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Examination Of Financial Statements  
Of The Federal Deposit  
Insurance Corporation  
For The Year Ended June 30, 1970  
Limited By Agency Restrictions On  
Access To Bank Examination Records

B-114831

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

**092547**

DEC. 29, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

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Dear Mr. Wille:

The General Accounting Office has made an examination of the financial statements of the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1970, pursuant to subsection 17(b) of the Federal Deposit Insurance Act (12 U.S.C. 1827).

As in prior years, we could not fully discharge our audit responsibility under the Federal Deposit Insurance Act because officials of the Corporation did not give us unrestricted access to certain reports and related documentation concerning bank examinations, except for closed banks, that we considered to be indispensable to a proper examination of the Corporation's financial statements. Since we were prevented from examining all the records that we considered pertinent to the audit, we are unable to express an overall opinion on the Corporation's financial statements.

At June 30, 1970, 13,818 banks were insured by the Corporation. The Corporation determined that, of these 13,818 banks, 244 were in the problem category and estimated that they had insured deposits of about \$3,346 million. (See appendix.)

During fiscal year 1970, seven insured banks failed. The Corporation estimated that its insurance indemnity payments resulting from these failures would total about \$27,752,000 and that the losses ultimately sustained on these payments would be \$6,000,000. Recognition has been given to these estimates in the Corporation's financial statements.

Our audit of the Federal Deposit Insurance Corporation consisted principally of an examination of its statement of financial condition as of June 30, 1970, and of the related statements of income and deposit insurance fund, sources and application of funds for the fiscal year then ended, and analysis of the deposit insurance fund from its inception. Because of the restrictions imposed by the Corporation's officials on our access to records, we could not (1) ascertain whether the bank examinations were of sufficient scope and could be relied upon to identify all banks that should

B-114831

have been classified as problem banks and (2) evaluate the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

With the foregoing exception concerning review of bank examination reports and related documentation, our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control and the work performed by the Corporation's internal auditors.

The financial statements accompanying this report were prepared by the Corporation. These financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks.

We cannot express an overall opinion on the accompanying financial statements for fiscal year 1970 because we did not have unrestricted access to reports on bank examinations and related documentation and we therefore could not evaluate the significance of any possible adverse effect of problem banks on the financial condition of the Corporation. In our opinion, except for the foregoing comments as to the estimated liability relating to problem conditions existing in insured banks, the individual amounts shown in the financial statements are fairly stated as of June 30, 1970, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sincerely yours,



Comptroller General  
of the United States

The Honorable Frank Wille  
Chairman, Board of Directors  
Federal Deposit Insurance Corporation

C o n t e n t s

	<u>Page</u>	
FINANCIAL STATEMENTS		
SCHEDULE		
1	Comparative statement of financial condition, June 30, 1970, and June 30, 1969	2
2	Comparative statement of income and deposit insurance fund, fiscal years ended June 30, 1970, and June 30, 1969	3
3	Sources and application of funds, fiscal year ended June 30, 1970	4
4	Analysis of deposit insurance fund from inception to June 30, 1970	5
	Notes to financial statements	6
APPENDIX		
	Summary of the number of problem banks and their insured deposits, June 30, 1970, and June 30, 1969	8

FINANCIAL STATEMENTS

FEDERAL DEPOSIT INSURANCE CORPORATION  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
 JUNE 30, 1970, AND JUNE 30, 1969

ASSETS	June 30, 1970	June 30, 1969
CASH	\$ 7,277,964	\$ 6,546,959
U S GOVERNMENT OBLIGATIONS		
Securities at amortized cost	\$4,453,946,801 <sup>a</sup>	\$4,132,850,953 <sup>b</sup>
Accrued interest receivable	<u>52,530,692</u>	<u>48,493,511</u>
	4,506,477,493	4,181,344,464
ASSETS ACQUIRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS		
Special assistance to insured banks	8,676,257	10,000,000
Subrogated claims of depositors against closed insured banks	30,778,842	22,287,830
Net insured balances of depositors in closed insured banks, to be subrogated when paid--see related liability	1,625,450	533,245
Equity in assets acquired under agreements with insured banks	13,250,771	11,806,671
Assets purchased outright	<u>15,508</u>	<u>14,595</u>
	54,346,828	44,642,341
Less reserve for losses	<u>28,832,794</u>	<u>25,409,790</u>
	25,514,034	19,232,551
MISCELLANEOUS ASSETS	391,760	318,266
LAND AND OFFICE BUILDING, less depreciation on building	7,432,097	7,567,301
FURNITURE, FIXTURES AND EQUIPMENT	<u>1</u>	<u>1</u>
Total assets	<u>\$4,547,093,349</u>	<u>\$4,215,009,542</u>
LIABILITIES AND DEPOSIT INSURANCE FUND (note 1)		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 2,635,593	\$ 1,687,272
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	873,296	634,699
ACCRUED ANNUAL LEAVE OF EMPLOYEES	2,466,172	1,936,524
DUE INSURED BANKS		
Net assessment income credits (note 2)		
Available July 1, 1970, and July 1, 1969, respectively	\$ 220,230,665	\$ 202,136,109
Available July 1, 1971, and July 1, 1970, respectively (estimated)	106,124,803	110,813,242
Other	<u>94,043</u>	<u>69,578</u>
	326,449,511	313,018,929
NET INSURED BALANCES OF DEPOSITORS IN CLOSED INSURED BANKS--See related asset	<u>1,625,450</u>	<u>533,245</u>
Total liabilities	334,050,022	317,810,669
DEPOSIT INSURANCE FUND, net income accumulated since inception (schedule 2 and note 3)	<u>4,213,043,327</u>	<u>3,897,198,873</u>
Total liabilities and deposit insurance fund	<u>\$4,547,093,349</u>	<u>\$4,215,009,542</u>

<sup>a</sup>At June 30, 1970--face value \$4,480,946,000, cost \$4,439,527,970, market value \$3,940,076,936

<sup>b</sup>At June 30, 1969--face value \$4,153,287,000, cost \$4,121,393,360, market value \$3,702,778,497

The notes following schedule 4 are an integral part of this statement

The opinion of the General Accounting Office on these financial statements is set forth in the transmittal letter

FEDERAL DEPOSIT INSURANCE CORPORATION  
 COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND  
 FISCAL YEARS ENDED JUNE 30, 1970, AND JUNE 30, 1969

	<u>Fiscal year 1970</u>		<u>Fiscal year 1969</u>	
<b>INCOME</b>				
Deposit insurance assessments (note 2)-				
Assessments earned during the year	\$366,019,786		\$350,280,555	
Less net assessment income credits to insured banks--estimated	<u>215,515,945</u>	\$ 150,503,841	<u>213,907,290</u>	\$ 136,373,265
Adjustments of assessments earned in prior years		<u>146,232</u>		<u>46,519</u>
		150,650,073		136,419,784
Net income from U S Government securities		207,356,387		177,130,462
Other income		<u>629,587</u>		<u>1,786</u>
Total income		<u>358,636,047</u>		<u>313,552,032</u>
<b>EXPENSES AND LOSSES</b>				
Administrative and operating expenses				
Salaries and wages	25,256,947		19,765,021	
Civil Service retirement fund and FICA payments	1,650,819		1,260,928	
Travel expenses	6,336,886		5,102,321	
Office rentals, communications and other expenses	<u>5,437,300</u>	38,681,952	<u>4,356,618</u>	30,484,888
Provisions for insurance losses				
Applicable to banks assisted in the current fiscal year	6,000,000		2,701,000	
Adjustments applicable to banks assisted in prior years	<u>-2,521,206</u>	3,478,794	<u>-4,248,209</u>	-1,547,209
Nonrecoverable insurance expenses incurred to protect depositors--net		<u>630,847</u>		<u>478,250</u>
Total expenses and losses		<u>42,791,593</u>		<u>29,415,929</u>
NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR		315,844,454		284,136,103
DEPOSIT INSURANCE FUND, at the beginning of the year		<u>3,897,198,873</u>		<u>3,613,062,770</u>
DEPOSIT INSURANCE FUND, at the end of the year, net income accumulated since inception (schedule 4 and note 3)		<u>\$4,213,043,327</u>		<u>\$3,897,198,873</u>

The notes following schedule 4 are an integral part of this statement

The opinion of the General Accounting Office on these financial statements is set forth in the transmittal letter

## FEDERAL DEPOSIT INSURANCE CORPORATION

## SOURCES AND APPLICATION OF FUNDS

FISCAL YEAR ENDED JUNE 30, 1970

FUNDS PROVIDED BY	
Net deposit insurance assessments	\$150,650,073
Income from U.S. Government securities, less amortized net discounts	202,108,618
Maturities and sales of U.S. Government securities	383,205,000
Collections on assets acquired in receiver- ship and deposit assumption transactions	19,883,928
Increase in assessment credits due insured banks	<u>13,430,582</u>
Total funds provided	<u>\$769,278,201</u>
FUNDS APPLIED TO.	
Administrative, operating, and insurance expenses, less miscellaneous credits	\$ 38,018,360
Acquisition of assets in receivership and deposit assumption transactions	28,552,000
Purchase of U.S. Government securities	699,053,079
Net changes in other assets and liabilities	<u>3,654,762</u>
Total funds applied	<u>\$769,278,201</u>

The opinion of the General Accounting Office on these financial statements is set forth in the transmittal letter.

## FEDERAL DEPOSIT INSURANCE CORPORATION

## ANALYSIS OF DEPOSIT INSURANCE FUND

FROM INCEPTION TO JUNE 30, 1970

## INCOME.

Insurance assessments	\$5,264,613,323
Less net assessment income credits	<u>2,498,522,455</u>
Net insurance assessments	2,766,090,868
Income from U.S. Government securities	1,937,803,858
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>9,981,750</u>
Total income	<u>4,713,876,476</u>

## EXPENSES AND LOSSES-

Administrative and operating expenses	361,122,668
Deposit insurance losses and expenses	59,148,169
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562,312</u>
Total expenses and losses	<u>500,833,149</u>

DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED  
SINCE INCEPTION (note 3)

\$4,213,043,327

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements is set forth in the transmittal letter.

NOTES TO FINANCIAL STATEMENTS

1. Capital stock was retired by payments to the United States Treasury in 1947 and 1948.
2. Represents the portion of the Corporation's net assessment income for the preceding calendar year and an estimated portion of such income for the first half of the current calendar year which, pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1817), shall be credited against assessments becoming due from insured banks, after the end of the current fiscal year and after the end of the following fiscal year, respectively.
3. The deposit insurance fund represents the accumulated net income of the Corporation and is available for insuring deposits and payment of expenses. The borrowing authority of \$3 billion from the United States Treasury has never been used.
4. These statements do not include accountability for the assets and liabilities of the closed insured banks for which the Corporation acts as receiver or liquidating agent.

APPENDIX

## FEDERAL DEPOSIT INSURANCE CORPORATION

## SUMMARY OF THE NUMBER OF PROBLEM BANKS AND THEIR INSURED DEPOSITS

JUNE 30, 1970, AND JUNE 30, 1969

	<u>Number of banks</u>		<u>Estimated insured deposits</u> <u>(note a)</u>	
	<u>June 30,</u> <u>1970</u>	<u>June 30,</u> <u>1969</u>	<u>June 30,</u> <u>1970</u>	<u>June 30,</u> <u>1969</u>
			-- (000 omitted) --	
<b>SERIOUS PROBLEM BANKS.</b>				
State nonmember banks	40	18	\$ 558,213	\$ 213,207
State member banks	4	3	147,006	55,926
National banks	<u>10</u>	<u>10</u>	<u>145,008</u>	<u>165,537</u>
Total serious problem banks	<u>54</u>	<u>31</u>	<u>850,227</u>	<u>434,670</u>
<b>OTHER PROBLEM BANKS:</b>				
State nonmember banks	149	144	1,071,459	1,061,448
State member banks	14	9	1,137,373	99,890
National banks	<u>27</u>	<u>28</u>	<u>287,432</u>	<u>513,268</u>
Total other problem banks	<u>190</u>	<u>181</u>	<u>2,496,264</u>	<u>1,674,606</u>
Total	<u>244</u>	<u>212</u>	<u>\$3,346,491</u>	<u>\$2,109,276</u>

<sup>a</sup>Effective December 23, 1969, the maximum amount of insurance for each account was increased from \$15,000 to \$20,000.

Note: The information in this appendix was prepared by the Corporation and has not been verified by the General Accounting Office.