's Reports

In the opinion of Ernst & Whinney, the Operating Fund's financial statements present fairly its financial position at September 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In the opinion of Ernst & Whinney, except for any adjustments that might have been necessary had the Share Insurance Fund accumulated the historical loss experience and other data necessary to restate the 1982 balance sheet to remove the cumulative effect of the accounting change from the 1983 statements of operations and fund balance, the Share Insurance Fund's financial statements present fairly its financial position at September 30, 1984 and 1983, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney's report provides a detailed explanation of its qualified opinion on the 1983 financial statements of the Share Insurance Fund. The report explains that the management of the fund changed its method of accounting for estimated losses from supervised credit unions to conform with generally accepted accounting principles during the year ended September 30, 1983. However, the fund's management considered it impracticable to restate the 1982 financial statements for the effect of this change, as required by generally accepted accounting principles. Therefore, the cumulative effect of the change was included in insured credit union losses for the year ended September 30, 1983.

Ernst & Whinney's opinion on the Share Insurance Fund's 1983 financial statements was also qualified because the fund had not yet accumulated sufficient historical loss experience data to support the estimated losses from supervised credit unions. As a result of its review of the 1984 year of additional loss experience, Ernst & Whinney determined that the 1983 estimate was reasonable and removed that qualification on the 1983 financial statements in its 1984 report.

In accordance with the administration's contract, Ernst & Whinney conducted its audits of the Operating and Share Insurance funds in accordance with generally accepted auditing standards rather than GAGAS. Both standards require a study and evaluation of internal accounting controls. However, GAGAS also require a report on the review of internal accounting controls and a report on the entity's compliance with laws and regulations that can materially affect its financial statements. At our request, the administration has agreed to contract for future audits of the funds in accordance with GAGAS, beginning with the fiscal year ending September 30, 1986.

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## Price Waterhouse's Report

In the opinion of Price Waterhouse, the Central Liquidity Facility's financial statements present fairly its financial position at September 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Also, Price Waterhouse prepared the additional reports required by GAGAS. The reports did not disclose any material internal control weaknesses or noncompliance with laws or regulations.

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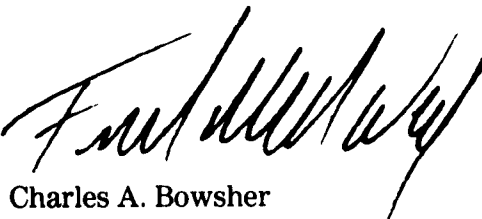
## Conclusions

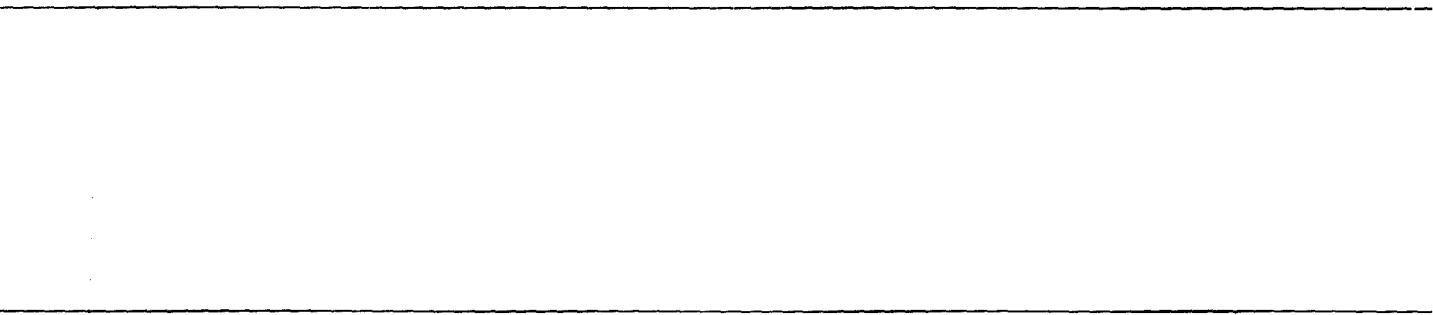
Except for the omission of reports on internal accounting controls and compliance with laws and regulations for the Operating and Share

Insurance funds, we found nothing to indicate that the independent auditors' opinions on the 1984 and 1983 financial statements of the funds and the Central Liquidity Facility are inappropriate or cannot be relied on. We believe that the financial statements, together with the independent auditors' opinions and our review of that work, constitute a dependable basis for the Congress' oversight of the administration's financial position.

The comparative financial statements of the Operating and Share Insurance funds and the Central Liquidity Facility, the auditors' opinions thereon, and the reports on internal accounting controls and compliance with laws and regulations for the Central Liquidity Facility are presented in this report.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the National Credit Union Administration.

*for*   
Charles A. Bowsher  
Comptroller General  
of the United States



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# Contents

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Operating Fund	8
Share Insurance Fund	14
Central Liquidity Facility	22

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## Abbreviations

GAGAS generally accepted government auditing standards





# Operating Fund

**Ernst & Whinney**

1225 Connecticut Avenue, N.W.  
Washington, D.C. 20036

202/862-6000

Board of the National Credit Union Administration  
Washington, D.C.

We have examined the balance sheet of the National Credit Union Administration - Operating Fund as of September 30, 1984 and 1983, and the related statements of revenue, expenses and change in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the National Credit Union Administration - Operating Fund at September 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Ernst & Whinney*

Washington, D.C.  
November 16, 1984

Operating Fund

BALANCE SHEET

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

	September 30,	
	1984	1983
<b>ASSETS</b>		
Cash	\$ 101,176	\$ 101,620
Investments, net of unamortized discount of \$39,986 and \$247,913--Note B	10,172,014	11,563,087
Employee advances receivable	41,175	273,655
Other accounts receivable	24,325	96,705
Due from NCUA - Insurance Fund--Note C	199,151	344,321
Furniture and equipment, net of accumulated depreciation of \$2,325,418 and \$1,956,505	1,035,141	1,394,762
Leasehold improvements, net of accumulated amortization of \$575,077 and \$428,029	160,133	307,181
Prepaid expenses	<u>336,538</u>	<u>119,171</u>
	<u>\$12,069,653</u>	<u>\$14,200,502</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Accounts payable	\$ 643,124	\$ 471,902
Accrued salaries and benefits	764,712	726,217
Accrued annual leave	1,645,097	1,596,238
Accrued employee travel	242,120	404,278
Advance conference registration fees	-285,700	-0-
Deferred revenue	<u>4,343,857</u>	<u>5,590,546</u>
	7,924,610	8,789,181
Fund balance	<u>4,145,043</u>	<u>5,411,321</u>
	<u>\$12,069,653</u>	<u>\$14,200,502</u>

See notes to financial statements.

Operating Fund

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN FUND BALANCE

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

	Year Ended September 30	
	1984	1983
<b>REVENUE</b>		
Operating fee revenue	\$18,421,677	\$22,335,498
Investment income	1,353,954	1,087,252
	<u>19,775,631</u>	<u>23,422,750</u>
<b>EXPENSES</b>		
Employee salaries and benefits	14,895,360	14,085,874
Employee travel	1,775,237	1,916,351
Rent, communications, and utilities	2,450,835	2,483,636
Other administrative	978,926	1,105,577
Contracted services	941,551	889,585
	<u>21,041,909</u>	<u>20,481,023</u>
EXCESS OF (EXPENSES OVER REVENUE) REVENUE OVER EXPENSES	(1,266,278)	2,941,727
Fund balance at beginning of year	<u>5,411,321</u>	<u>2,469,594</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><b>\$ 4,145,043</b></u>	<u><b>\$ 5,411,321</b></u>

See notes to financial statements.

Operating Fund

STATEMENT OF CHANGES IN FINANCIAL POSITION

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

	Year Ended September 30	
	1984	1983
<b>SOURCES OF CASH</b>		
Excess (expenses over revenue) revenue over expenses	\$(1,266,278)	\$ 2,941,727
Charges (credits) to net income not affecting cash:		
Depreciation of furniture and equipment	389,365	504,595
Amortization of leasehold improvements	147,048	142,950
Net loss on disposal of furniture and equipment	5,847	62,237
Increase in:		
Accounts payable	171,222	-0-
Advance fees	285,700	-0-
Accrued salaries and benefits	38,495	42,981
Accrued annual leave	48,859	27,569
Prepaid expenses	(217,367)	(63,782)
Decrease in:		
Accounts payable	-0-	(645,778)
Accrued employee travel	(162,158)	(123,364)
Deferred revenue	(1,246,689)	(288,831)
<b>TOTAL FROM OPERATIONS</b>	<u>(1,805,956)</u>	<u>2,600,304</u>
Decrease in:		
Investments	1,391,073	-0-
Due from NCUA - Insurance Fund	145,170	8,604,452
Employee advances receivable	232,480	170,402
Other accounts receivable	72,380	172,315
<b>TOTAL SOURCES</b>	<u>35,147</u>	<u>11,547,473</u>
<b>USES OF CASH</b>		
Increase in investments	-0-	11,563,087
Purchase of:		
Furniture and equipment	35,591	95,009
Leasehold improvements	-0-	51,310
	<u>35,591</u>	<u>11,709,406</u>
<b>DECREASE IN CASH</b>	<u>\$ (444)</u>	<u>\$ (161,933)</u>
Beginning cash balance	\$ 101,620	\$ 263,553
Decrease in cash	<u>(444)</u>	<u>(161,933)</u>
Ending cash balance	<u>\$ 101,176</u>	<u>\$ 101,620</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

September 30, 1984

NOTE A--ORGANIZATION AND PURPOSE

The National Credit Union Administration - Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Investments: The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed both as to principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount. Market value of investments was \$10,165,000 at September 30, 1984 and \$11,575,000 at September 30, 1983.

Depreciation and Amortization: Furniture and equipment and leasehold improvements are carried at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements. Depreciation and amortization expense for the years ended September 30, 1984 and 1983 was \$537,019 and \$647,545, respectively.

Deferred Operating Fee Revenue: The Fund assesses each Federally chartered credit union an annual fee based on the asset base as of the preceding December 31. Fees are recognized as revenue ratably during the calendar year in which they are assessed. Fees assessed but not yet recognized as revenue are classified as deferred revenue.

Income Taxes: The Fund is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

NOTE C--TRANSACTIONS WITH THE NCUA - INSURANCE FUND

Certain administrative services are provided by the Fund to the National Credit Union Share Insurance Fund (NCUSIF). The Fund charges NCUSIF for these services on a monthly basis based upon an estimate of actual usage. The cost of these services, which totaled \$8,173,657 and \$7,920,297 for the years ended September 30, 1984 and 1983, respectively are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

September 30, 1984

NOTE D--COMMITMENTS

The Fund leases certain office space under a rental agreement which expires in November 1994. The agreement which does not include renewal options, provides for annual rent adjustments based on increases in the consumer price index. The remaining office space is rented on a month-to-month basis under leases held by the General Services Administration. In addition, the Fund leases certain office equipment under operating leases. Rental charges for the years ended September 30, 1984 and 1983 amounted to \$1,833,053 and \$1,857,796, of which \$568,246 and \$575,917 was reimbursed by NCUSIF.

The future minimum lease payments, as of September 30, 1984, are as follows:

1985	\$ 1,010,835
1986	1,035,550
1987	1,035,550
1988	1,035,550
1989	1,035,550
Thereafter	<u>5,180,441</u>
	<u>\$10,333,476</u>

Based on the present allocation factor, NCUSIF will reimburse the Fund for approximately 31% of the future lease payments.

NOTE E--RETIREMENT PLAN

Employees of the Fund participate in the Civil Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the years ended September 30, 1984 and 1983 were \$1,314,626 and \$1,308,200, of which \$432,000 and \$450,000 was reimbursed by NCUSIF.

# Share Insurance Fund

## Ernst & Whinney

1225 Connecticut Avenue, N.W.  
Washington, D.C. 20036

202/862-6000

National Credit Union Administration Board  
Washington, D. C.

We have examined the balance sheets of the National Credit Union Share Insurance Fund (Fund) as of September 30, 1984 and 1983, and the related statements of operations and fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note C, prior to 1983, the Fund did not follow generally accepted accounting principles in providing for estimated losses relating to credit unions experiencing financial difficulties but not receiving cash assistance from the Fund, or any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance. At that time, the Fund considered it impracticable to accumulate the information necessary to make such provision. During the year ended September 30, 1983, the Fund changed to the generally accepted accounting method of providing for the aforementioned losses based on a case-by-case evaluation. In so doing, however, the Fund considered it impracticable to restate (as required under generally accepted accounting principles) the 1982 financial statements for this change. Consequently, the cumulative effect of the change as of October 1, 1982 (not separately determined) has been charged in the statement of operations and fund balance for the year ended September 30, 1983.

In our report dated November 30, 1983, our opinion on the 1983 financial statements was qualified as to the effects of such adjustments as might have been necessary had the Fund accumulated the historical loss experience data and other data necessary to support the estimated amounts of losses from supervised credit unions and from asset and merger guarantees. As a result of our review during the 1984 year of additional loss experience utilized as a basis for satisfying ourselves as to the reasonableness of these estimated losses and the related provision for insurance losses, our present opinion on the 1983 financial statements as presented herein, is different from that expressed in our previous report.

In our opinion, except for the effects of such adjustments as might have been necessary had the Fund accumulated the historical loss experience and other data necessary to restate the 1982 balance sheet to remove the cumulative effect of the aforementioned accounting change from the 1983 statement of operations and fund balance, the financial statements referred to above present fairly the financial position of the Fund at September 30, 1984 and 1983 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Washington, D. C.  
November 21, 1984



## Share Insurance Fund

## BALANCE SHEETS

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

	September 30	
	1984	1983
<b>ASSETS</b>		
Investments - Note E		
U. S. Government Securities	\$308,965,764	\$275,419,965
Other securities	-0-	1,182,911
	<u>308,965,764</u>	<u>276,602,876</u>
Advances to credit unions:		
Capital notes	33,211,507	28,225,744
Share deposits	1,617,261	3,581,222
Loans	1,584,352	31,080
	<u>36,413,120</u>	<u>31,838,046</u>
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets	16,327,630	4,539,195
Receivers certificate	2,354,781	2,724,675
Amount due from bond claims	148,000	993,048
Loans	1,188,505	941,462
	<u>20,018,916</u>	<u>9,198,380</u>
Cash	4,149	25,299
Accrued interest receivable	2,405,306	609,594
Other assets	311,209	618,158
	<u>\$368,118,464</u>	<u>\$318,892,353</u>
<b>LIABILITIES</b>		
Due to NCUA-Operating Fund - Note G	\$ 199,151	\$ 344,321
Amounts due to insured credit union shareholders	9,186,133	3,903,709
Deferred insurance premium income	15,640,432	13,247,606
Estimated losses from supervised credit unions - Note C	45,700,000	43,832,556
Estimated losses from asset and merger guarantees	10,800,000	22,158,799
Other liabilities	1,052,487	196,341
	<u>82,578,203</u>	<u>83,683,332</u>
<b>TOTAL LIABILITIES</b>	<u>82,578,203</u>	<u>83,683,332</u>
<b>FUND BALANCE</b>	<u>285,540,261</u>	<u>235,209,021</u>
	<u>\$368,118,464</u>	<u>\$318,892,353</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND FUND BALANCE  
NATIONAL CREDIT UNION SHARE INSURANCE FUND

	Year Ended September 30	
	1984	1983
<b>REVENUE</b>		
Insurance premiums:		
Regular	\$60,184,640	\$ 51,251,571
Special assessment	-0-	52,286,030
	<u>60,184,640</u>	<u>103,537,601</u>
Interest income	30,850,925	21,187,528
Other income	115,629	311,017
<b>TOTAL REVENUE</b>	<u>91,151,194</u>	<u>125,036,146</u>
<b>EXPENSES</b>		
Provision for insurance losses	28,068,219	55,060,356
Administrative expenses - Note H:		
Employee benefits and wages	7,096,076	6,859,207
Travel expense	1,305,236	1,086,231
Facilities expense	1,097,138	1,159,169
Contracted services	458,917	636,203
Miscellaneous	468,119	574,109
Total Administrative Expenses	<u>10,425,486</u>	<u>10,314,919</u>
Collection expenses	-0-	577,224
Loss on sale of investments	2,326,249	1,795,423
<b>TOTAL EXPENSES</b>	<u>40,819,954</u>	<u>67,747,922</u>
Excess of revenue over expenses	50,331,240	57,288,224
Fund balance at beginning of year	235,209,021	177,920,797
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$285,540,261</u>	<u>\$235,209,021</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION  
 NATIONAL CREDIT UNION SHARE INSURANCE FUND

	Year ended September 30	
	1984	1983
<b>SOURCES AND USES OF CASH AND INVESTMENTS</b>		
Excess of revenue over expenses	\$ 50,331,240	\$ 57,288,224
Charges (credits) to net income not affecting cash and investments:		
Provision for insurance losses	28,068,219	55,060,356
Payments relating to losses from supervised credit unions and asset and merger guarantees	(37,559,574)	(15,153,823)
Deferred insurance premium income	2,392,828	1,896,860
Accrued interest receivable	(1,795,712)	283,098
<b>INCREASE IN CASH AND INVESTMENTS FROM OPERATIONS</b>	<b>41,436,999</b>	<b>99,374,715</b>
Increase in:		
Advances to credit unions	(4,575,074)	(15,008,541)
Assets acquired from credit unions	(10,820,536)	-0-
Amounts due to insured credit union shareholders	5,282,424	-0-
Other liabilities	856,146	-0-
Decrease in:		
Assets acquired from credit unions	-0-	8,655,220
Other assets	306,949	3,070,079
Due to NCUA-Operating Fund	(145,170)	(8,604,452)
Mortgage payable	-0-	(2,275,294)
Amounts due to insured credit union shareholders	-0-	(5,704,607)
Other liabilities		(951,904)
	<u>(9,095,261)</u>	<u>(20,819,499)</u>
<b>INCREASE IN CASH AND INVESTMENTS</b>	<b>32,341,738</b>	<b>78,555,216</b>
Cash and investments at beginning of year	276,628,175	198,072,959
<b>CASH AND INVESTMENTS AT END OF YEAR</b>	<b><u>\$308,969,913</u></b>	<b><u>\$276,628,175</u></b>
Detail of cash and investments at end of year:		
Cash	\$ 4,149	\$ 25,299
Investments	308,965,764	276,602,876
	<u>\$308,969,913</u>	<u>\$276,628,175</u>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

September 30, 1984

**NOTE A - ORGANIZATION AND PURPOSE**

The National Credit Union Share Insurance Fund (Fund) was created by Public Law 91-468 (Title II of the Federal Credit Union Act) which was amended in 1984 by Public Law 98-369 as discussed in Note D. The Fund was established as a revolving fund in the Treasury of the United States under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder.

NCUA exercises direct supervisory authority over Federal credit unions and coordinates any required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. These credit unions are required to report certain financial and statistical information to NCUA on a semiannual basis. Federal credit unions are subject to annual examination by NCUA. State supervisory authorities provide NCUA with examination reports on state-chartered credit unions. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctible. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined to be infeasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, the credit union is liquidated.

In the first form of special assistance, waivers of statutory reserve requirements, the credit union is permitted to cease making additions to its regular reserve, and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not considered practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are at times guaranteed to third-party purchasers by the Fund.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Investments: Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Advances to Credit Unions: The Fund provides cash assistance in the form of capital notes, share deposits, and loans to certain credit unions to assist them in continuing operations. Prior to October 1, 1982, the allowance for estimated losses from supervised credit unions was limited to the amount of cash assistance outstanding. As discussed below, effective October 1, 1982, the Fund began providing for total estimated losses from supervised credit unions.

Assets Acquired from Credit Union: The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. In addition, to assist in the merger of credit unions, the Fund may purchase certain credit union assets. Such assets acquired are recorded at their estimated net realizable value.

Deferred Insurance Premium Income: The Fund assesses each insured credit union a regular annual premium of 1/12 of 1 percent of member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31 of the preceding year. Regular annual premiums are recognized as income ratably during the calendar year in which they are assessed. Regular annual premiums assessed but not yet recognized as income are classified as deferred income.

Under certain conditions, the Fund has been permitted to assess an additional premium, which annually could not exceed the regular annual premium. These special assessments were recognized as income in the fiscal year in which they were assessed. A special assessment of 1/12 of 1 percent was charged in 1983. None was charged in 1984. As described in Note D the Fund will no longer be permitted to assess an additional premium.

Estimated Losses from Supervised Credit Unions: Effective October 1, 1982, the Fund began providing for estimated losses from credit unions identified through the supervisory and examination process as experiencing financial difficulty but not yet liquidated or merged. Credit unions experiencing financial difficulty are classified by the Fund as "weak" or "unsatisfactory." Loss estimates are determined by management based on a case-by-case evaluation.

Prior to 1982, the Fund considered it impracticable to accumulate the necessary information and did not attempt to estimate potential losses from supervised credit unions experiencing financial difficulties but not receiving cash assistance or to the extent that any estimated loss would exceed the amount of outstanding cash assistance. Generally accepted accounting principles require that the Fund estimate and provide for the losses relating to these items.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**NATIONAL CREDIT UNION SHARE INSURANCE FUND**

**Estimated Losses from Asset and Merger Guarantees:** Estimated losses from asset (primarily loan) guarantees made to third-party purchasers or made to credit unions to facilitate mergers are determined by management based on a case-by-case evaluation. Guarantees outstanding at September 30, 1984 and 1983 were \$24 million and \$70 million, respectively for which estimated losses of \$10,800,000 and \$22,158,799, respectively, had been provided.

**Provision for Insurance Losses:** Provision for insurance losses includes amounts relating to estimated losses from supervised credit unions and to estimated losses on asset and merger guarantees.

**Reclassifications:** Certain 1983 amounts have been reclassified for comparative purposes.

**NOTE C - ESTIMATED LOSSES FROM SUPERVISED CREDIT UNIONS**

As discussed in Note B, effective October 1, 1982, the Fund changed its method of accounting for estimated losses from supervised credit unions. This change to a method of providing for such losses in accordance with generally accepted accounting principles requires consistent application through restatement of the prior years' financial statements. However, since the Fund considered it impracticable to determine the effect on the 1982 and the prior years' financial statements, the cumulative effect of the change has been included in insured credit union losses for the year ended September 30, 1983.

**NOTE D - FUND CAPITALIZATION**

Subsequent to September 30, 1984, the NCUA Board adopted final rules implementing Title VIII of Public Law 98-369, which provides for the capitalization of the Fund through the deposit by each insured credit union of an amount equal to 1 percent of its insured shares. This deposit will be returned to the insured credit union in the event that its insurance coverage is terminated, insurance coverage is obtained from another source, or the operations of the Fund are transferred from the NCUA Board. The aggregate deposit will be carried on the balance sheet as a separate component of fund balance. In addition, the law changed the basis for assessing the regular annual premium to 1/12 of 1 percent of insured member share deposits outstanding as of December 31 of the preceding year. The Fund will no longer be permitted to assess an additional premium.

The law requires that upon receipt of the 1 percent deposit, the total fund balance must be maintained at a normal operating level to be determined by the NCUA Board. The NCUA Board has determined this level to be 1.3 percent of insured shares. It is anticipated that insured credit unions will remit their 1 percent deposit during January, 1985. Based on the present fund balance, the NCUA Board has resolved to waive the 1985 share insurance premium.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

## NATIONAL CREDIT UNION SHARE INSURANCE FUND

## NOTE E - INVESTMENTS

Investments consisted of the following at September 30:

	<u>1984</u>	<u>1983</u>
U. S. Government Securities		
U. S. Treasury bills	\$229,158,339	\$245,343,493
U. S. Treasury notes	79,807,425	15,880,842
U. S. Treasury bonds	-0-	9,565,017
Other Government Securities	-0-	4,630,613
	<u>308,965,764</u>	<u>275,419,965</u>
Israel notes, 9.75% due 1994	-0-	1,182,911
Total Cost	<u>\$308,965,764</u>	<u>\$276,602,876</u>
 Total Market Value	 <u>\$308,975,000</u>	 <u>\$273,190,000</u>

## NOTE F - AVAILABLE CREDIT

The Fund is authorized under the Federal Credit Union Act to borrow from the Treasury of the United States upon authorization by the NCUA Board to a maximum of \$100,000,000 outstanding at any one time. The Central Liquidity Facility of NCUA is authorized to make advances to the Fund under such terms and conditions as may be established by the NCUA Board. No amounts were borrowed from these sources during 1984 or 1983.

## NOTE G - TRANSACTIONS WITH NCUA-OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. NCUA charges the Fund for these services on a monthly basis based on an estimate of actual usage. The cost of services provided by the NCUA Operating Fund was \$8,173,657 and \$7,920,297 for 1984 and 1983, respectively.

## NOTE H - RETIREMENT PLAN

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined contribution retirement plan. Contributions to the Plan are based on a percentage of employees' gross pay and were \$432,000 and \$425,000 for 1984 and 1983, respectively.

# Central Liquidity Facility



1801 K STREET NW  
WASHINGTON, DC 20006  
202 296 0800

October 23, 1984

To the Board of the National Credit  
Union Administration and  
the National Credit Union Administration  
Central Liquidity Facility

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and, for the 1984 examination, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*



NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS

(Expressed in thousands of dollars)  
(Notes 1 and 2)

	<u>September 30,</u>	
	<u>1984</u>	<u>1983</u>
<u>ASSETS</u>		
Cash	\$ 1	\$ 23
Income tax refund receivable (Note 10)	1,600	
Investments (Note 5)	254,646	96,742
Loans to members (Notes 2 and 4)	269,812	44,800
Accrued interest receivable	11,003	3,061
Other assets	3	61
Total assets	<u>\$537,065</u>	<u>\$144,687</u>
<u>LIABILITIES AND EQUITY</u>		
<u>Liabilities</u>		
Notes payable (Note 6)	\$268,895	\$ 44,200
Member deposits (Note 7)	14,462	10,681
Accrued interest payable	3,797	593
Accounts payable and other liabilities	59	105
Federal income tax payable (Note 10)		1,112
Total liabilities	<u>287,213</u>	<u>56,691</u>
<u>Equity</u>		
Capital stock - required (Notes 7 and 8)	245,829	86,373
Retained earnings	4,023	1,623
Total equity	<u>249,852</u>	<u>87,996</u>
<u>Commitments</u>		
(Notes 4, 8 and 12)		
Total liabilities and equity	<u>\$537,065</u>	<u>\$144,687</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in thousands of dollars)

(Notes 1 and 2)

	<u>Year ended September 30,</u>	
	<u>1984</u>	<u>1983</u>
<b>Income</b>		
Interest on loans	\$ 8,849	\$ 8,833
Income from investments	21,060	9,071
Other	197	
<b>Total income</b>	<u>30,106</u>	<u>17,904</u>
<b>Expenses</b>		
Personnel services	222	294
Personnel benefits	20	45
Employee travel	8	17
Rent, communications and utilities	54	50
Printing and reproduction	7	14
Other services	132	185
Supplies and materials	2	4
<b>Total operating expenses</b>	<u>445</u>	<u>609</u>
<b>Interest</b>		
Federal Financing Bank	8,565	7,836
Member deposits (Note 7)	854	1,048
Provision for loan losses (Note 2)		(1,149)
<b>Total expenses</b>	<u>9,864</u>	<u>8,344</u>
Income before income tax	20,242	9,560
Income tax (benefit) provision (Note 10)	(1,285)	1,189
<b>Net income</b>	<u>21,527</u>	<u>8,371</u>
Dividends to members (Note 7)	19,127	6,957
<b>Addition to retained earnings</b>	<u>2,400</u>	<u>1,414</u>
Retained earnings at beginning of period	1,623	209
<b>Retained earnings at end of period</b>	<u>\$ 4,023</u>	<u>\$ 1,623</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
STATEMENTS OF CHANGES IN FINANCIAL POSITION  
 (Expressed in thousands of dollars)

	<u>Year ended September 30,</u>	
	<u>1984</u>	<u>1983</u>
Cash and investments were provided by:		
Operations		
Net income	\$ 21,527	\$ 8,371
(Deduct) provision for loan losses not affecting cash and investments during the year		(1,149)
	<u>21,527</u>	<u>7,222</u>
Issuance of required capital stock	177,999	18,682
Addition to member deposits	20,362	22,743
Borrowings	561,145	461,541
Loan repayments	223,708	280,125
Total cash and investments provided	<u>1,004,741</u>	<u>790,313</u>
Cash and investments were used for:		
Redemption of required capital stock	18,543	4,448
Withdrawal of member deposits	16,581	28,906
Dividends	19,127	6,957
Borrowing repayments	336,450	547,407
Loan disbursements	448,720	194,446
Other, net	7,438	674
Total cash and investments used	<u>846,859</u>	<u>782,838</u>
Increase in cash and investments	<u>\$ 157,882</u>	<u>\$ 7,475</u>

NATIONAL CREDIT UNION ADMINISTRATION  
CENTRAL LIQUIDITY FACILITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 1984 AND 1983

Note 1 - Organization and Purpose

The National Credit Union Administration Central Liquidity Facility ("the CLF") was created by the National Credit Union Central Liquidity Facility Act ("the Act"). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. It exists within the National Credit Union Administration and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions.

Note 2 - Significant Accounting Policies

Basis of Accounting

The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses

Loans to members are made on both a short-term and long-term basis. The CLF obtains a security interest in the assets of the borrower on all loans.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

- 2 -

At September 30, 1983 no reserve was considered necessary for loan losses which resulted in a \$1,149,000 credit to income due to the reversal of the cumulative allowance for loan losses established in prior years. No allowance for loan losses was considered necessary at September 30, 1984.

Investments

The CLF will invest in member's share accounts (see Notes 5 and 8). All of the CLF's other investments are short-term with no maturities in excess of one year. These investments are recorded at cost, which approximates market value.

Note 3 - Government Regulations

The CLF was created by the Act and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of \$600 million or twelve times equity and capital subscriptions on-call. At September 30, 1984 and 1983, the CLF was in compliance with these limitations.

Note 4 - Loans to Members

During 1984 loans were made only to member credit unions. These loans carry interest rates which ranged from 10.615% to 12.50% at September 30, 1984 (9.95% to 11.03% at September 30, 1983). The loans outstanding at September 30, 1984 are scheduled to mature during fiscal year 1985 (the loans outstanding at September 30, 1983 matured during fiscal year 1984). Included in loans to members at September 30, 1984 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount of \$257,795,000.

- 3 -

The CLF has also provided members with extended loan commitments through 1987. At September 30, 1984 there were approximately \$12,000,000 in outstanding commitments.

Note 5 - Investments

Funds not currently required for operations were invested as follows (dollars in thousands):

	<u>September 30,</u>	
	<u>1984</u>	<u>1983</u>
U.S. Central (see Note 8)		
Redeposits	\$190,000	
Share accounts	9,646	\$ 8,242
Time deposits	55,000	88,000
Overnight securities		500
	<u>\$254,646</u>	<u>\$96,742</u>

Note 6 - Notes Payable

Substantially all of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 10.365% to 11.325% at September 30, 1984 (9.6% to 10.0% at September 30, 1983). Interest is generally payable upon maturity. The notes outstanding at September 30, 1984 are scheduled to mature during fiscal year 1985 (the notes outstanding at September 30, 1983 matured during fiscal year 1984).

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are

- 4 -

provided in advance by Congressional Appropriation Acts. On December 23, 1981 President Reagan signed PL 97-101 which provided \$100 million of permanent indefinite borrowing authority which may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions.

Note 7 - Capital Stock and Member Deposits

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which amount is required to be remitted to the CLF. In both cases the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

- 5 -

Note 8 - Membership Increase

During the year ended September 30, 1984, the CLF accepted a membership request from U.S. Central Corporate Credit Union (USC) on behalf of 29 of its corporate credit union members. As a result the membership of the CLF and required capital stock increased by \$154,000,000 due to the membership increase. At September 30, 1984, \$214,427,000 of total required capital stock was subscribed by USC on behalf of its member credit unions.

In addition, by accepting this membership request, the CLF is initially committed to reinvest all but \$50,000,000 of its total share capital in USC share accounts at near market rates of interest. At September 30, 1984, \$199,646,000 was invested in USC share accounts at approximately an 11% yield.

Note 9 - Services Provided by the National Credit Union Administration

The National Credit Union Administration provides the CLF with miscellaneous services and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for most of these items. Certain services, principally data processing services, are provided to the CLF at no cost.

Total reimbursements amounted to approximately \$296,000 as of September 30, 1984 (\$389,000 as of September 30, 1983).



- 6 -

Note 10 - Income Taxes

The CLF was obligated to pay income taxes during 1983 and prior years. Accordingly, a provision for income taxes was recorded by a charge to income in the financial statements.

On July 18, 1984 the Deficit Reduction Act of 1984 was signed into law making all operations of the CLF tax exempt retroactive to October 1, 1979. The CLF has filed for a refund of all taxes, penalties and interest paid to the Internal Revenue Service ("the IRS") since inception, amounting to approximately \$1,403,000. The refund amount, along with approximately \$197,000 of anticipated interest due from the IRS, has been recorded as a receivable at September 30, 1984.

The CLF has recorded an income tax benefit for the year ended September 30, 1984 in the amount of approximately \$1,285,000. This benefit represents the reversal of all previously recorded income tax provisions.

Note 11 - Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan. The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the CLF. Pension expense for the years ended September 30, 1984 and 1983 was approximately \$12,400 and \$20,300, respectively.

Note 12 - Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. Under the terms of this lease, the CLF and the

- 7 -

National Credit Union Administration are jointly and severally liable for future minimum lease payments as of September 30, 1984, as follows (dollars in thousands):

<u>Year ended September 30,</u>	
1985	\$ 964
1986	980
1987	980
1988	980
1989	980
Thereafter	6,148
	<u>\$11,032</u>

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1984 and 1983 was \$26,900.

October 23, 1984

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility

We have examined the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) for the year ended September 30, 1984 and have issued our report thereon dated October 23, 1984. As part of our examination, we made a study and evaluation of the CLF's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. Our study and evaluation of the system of internal accounting control included all of the CLF's significant control systems:

- o Investment placements and maturities
- o Loan grants and collections
- o Notes payable, borrowings and repayments
- o Capital and liquidity reserve additions and withdrawals

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

- 2 -

The management of the CLF is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the CLF taken as a whole. However, our study and evaluation disclosed no condition which we believe to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose.

*Price Waterhouse*

October 23, 1984

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility

We have examined the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) for the year ended September 30, 1984 and have issued our report thereon dated October 23, 1984. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. It included tests for compliance with material terms and conditions of Title III of the Federal Credit Union Act, as amended to January 12, 1983 and Part 725 of the Rules and Regulations of the National Credit Union Administration Board of Directors issued July 1980, which we believe have financial significance to the CLF.

Our testing was performed on the following significant transaction systems:

- o Investment placements and maturities
- o Loan grants and collections
- o Notes payable, borrowings and repayments
- o Capital and liquidity reserve additions and withdrawals

- 2 -

Based on our examination, we found that for the items tested, the CLF complied with the material terms and conditions of the Federal Credit Union Act and the applicable rules and regulations indicated above. Nothing came to our attention which would lead us to believe that transactions not tested did not comply with the terms and conditions of the Federal Credit Union Act and the applicable rules and regulations in all material respects.

This letter does not comprehend matters of a legal nature or matters which do not relate to the financial and accounting functions of the CLF. Furthermore, this report is intended solely for the use of management and should not be used for any other purpose.

*Price Waterhouse*

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