NCUA

National Credit Union Administration

OFFICE OF
INSPECTOR GENERAL

NCUA 2018
Financial Statement Audits
For
Share Insurance Fund
Operating Fund
Central Liquidity Facility
Community Development Revolving Loan Fund

For the year ended December 31, 2018

Audited Financial Statements	Audit Report Number
Share Insurance Fund	OIG-19-01
Operating Fund	OIG-19-02
Central Liquidity Facility	OIG-19-03
Community Development Revolving Loan Fund	OIG-19-04

February 15, 2019

February 15, 2019

The Honorable J. Mark McWatters, Chairman
The Honorable Rick Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Chairman McWatters and Board Member Metsger:

I am pleased to transmit KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Share Insurance Fund, the Operating Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund, as of and for the years ending December 31, 2018 and 2017. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected them to audit.

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2018. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2018 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- There were no material weaknesses in internal controls;[1]
- There were no significant deficiencies related to internal controls;[2] and
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

[1] A material weakness is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
[2] A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the NCUA's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's reports dated February 14, 2019, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We would like to extend our thanks to the NCUA management and staff involved in issuing the financial statements within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG throughout the audit and our oversight of the audit process.

Management and Performance Challenges

The Inspector General is required by law to provide a summary statement on management and performance challenges facing the agency. Below I provide a brief overview of the NCUA's organizational structure, its mission, and vision, as well as what I believe are the key challenges to agency management in the coming year.

<u>Organizational Structure</u>
Created by Congress, NCUA is an independent federal agency with the unique role of insuring deposits at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member politically appointed Board oversees the NCUA's operations by setting policy, approving budgets, and adopting rules. As of December 31, 2018, over 116 million members have $1.1 trillion in insured deposits at approximately 5,400 federally insured credit unions. These credit unions have approximately $1.5 trillion in assets.

<u>Agency Mission and Vision</u>
Throughout 2019, the NCUA will implement initiatives to continue meeting its mission to "provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit," and its vision to ensure that the "NCUA will protect consumer rights and member deposits."

Agency Challenges

NCUA will face several risks that continue to threaten the safety and soundness of the credit union system and the Share Insurance Fund, as well as a number of complex challenges that could potentially impact its operations in the future. Over the last several years, I have discussed areas where the NCUA must remain diligent in its supervisory efforts. This included areas such as cybersecurity, interest rate risk, managing concentration risk, growing performance disparities between large and small credit unions, changing demographics, and increasing competition and continuing consolidation.

For 2019, I believe many of these same risks remain significant agency challenges, as well as two additional risks—technology-driven changes in the financial landscape and challenges faced by smaller credit unions—both of which will provide unique challenges to the agency that could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund if not adequately managed.

Cybersecurity—Just as I stated last year, cyber threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to increase in frequency and severity as worldwide interconnectedness grows, and as criminals, hackers, and terrorists become more sophisticated. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. With credit unions and other small financial institutions increasingly targeted, credit unions must continue to enhance the security of their systems, and the NCUA must continue to strengthen the resiliency of the entire credit union system and the agency.

Technology-driven Changes—New financial products that mimic deposit and loan accounts, such as mobile payment systems, pre-paid shopping cards, and peer-to-peer lending, are emerging. These new products pose a competitive challenge to credit unions, as does the emergence and increasing importance of digital currencies. Although these new financial products and digital monetary systems may pose both risks and opportunities for credit unions as they gain popularity, credit unions and the NCUA will need to work to manage the risks such new products and systems create.

Interest Rate Risk—As I noted in previous years, a rising interest rate environment may prove challenging for those credit unions that hold either high concentrations of long-term assets funded with short-term liabilities, or have rate-sensitive deposits and fixed-rate assets. The Federal Open Market Committee's (FOMC) December 2018 forecast points to rising short-term interest rates over the next two years. The median projection for the fed funds target rate indicated it will rise 50 basis points from its December 2018 level of 2.4 percent to 2.9 percent at the end of 2019 and reach 3.1 percent in late 2020. Although policy guidance released after the January 2019 FOMC meeting suggested that it could be some time before the next rate increase is announced, the NCUA and credit unions will need to continue to work to manage interest rate risk in 2019 and beyond.

Smaller Credit Unions' Challenges—Across a variety of economic cycles and regulatory environments, the number of credit unions has fallen at a steady rate for nearly three decades. Small credit unions face challenges to their long-term viability for a variety of reasons, including weak earnings, declining membership, high loan delinquencies, and elevated non-interest expenses. If current consolidation trends persist, there will be fewer credit unions in operation and those that remain will be considerably larger and more complex. Large credit unions tend to offer more complex products, services, and investments. Increasingly complex institutions will pose management challenges for the institutions themselves, as well as the NCUA; consolidation means the risks posed by individual institutions will become more significant to the Share Insurance Fund. The NCUA will need to continue to monitor these trends to ensure that the continued consolidation of credit unions and system assets does not create new potential risks to the Share Insurance Fund.

Changing Demographics—I noted the last several years that the NCUA and credit unions face the challenge of an aging demographic. Although overall credit union membership continues to grow strongly, close to half of federally insured credit unions had fewer members at the end of the third quarter of 2018 than a year earlier. Demographic and field of membership changes are likely to continue to result in declining membership at many credit unions. As more Americans retire, and as new and diverse populations continue to grow and enter into the financial system, credit unions may see shifting growth trends and changing demand for products and services. Credit unions may need to explore how to meet the needs of an aging population and marketplace trends, and adjust their business plans accordingly.

The NCUA has taken action that will allow for continued growth, including for example, the recent updates to the agency's field-of-membership rules, which provide new opportunities for credit union financial and membership growth. In addition, the Office of Credit Union Resources and Expansion consolidated many of the NCUA's functions into a single office that provides technical assistance to credit unions, including chartering, field of membership, grants and loans training, and the preservation programs for minority credit unions. These actions should produce greater efficiencies, allowing the NCUA to facilitate better growth opportunities for credit unions.

Continuing Consolidation—The number of banks and credit unions has fallen at a steady rate for nearly three decades, a trend that will likely continue. For several years, consolidation has primarily occurred among credit unions with $50 million or less in assets. However, a growing number of larger credit unions are using mergers and acquisitions as a strategy to grow and increase market share. Increased competition with banks and other financial services providers could also result in more mergers of equals, where larger credit unions strategically merge, as opposed to the long-term trend of smaller credit unions merging into larger ones. I encourage the NCUA to continue to monitor these trends and consider whether to make further adjustments to its examination and supervision program to protect the Share Insurance Fund.

Respectfully,

James W. Hagen
Inspector General

cc: Executive Director Mark Treichel
Deputy Executive Director (Audit Follow-up Official) John Kutchey
General Counsel Michael McKenna
PACA Director (Acting) Joy Lee
Chief Financial Officer Rendell Jones
Chief Information Officer Rob Foster
CURE Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Larry Fazio
E&I, Division of Capital and Credit Markets, Director J. Owen Cole, Jr.

OIG-19-01

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2018 and 2017, and
Independent Auditors' Report

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).[1] Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the United States. As of December 2018, the NCUSIF insures $1.1 trillion in member shares in approximately 5,400 credit unions.

The NCUSIF protects members' accounts in insured credit unions in the event of a credit union failure. The NCUSIF insures the balance of each members' accounts, dollar-for-dollar, up to at least the standard maximum share insurance amount of $250,000, including principal and posted dividends through the date of a failure, subject to various rules on account types, rights, and capacities.

The NCUSIF also provides funding when the NCUA Board determines that some form of assistance to troubled credit unions is necessary, consistent with the Federal Credit Union Act (FCU Act). Examples of assistance include, but are not limited to, the following:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit; and
- cash assistance, including subordinated notes, to arrange a merger or purchase and assumption.

When a credit union is no longer able to continue operating and assistance alternatives, including an assisted merger, are not practical, the credit union will be liquidated and the NCUSIF will pay members' shares up to at least the standard maximum insurance amount.

Organizational Structure

The NCUA's Executive Director is responsible for the agency's daily operation. The Director of the Office of Examination and Insurance (E&I) is responsible for the NCUA's supervision programs, which ensure the safety and soundness of federally insured credit unions. The E&I Director is also responsible for managing the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for the examination and supervision of

[1] The NCUSIF is one of four funds established in the U.S. Treasury and administered by the NCUA Board as of December 31, 2018. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. All four funds report under separate financial statements.

federally insured credit unions. Other NCUA offices provide operational and administrative services to the NCUSIF.

The Asset Management and Assistance Center (AMAC) is responsible for conducting credit union liquidations. Upon liquidation, a credit union is closed and becomes an Asset Management Estate (AME), for which AMAC collects the obligations due to the liquidated credit union, monetizes assets and distributes amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities. AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs), as well as the corporate credit unions (Corporate AMEs).

II. Performance Goals, Objectives, and Results

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance. In measuring the performance of the NCUSIF for 2018 and 2017, the following additional measures should be considered:

2018 and 2017 Performance Measures

	December 31, 2018	December 31, 2017
Equity Ratio	1.39%	1.46%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$119.1 million	$925.5 million
Net Position	$15.7 billion	$15.7 billion
Insured Shares	$1.1 trillion	$1.1 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	8	10
Assets in CAMEL 3, 4 and 5 rated Credit Unions	$66.9 billion	$65.5 billion

Equity Ratio and Normal Operating Level

The financial performance of the NCUSIF can be measured by comparing the equity ratio to the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the one-percent (1.00%) contributed capital deposit plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of insured shares in all federally insured credit unions. The NOL is the Board's target equity level for the NCUSIF. Pursuant to the FCU Act, the NCUA Board sets the NOL between 1.20% and 1.50%. On December 13, 2018, the Board set the NOL at 1.38%, lowering it from the previous level of 1.39%.

By statute, when the equity ratio falls below 1.20%, the NCUA Board must take action to restore the NCUSIF's equity ratio above 1.20%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union. The NCUSIF pays a distribution when the year-end equity ratio exceeds the NOL and the available assets ratio exceeds 1.00% at year-end.

As of December 31, 2018, the equity ratio was 1.39%, which is above the NOL. The NCUA Board will convene in 2019 and may declare a distribution based on actual insured shares as of December 31, 2018. Previously, the equity ratio was 1.46% as of December 31, 2017, which was above the established NOL of 1.39%. As a result, the NCUA Board approved a Share Insurance distribution of $735.7 million to eligible, federally insured credits unions. This distribution was paid during the third quarter of 2018.

Insurance Losses (Contingent Liabilities)
The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes. The CAMEL system, which applies a rating to the credit union ranging from “1” (strongest) to “5” (weakest), is based upon an evaluation of five critical elements of a credit union's operations: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, and **L**iquidity/Asset-Liability Management (CAMEL). These criteria ensure that credit union examiners assess all significant financial, operational, and management factors when evaluating a credit union's performance and risk profile.

The NCUA identifies credit unions at risk of failure through the supervisory and examination process. Estimated losses are based on economic trends and each credit union’s financial condition and operations. The NCUA also evaluates overall credit union trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies.

The NCUA’s supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2018, there were no credit unions operating under the NCUA’s conservatorship. Estimated losses related to conserved credit unions are determined as part of the fund’s reserve methodology and are contained within the Insurance and Guarantee Program Liabilities in the Balance Sheets.

The NCUSIF’s year-end contingent liability for insurance losses is derived using an internal econometric model that applies estimated probability of failure and loss rates that take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. The NCUSIF ended 2018 with Insurance and Guarantee Program Liabilities of $119.1 million to cover probable losses as compared with $925.5 million for the previous year-end, a decrease of $806.4 million.

The credit union industry remained stable during 2018. Assets in CAMEL 3, 4 and 5 rated credit unions increased slightly to $66.9 billion at the end of 2018 versus $65.5 billion at the end of 2017. The aggregate net worth ratio increased during the year ending at 11.3% versus 11.0% at December 31, 2017.

For 2018, there were eight credit union failures compared to 10 failures in 2017. The cost of these failures, or the estimated cost of resolution at the time of liquidation, for the current year is $785.0 million compared to $24.4 million for failures that occurred in 2017.

III. Financial Statement Analysis

The NCUSIF ended 2018 with a decrease in Total Assets and its Net Position. Insurance and Guarantee Program Liabilities also decreased from the prior year. Net Cost of Operations decreased to $58.2 million, primarily as a result of decreases in the Reserve Expense within the Provision for Insurance Losses, partially offset by a decrease in overall Interest Revenue due to the one-time partial recovery of $480.0 million in interest income recognized in 2017. These changes are explained in further detail below.

Summarized Financial Information (in thousands)		
	December 31, 2018	December 31, 2017
Total Assets	$15,846,682	$16,671,818
Investments, Net	15,072,202	16,106,500
Receivables from Asset Management Estates, Net	698,215	495,021
Insurance and Guarantee Program Liabilities	119,053	925,487
Contributed Capital	11,327,234	10,765,320
Net Position	15,721,626	15,736,687
Operating Expenses	187,395	199,016
Provision for Insurance Losses, Reserve Expense (Reduction)	(13,967)	747,777
Provision for Insurance Losses, AME Receivable Bad Debt Expense (Reduction)	(99,859)	(21,482)
Interest Revenue – Other	-	(480,000)
Total Net Cost of Operations	58,197	438,340
Cumulative Results of Operations	4,394,392	4,971,367
Interest Revenue – Investments	284,716	209,137
Transfers In from the TCCUSF	-	2,562,069

Balance Sheet Highlights

Total Assets decreased by $825.1 million in 2018. The decrease is primarily attributable to $735.7 million in distributions paid to credit unions in the third quarter of 2018.

Investments, Net decreased by $1,034.3 million during 2018, primarily driven by $735.7 million in distributions paid to credit unions in the third quarter of 2018 and net claims paid for liquidation activities of $856.2 million, offset by net additions to Contributed Capital of $561.9 million. During 2018, U.S. Treasury yields have continued to increase in Treasury securities while the NCUSIF portfolio yield has increased, resulting in an overall decrease in the market value of U.S. Treasury securities.

Receivables from Asset Management Estates, Net increased $203.2 million during 2018 due primarily to the net increase in the gross AME receivable for claims paid on liquidated credit unions of $856.2 million, offset by charter cancellations of $54.2 million and allowance adjustments of $598.8 million that reflect the overall collectability of the Receivables from AMEs.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively. The overall decrease in the Insurance and Guarantee Program Liabilities balance is due to the decrease in the specific reserve of $811.3 million, partially offset by an increase in the general reserve of $4.9 million. Specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses associated with these credit unions. The general reserve reflects overall risk of loss due to potential credit union failures of federally insured credit unions taken as a whole.

Contributed Capital increased by a net $561.9 million during 2018 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent (1.00%) of its insured shares as Contributed Capital. In 2018, credit union insured shares grew by 4.9%.

Statements of Net Cost Highlights
Total Net Cost of Operations was $58.2 million for 2018 as compared to $438.3 million for 2017. The overall decrease in Net Cost of Operations is attributable to a decrease in the overall Provision for Insurance Losses of $840.1 million. Additionally, there was a $11.6 million reduction in Operating Expenses attributable to a change to the allocation factor (Overhead Transfer Rate) for expenses from the NCUA Operating Fund that decreased from 67.7% in 2017 to 61.5% for 2018. Within the Provision for Insurance Loss for 2018, the Reserve Expense was a $14.0 million expense reduction, reflecting the overall risk of losses due to potential credit union failures for the credit union industry, while the AME Receivable Bad Debt Expense was a $99.8 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed. The overall change in Provision for Insurance Losses of $840.1 million is the result of an expense reduction of $113.8 million for 2018 compared to an expense of $726.3 million for 2017.

Statements of Changes in Net Position Highlights
Cumulative Results of Operations decreased by $577.0 million in 2018. This decrease was primarily driven by a distribution to credit unions of $735.7 million, Net Cost of Operations of $58.2 million, and unrealized losses from Investments of $67.8 million, primarily offset by Interest Revenue of $284.7 million.

Statements of Budgetary Resources Highlights
Activity impacting budget totals of the overall federal government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF had net cash outflow of $953.0 million for 2018 and a net cash inflow of $1.5 billion for 2017. This decrease is primarily the result of the distribution to credit unions of $735.7 million paid in the third quarter of 2018 and net claims paid for liquidation activities of $856.2 million.

Fiduciary Activity Highlights
The financial results of the NPCU AMEs and Corporate AMEs with the NGN Trusts in the NCUA Guaranteed Notes (NGN) Program are not presented in the results of the NCUSIF as described above, but are presented as fiduciary activities of the NCUSIF in accordance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard (SFFAS) No. 31, *Accounting for Fiduciary Activities*, and are included in the notes to the NCUSIF financial statements.

NGN Program
The outstanding principal balance of the NGNs was $4.4 billion and $5.4 billion as of December 31, 2018 and 2017, respectively. This amount represents the maximum potential future guarantee payments that the NCUA could be required to make. The losses from the guarantees of NGNs are expected to be significantly less than the above maximum potential exposure. The NCUA's estimate of the expected recovery from the Corporate AMEs is derived using an external model and reflects the NCUA's expectations and assumptions about the estimated cash flows of the Corporate AMEs' assets.

As of December 31, 2018 and 2017, the NCUA Board, as liquidating agent of the Corporate AMEs, held approximately $1.1 billion and $1.8 billion in post-securitized assets, respectively. Generally, post-securitized assets are the Legacy Assets that are no longer secured by the NGNs.

The table below represents the composition of Legacy Assets collateralizing the remaining nine NGNs with an aggregate unpaid principal balance of $6.5 billion and recovery value of approximately $5.2 billion as of December 31, 2018. There were nine NGNs with an aggregate unpaid principal balance of $7.5 billion and recovery value of approximately $6.3 billion as of December 31, 2017.

Composition of Legacy Assets Collateralizing the NGN Trusts

Asset Type and Credit Rating [1]		Based on Recovery Value				Based on Unpaid Principal Balance			
		December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
RMBS	AAA	88%	1%	90%	1%	87%	1%	88%	0%
	AA		2%		1%		2%		1%
	A		3%		2%		2%		2%
	BBB		3%		3%		2%		3%
	Below Investment Grade		85%		91%		87%		92%
	NA		6%		2%		6%		2%
CMBS	AAA	2%	0%	2%	0%	1%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		4%		4%		4%		4%
	BBB		0%		1%		0%		1%
	Below Investment Grade		96%		95%		96%		95%
	NA		0%		0%		0%		0%
ABS [2]	AAA	5%	63%	4%	56%	7%	33%	7%	31%
	AA		2%		4%		1%		2%
	A		0%		0%		0%		0%
	BBB		13%		16%		7%		9%
	Below Investment Grade		21%		23%		49%		49%
	NA		1%		1%		10%		9%
Agency		4%	100%	4%	100%	3%	100%	3%	100%
Corporate	AAA	1%	0%	0%	0%	2%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		0%		0%		0%		0%
	BBB		0%		0%		0%		0%
	Below Investment Grade		0%		0%		0%		0%
	NA		100%		100%		100%		100%

Percentages may not total 100% due to rounding.

[1] The rating is based on the lowest published rating by S&P, Moody's, or Fitch.

[2] The collateral underlying the ABS included in the table above is primarily student loans.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Liquidity Risk and Capital Resources

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) account as well as investments in U.S. Treasury securities. Investments in U.S. Treasury securities include overnight investments, which are available to meet urgent liquidity needs of the NCUSIF.

2018 and 2017 Fund Balance with Treasury and Investments		
	December 31, 2018	December 31, 2017
Fund Balance with Treasury	$ 5.0 million	$ 3.2 million
U.S. Treasury Securities		
Overnight	1,218.5 million	2,849.2 million
Available-for-Sale	13,853.7 million	13,257.3 million

During 2018, the NCUSIF's FBWT and Investments decreased overall primarily due to payment of a $735.7 million distribution to eligible credit unions and other amounts expended for the purposes of the share insurance program, partially offset by capital contributions of $561.9 million from credit unions.

The NCUSIF has multiple funding sources to include:

- capitalization deposits contributed by insured credit unions, as provided by the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act);
- guarantee fees;
- cumulative results of operations retained by the NCUSIF;
- premium assessments on insured credit unions, as necessary;
- borrowings from the U.S. Treasury; and
- borrowings from the Central Liquidity Facility (CLF).

The NCUSIF is a revolving fund in the U.S. Treasury and has access to sufficient funds to meet its obligations, including its Insurance and Guarantee Program Liabilities.

Contributed Capital

Each insured credit union must deposit and maintain in the NCUSIF 1.00% of its insured shares. For the years ended December 31, 2018 and 2017, the NCUSIF's contributed capital from insured credit unions increased by $561.9 million and $778.0 million, respectively. Total insured shares were reported at $1.1 trillion and $1.1 trillion as of December 31, 2018 and 2017, respectively. The NCUA has estimated the total insured shares, subject to certified reporting of insured share amounts.

Cumulative Results of Operations

The NCUSIF ended 2018 and 2017 with a total of $4.4 billion and $5.0 billion in Cumulative Results of Operations, respectively. Interest Revenue from Investments is currently the primary source of funds for operations.

Assessments

The NCUA Board may assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2018 and 2017, the NCUA Board did not assess any premium charges to insured credit unions.

Borrowing Authority from the U.S. Treasury
The NCUSIF has $6.0 billion in borrowing authority from the U.S. Treasury. As of December 31, 2018 and 2017, the statutory amount of cash available to borrow based on the current borrowing authority was $6.0 billion.

Borrowing Authority from the CLF
The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2018 and 2017, the NCUSIF did not have any outstanding borrowing from the CLF.

IV. Systems, Controls, and Legal Compliance

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq*., as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the definitions of "equity ratio" and "net worth" in the FCU Act. The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 *et seq*.).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The *Federal Managers' Financial Integrity Act*, Public Law 97–255 (FMFIA), requires agencies to establish management controls over their programs and financial systems. Accordingly, NCUA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of FMFIA, which include safeguarding assets and compliance with applicable laws and regulations. NCUA management monitors and assesses its relevant internal controls and reports on its assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. The NCUA is in compliance with FMFIA as well as all applicable laws such as the *Prompt Payment Act*, Public Law 97-177, and the *Debt Collection Improvement Act*, Public Law 104–134.

The *Improper Payments Information Act of 2002*, Public Law 107–300 (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010*, Public Law 111-204 (IPERA), and the *Improper Payments Elimination and Recovery Improvement Act of 2012*, Public Law 112-248 (IPERIA), requires federal agencies to review all programs and activities they administer to identify those that may be susceptible to significant improper payments. We have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

As required by the *Federal Information Security Management Act*, Public Law 107-347, as amended (FISMA), the NCUA develops, documents, and implements an agency-wide program to provide information privacy and security (management, operational, and technical security controls) for the information and information systems that support the operations of the agency, including those provided or managed by another agency, contractor, or other source.

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Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF or Fund) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2018 and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 5,000	$ 3,162
Investments, Net - U.S. Treasury Securities (Note 3)	15,072,202	16,106,500
Accounts Receivable - Inter-Agency	35	-
Accrued Interest Receivable (Note 3)	62,454	54,635
Note Receivable - Note due from the National Credit Union Administration Operating Fund (Note 5)	6,369	7,710
Total Intragovernmental Assets	15,146,060	16,172,007
PUBLIC		
Accounts Receivable - Due from Insured Credit Unions, Net (Note 4)	-	1,941
Accounts Receivable - Guarantee Fee on National Credit Union Administration Guaranteed Notes, Net (Note 4)	1,050	1,275
Accounts Receivable - Other	150	2
General Property, Plant and Equipment, Net (Note 6)	212	562
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	698,215	495,021
Other Assets	995	1,010
Total Public Assets	700,622	499,811
TOTAL ASSETS	$ 15,846,682	$ 16,671,818
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	$ 4,023	$ 5,153
Total Intragovernmental Liabilities	4,023	5,153
PUBLIC		
Accounts Payable	1,804	4,491
Other - Insurance and Guarantee Program Liabilities (Note 8)	119,053	925,487
Other - Capital Lease Liability (Note 9)	176	-
Total Public Liabilities	121,033	929,978
TOTAL LIABILITIES	125,056	935,131
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	11,327,234	10,765,320
Cumulative Result of Operations	4,394,392	4,971,367
Total Net Position	15,721,626	15,736,687
TOTAL LIABILITIES AND NET POSITION	$ 15,846,682	$ 16,671,818

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF NET COST
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
GROSS COSTS		
Operating Expenses	$ 187,395	$ 199,016
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	(13,967)	747,777
AME Receivable Bad Debt Expense (Reduction) (Note 7)	(99,859)	(21,482)
Total Provision for Insurance Losses	(113,826)	726,295
Other Costs	2,786	-
Total Gross Costs	76,355	925,311
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 5)	(123)	(128)
Guarantee Fee Revenue - National Credit Union Administration Guaranteed Notes	(16,982)	(5,077)
Insurance and Guarantee Premium Revenue	(1,051)	(1,765)
Interest Revenue - Other (Note 1)	-	(480,000)
Other Revenue	(2)	(1)
Total Earned Revenues	(18,158)	(486,971)
NET COST	$ 58,197	$ 438,340

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 4,971,367	$ 2,679,430
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	284,716	209,137
Distribution to Credit Unions	(735,679)	-
Transfers-In Without Reimbursement		
Nonexpenditure Financing Sources - Transfers-In	-	1,888,075
Other		
Gains On Disposition of Assets	-	132
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	(67,815)	(41,061)
Transfers-In Without Reimbursement		
Financing Sources Transferred In Without Reimbursement	-	673,994
Total Financing Sources	(518,778)	2,730,277
Net Cost of Operations	(58,197)	(438,340)
Net Change	(576,975)	2,291,937
CUMULATIVE RESULTS OF OPERATIONS	4,394,392	4,971,367
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	10,765,320	9,987,363
Change in Contributed Capital	561,914	777,957
CONTRIBUTED CAPITAL	11,327,234	10,765,320
NET POSITION	$ 15,721,626	$ 15,736,687

The accompanying notes are an integral part of these financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
BUDGETARY RESOURCES (Notes 11, 12 and 15)		
Unobligated balance from prior year budget authority, net	$ 16,127,894	$ 14,610,222
Borrowing authority (mandatory)	-	-
Spending authority from offsetting collections (mandatory)	1,279,038	2,249,175
TOTAL BUDGETARY RESOURCES	$ 17,406,932	$ 16,859,397
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	$ 2,220,613	$ 731,503
Unobligated balance, end of year:		
Exempt from apportionment	15,186,319	16,127,894
Total unobligated balance, end of year	15,186,319	16,127,894
TOTAL BUDGETARY RESOURCES	$ 17,406,932	$ 16,859,397
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	$ 953,043	$ (1,534,324)
Distributed offsetting receipts	-	-
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	$ 953,043	$ (1,534,324)

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The National Credit Union Share Insurance Fund (NCUSIF) was created by Title II of the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act), 12 U.S.C. § 1781 *et seq*. The NCUSIF was established as a revolving fund in the Treasury of the United States (U.S. Treasury), under management of the National Credit Union Administration (NCUA) Board (NCUA Board) for the purpose of insuring member share deposits in all Federal Credit Unions (FCUs) and in qualifying state-chartered credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates supervisory involvement with the state chartering authorities for state-chartered credit unions insured by the NCUSIF. Federally insured (insured) credit unions are required to report certain financial and statistical information to the NCUA on a quarterly basis and are subject to periodic examination by the NCUA. Information derived through the supervision and examination process provides the NCUA with the ability to identify insured credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF, pursuant to the FCU Act, may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit, cash assistance in the form of a subordinated note, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

Temporary Corporate Credit Union Stabilization Fund Closure

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017. As required by statute, the TCCUSF's remaining funds, property, and other assets were distributed to the NCUSIF. Through the distribution, the NCUSIF assumed the activities and obligations of the TCCUSF, including the NCUA Guaranteed Notes (NGN) Program, and will report on such going forward.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the federal government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the federal government must uphold.

The NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs), as well as the corporate credit union (CCU) AMEs (Corporate AMEs). These assets and liabilities are held in part for the primary benefit of non-federal parties and are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting for Fiduciary Activities*. Fiduciary assets are not assets of the federal government and are not recognized on the Balance Sheet. Additionally, the NCUA entity assets are non-fiduciary.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP was a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed CCUs, and establishing a new regulatory framework for CCUs. Under the CSRP, the NCUA created a re-securitization program (the NGN Program) to provide long-term funding for the Legacy Assets through the issuance of the NGNs by trusts established for this purpose (NGN Trusts). The NGN Trusts are guaranteed by the NCUA, and backed by the full faith and credit of the United States.

Sources of Funding
Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF 1.00% of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF may receive investment interest income, guarantee fees, and recoveries from the AMEs including proceeds recovered from legal claims and asset sales. The NCUSIF also has authority to borrow from the U.S. Treasury and the ability to borrow from the NCUA's Central Liquidity Facility (CLF).

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with standards promulgated by FASAB. FASAB is designated by the American Institute of Certified Public Accountants as the source of generally accepted accounting principles (GAAP) for federal reporting entities. The format of the financial statements and footnotes is in accordance with the form and content guidance provided in Office of

Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised July 30, 2018.

Consistent with SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* the NCUA considers and where appropriate, applies Financial Accounting Standards Board (FASB) guidance for those instances where no applicable FASAB guidance is available. Any such significant instances are identified herein.

Basis of Accounting

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation of appropriations, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

The NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

The Statement of Net Cost, the Statement of Changes in Net Position and the Statement of Budgetary Resources cover the twelve-month period ended December 31, 2017. Effective October 1, 2017, these statements include the last three months of the year for receivables and liabilities that were formerly administered by the TCCUSF. For the year ended December 31, 2018, all financial activities of the NCUSIF and the former TCCUSF are included in the twelve-month period. Accordingly, comparability differences will exist between the two periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP for the federal government requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- the amounts of revenues and expenses reported during that period.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid and settlement of the guarantee liabilities; (iii) allowance amounts established for loan losses related to cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs for claims paid on their behalf.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the federal government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments, Net

Investment securities primarily consist of market-based U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held-to-maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*.

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

All U.S. Treasury securities that are in an unrealized loss position are reviewed for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, the NCUA takes into consideration whether it has the intent to sell the security. The NCUA also considers available evidence to assess whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUA intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis, an OTTI shall be considered to have occurred.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

Accounts Receivable

Accounts Receivable represents the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity and are categorized as follows:

Capitalization Deposits from Insured Credit Unions
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

Guarantee Fee on NCUA Guaranteed Notes
Guarantee Fee accounts receivable represents outstanding balances of guarantee fees associated with the NGNs as described herein.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority under Section 202 of the FCU Act to assess a premium charge to insured credit unions. The NCUA Board may assess each insured credit union a premium charge in an amount stated as a percentage of insured shares only if the equity ratio is less than 1.30% and the premium charge does not exceed the amount necessary to restore the equity ratio to 1.30%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, the NCUA Board must establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified of 1.20% before the end of the eight-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

The NCUA Board did not assess premiums for 2018 and 2017.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is the NCUA's best estimate of the amount of losses in an existing NCUSIF receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all amounts contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net consists of internal-use software and assets under capital lease, and is recognized and measured in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment,* as amended by SFFAS Nos. 10, 23, 44, and 50.

Costs incurred for internal use software during the software development phase are capitalized in accordance with SFFAS No. 10, *Accounting for Internal Use Software*. General Property, Plant and Equipment is subject to depreciation and carried at net cost once placed into service. Depreciation and amortization are recognized over the useful life of the asset.

Other - Receivables from Asset Management Estates, Net

The NCUA records a receivable from AMEs when claims are paid by the NCUSIF in order to satisfy obligations to insured shareholders and other guaranteed parties, as well as to pay administrative expenses on behalf of AMEs. Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. As the assets are monetized, recoveries from the assets are paid to the NCUSIF to reduce the receivable from AMEs.

The gross AME receivable is reduced by an allowance for loss. This allowance represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. §709.5(b). The NCUA records the allowance amount for loss on receivables from AMEs based on expected asset recovery rates. Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions. The asset recovery rates are based on several sources including:

- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

Insurance and Guarantee Program Liabilities

In accordance with SFFAS No. 5, all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;
- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for probable losses relating to insured credit unions and the NGNs. The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes. The CAMEL system, which applies a rating to the credit union ranging from "1" (strongest) to "5" (weakest), is based upon an evaluation of five critical elements of a credit union's operations: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, and **L**iquidity/Asset-Liability Management (CAMEL). These criteria ensure that credit union examiners assess all significant financial, operational, and management factors when evaluating a credit union's performance and risk profile.

The year-end contingent liability for insurance losses is derived using an internal econometric model that applies estimated probability of failure and loss rates that take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. Management routinely reviews the internal econometric model and refines the parameters as more information becomes available which allows for improved estimates. In addition, credit union specific analysis is performed on those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. In such cases, specific reserves are established.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Capital Lease Liability

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, the NCUSIF records a depreciable asset and liability for all capital leases at the present value of the rental and other minimum lease payments during the lease term.

Net Position and Contributed Capital

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from insured credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

Revenue Recognition

Exchange Revenue
Exchange revenues arise and are recognized when a federal government entity provides goods and services to the public or to another federal government entity for a price. Exchange revenue, which primarily consists of premium assessments, guarantee fee income, and interest revenue, is used to recover the losses of the credit union system.

Guarantee Fees on NCUA Guaranteed Notes
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs.

Interest Revenue – Other
In 2009, the NCUSIF issued a $1.0 billion capital note to U.S. Central Federal Credit Union (USCFCU), which was subsequently liquidated by AMAC in the same year. Upon liquidation, the note was transferred to the TCCUSF as a held-to-maturity debt security. In September 2017, the TCCUSF recognized $520.0 million as a partial recovery of the capital note from USCFCU. In December 2017, the NCUSIF recognized the remaining $480.0 million as interest revenue. The principal balance of the capital note was fully recovered as of December 31, 2017.

Premium Assessments from Insured Credit Unions
The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares.

Non-Exchange Revenue
Non-exchange revenues are inflows of resources that the federal government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. The NCUSIF recognizes non-exchange revenue as described below.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. This amount is recognized as non-exchange revenue when invoiced. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, the related unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Tax-Exempt Status

The NCUA, as a government entity, is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded for the NCUSIF.

Disclosure Entities

The NCUA adopted SFFAS No. 47, *Reporting Entity* during 2018. The purpose of SFFAS No. 47 is to provide clarity on reporting entities and the criteria for including components in a reporting entity, including the establishment of principles to guide preparers of federal agency financial statements in determining the types of organizations that should be included in the reporting entity's financial statements. SFFAS No. 47 requires that our financial statements reflect the balances and activities of the fund and any other reporting entities that meet the following "principles for inclusion" as a whole:

- the entity is included in the Budget of the United States (also known as the President's Budget);
- the U.S. government holds "majority ownership interest";
- the U.S. government has "control with risk of loss or expectation of benefit"; or
- if it would be misleading to exclude such entity.

SFFAS No. 47 also provides guidance for assessing whether an organization meeting the inclusion principles is reported within the NCUSIF financial statements as a consolidation entity, or within the notes of the financial statements as a disclosure entity or a related party. Additionally, entities that are owned and/or controlled by the NCUA as a result of a regulatory action are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent. Pursuant to SFFAS No. 47, the NCUA identifies receiverships and conservatorships as disclosure entities.

Receiverships
An AME is a receivership-type entity that is established to oversee assets and other property acquired from a failed credit union. As previously mentioned, AMAC conducts liquidations and oversees the management and recovery of assets for failed credit unions. The NCUA has two types of AMEs: 1) Natural person AMEs from the resolution of failed natural-person credit unions, and 2) Corporate AMEs from the resolution of failed corporate credit unions. These activities are considered fiduciary activities in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*, and are disclosed under Note 14, Fiduciary Activities.

Conservatorships
From time to time, the NCUA places a credit union into conservatorship in order to resolve operational problems that could affect that credit union's safety and soundness. Conservatorship means the NCUA has taken control of the credit union. During a conservatorship, the credit union remains open, members may transact business, and accounts remain insured by the NCUSIF. For federally chartered credit unions, the NCUA takes this action on its own; in the case of a state-chartered credit union, the state supervisory authority initiates the conservatorship and in many cases appoints the NCUA as agent for the conservator. Conservatorships can have three outcomes: 1) the credit union can resolve its operational problems and be returned to member ownership; 2) the credit union can merge with another credit union; or 3) the NCUA can liquidate the credit union. The NCUA lists credit unions currently under conservatorship on its website.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. The NCUSIF’s Statements of Budgetary Resources were condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance to conform to guidance issued by OMB Circular A-136, *Financial Reporting Requirements*, revised July 30, 2018.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2018 and 2017, consisted of the following (in thousands):

	2018	2017
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 15,186,319	$ 16,127,894
Obligated Balances Not Yet Disbursed	6,794	10,409
Non-Budgetary Investment Accounts	(15,125,624)	(16,080,506)
Non-FBWT Budgetary Accounts	(62,489)	(54,635)
Total	$ 5,000	$ 3,162

As a revolving fund, the FBWT account is used for continuing business-like activities. The NCUSIF collects capitalization deposits, guarantee fees, AME recoveries and premiums, which in turn may be invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and guarantee payments, and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. The FBWT account contains monies available for future obligations as well as monies obligated for current activities. Non-Budgetary Investment Accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts may consist of budgetary receivables, borrowing authority, and non-expenditure transfers. Funds not needed for immediate liquidity are invested in overnight U.S. Treasury securities.

On October 1, 2017, $1.9 billion was distributed in cash from the TCCUSF to the NCUSIF through the closing of the TCCUSF.

As of December 31, 2018 and 2017, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), 12 U.S.C. § 1783(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to market-based (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held-to-maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2018 and 2017, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows (in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain/(Loss)	Carrying/ Fair Value
As of December 31, 2018:						
U.S. Treasury Securities						
Available-for-Sale	$ 14,106,883	$ (68,914)	$ 62,454	$ 14,000,000	$ (184,266)	$ 13,853,703
Held to Maturity	1,218,499	-	-	1,218,499	-	1,218,499
Total	$ 15,325,382	$ (68,914)	$ 62,454	$ 15,218,499	$ (184,266)	$ 15,072,202
As of December 31, 2017:						
U.S. Treasury Securities						
Available-for-Sale	$ 13,449,547	$ (75,758)	$ 54,635	$ 13,300,000	$ (116,450)	$ 13,257,339
Held to Maturity	2,849,161	-	-	2,849,161	-	2,849,161
Total	$ 16,298,708	$ (75,758)	$ 54,635	$ 16,149,161	$ (116,450)	$ 16,106,500

Maturities of U.S. Treasury securities as of December 31, 2018 and 2017 were as follows (in thousands):

	2018 Fair Value	2017 Fair Value
Held to Maturity (Overnights)	$ 1,218,499	$ 2,849,161
Available-for-Sale:		
Due in one year or less	2,775,562	2,341,183
Due after one year through five years	9,363,016	7,675,250
Due after five years through ten years	1,715,125	3,240,906
	$ 15,072,202	$ 16,106,500

For the years ended December 31, 2018 and 2017, there were realized gains from sales of Treasury securities of $0 and $131.6 thousand, respectively.

The following table includes gross unrealized losses on investment securities, for which an OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2018 and 2017 (in thousands):

	Losses Less than 12 months		Losses 12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized losses	Fair value	Unrealized losses	Fair value
As of December 31, 2018:						
Available-for-Sale:						
U.S. Treasury Securities	$ (7,574)	$ 1,479,125	$ (182,366)	$ 10,133,734	$ (189,940)	$ 11,612,859
As of December 31, 2017:						
Available-for-Sale:						
U.S. Treasury Securities	$ (52,278)	$ 9,542,745	$ (64,769)	$ 3,023,844	$ (117,047)	$ 12,566,589

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2018 and 2017, accounts receivable due from insured credit unions were $0 and $1.9 million, respectively.

NGN Guarantee Fee Receivable
For a fee, the NCUA guarantees the timely payment of principal and interest on the NGNs. Guarantee fees on each NGN Trust are 35 basis points per year, payable monthly, on the outstanding balance of the NGNs. As of December 31, 2018 and 2017, the NGN guarantee fee receivable was $1.1 million and $1.3 million, respectively.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2018 and 2017 was $0.

5. NOTES RECEIVABLE

Intragovernmental – Notes Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF entered into a commitment to lend $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $123.1 thousand and $127.6 thousand for the years ended December 31, 2018 and 2017, respectively. The note receivable balance as of December 31, 2018 and 2017 was approximately $6.4 million and $7.7 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2018 and 2017 was 1.80% and 1.51%, respectively. The interest rate as of December 31, 2018 and 2017 was 2.01% and 1.59%, respectively.

As of December 31, 2018, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2019	$1,341
2020	1,341
2021	1,341
2022	1,341
2023	1,005
Thereafter	-
Total	$ 6,369

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment as of December 31, 2018 and 2017 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
As of December 31, 2018:			
Assets under Capital Lease	$ 176	$ (4)	$ 172
Internal-Use Software	2,017	(1,977)	40
Total General Property, Plant and Equipment	$ 2,193	$ (1,981)	$ 212
As of December 31, 2017:			
Assets under Capital Lease	$ 471	$ (435)	$ 36
Internal-Use Software	2,017	(1,491)	526
Total General Property, Plant and Equipment	$ 2,488	$ (1,926)	$ 562

Assets under capital lease are depreciable over 36 months, which corresponds with the life of the underlying capital lease. Internal use software has a useful life of three years per the NCUA capitalization policy.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

AMEs include assets and liabilities from failed natural person credit unions (NPCU AMEs) and corporate credit union AMEs (Corporate AMEs). The components of the Receivable from AME, Net as of December 31, 2018 and 2017 were as follows (in thousands):

	2018			2017		
	NPCU AMEs	Corporate AMEs	Total	NPCU AMEs	Corporate AMEs	Total
Gross Receivable from AME	$ 1,868,736	$ 2,895,652	$ 4,764,388	$ 796,436	$ 3,165,931	$ 3,962,367
Allowance for Loss, beginning balance	787,497	2,679,849	3,467,346	867,820	-	867,820
Transfer-In of Allowance for Loss from TCCUSF, effective 10/1/2017	-	-	-	-	2,681,036	2,681,036
AME Receivable Bad Debt Expense (Reduction)	(26,315)	(73,544)	(99,859)	(20,295)	(1,187)	(21,482)
Increase in Allowance	752,902	-	752,902	18,376	-	18,376
Write-off of Cancelled Charters	(54,216)	-	(54,216)	(78,997)	-	(78,997)
Other	-	-	-	593	-	593
Allowance for Loss, ending balance	1,459,868	2,606,305	4,066,173	787,497	2,679,849	3,467,346
Receivable from AME, Net	$ 408,868	$ 289,347	$ 698,215	$ 8,939	$ 486,082	$ 495,021

AME Receivable Bad Debt Reduction for the NPCU AMEs represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. The amounts for Write-off of Cancelled Charters total the final loss or recovery recognized upon closing AMEs.

AME Receivable Bad Debt Reduction takes into account the NCUA's expectations and assumptions about the recovery value of the Corporate AMEs' assets, as further discussed under fiduciary activities in Note 14.

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

Insured Credit Unions

The NCUA identifies insured credit unions experiencing financial difficulty through the NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. The NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA uses the CAMEL rating system to evaluate an insured credit union's financial condition and operations. The CAMEL rating system is a tool used to measure risk and allocate resources for supervisory purposes. The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates take into account historical losses, CAMEL ratings, credit union level financial ratios, and other economic measures. In addition, specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. The anticipated losses for specific reserves are net of estimated recoveries from the disposition of the assets of failed credit unions. The total general and specific reserves for losses resulting from insured credit union failures were $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2018 or as of December 31, 2018. There were no guarantees outstanding during 2017 or as of December 31, 2017.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2018 and 2017 were approximately $0 and $410.0 million, respectively. The insured credit unions borrowed $0 and $206.0 million from the third-party lender under these lines-of-credit guarantees as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the NCUSIF reserved $0 and $9.0 million, respectively, for these guaranteed lines-of-credit.

On rare occasions, the NCUSIF may provide indemnifications as part of merger assistance or purchase and assumption agreements with acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2018 and 2017, respectively.

The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	2018	2017
Beginning balance	$ 925,487	$ 196,617
Reserve Expense (Reduction)	(13,967)	747,777
Insurance losses claims paid	(1,165,033)	(33,758)
Net Estimated Recovery/Claim on AMEs	372,566	14,851
Ending balance	$ 119,053	$ 925,487

The Insurance and Guarantee Program Liabilities at December 31, 2018 and December 31, 2017 were comprised of the following:

- Specific reserves were $7.3 million and $818.6 million, respectively. Specific reserves are identified for those credit unions where failure is probable and additional information is available to make a reasonable estimate of losses. During the year, specific reserves decreased based on the resolution of certain troubled credit unions through the NCUA's supervisory actions. As an overall process, information derived from these actions provides additional clarity concerning the probability and amount of estimated insurance losses for certain troubled credit unions prior to their resolution. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2018.
- General reserves were $111.8 million and $106.9 million, respectively.

In addition to these recognized contingent liabilities, adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions and, accordingly, could differ significantly from these estimates.

NCUA Guaranteed Notes

The NCUA's guarantees on the NGNs are a direct result of the NCUA's implementation of the CSRP. Pursuant to the FCU Act, the NCUA is authorized to assess insured credit unions for the recovery of any losses from this initiative. The NCUA uses both internal and external models to estimate contingent liabilities associated with the NGN Program, as discussed herein. The NCUSIF recorded no contingent liabilities on its Balance Sheet for NGNs as of December 31, 2018. No contingent liabilities were recorded in 2017.

Beginning in October 2010, the NCUA Board, as liquidating agent of the AMEs, transferred Legacy Assets to NGN Trusts and re-securitized them through the issuance of a series of floating and fixed-rate NGNs. The NGNs have final maturities ranging from 2016 to 2021. As of December 31, 2018 and 2017, the outstanding principal balance of the NGNs was $4.4 billion and $5.4 billion, respectively. This amount represents the maximum potential, but not the expected, future guarantee payments that the NCUA could be required to make.

The NCUA, through the NCUSIF, is liable to make guarantee payments through the NGN Trusts to the NGN holders under certain conditions outlined in the respective indentures and related agreements with respect to timely payment of interest and ultimate principal on the NGNs. In addition to the ultimate payment of principal and interest, the guarantee requires parity payments when the unpaid principal balance of all Legacy Assets underlying a particular NGN Trust, after realized and implied losses, if applicable, is less than the remaining unpaid principal balance of the related NGNs after distribution of all cash collected on the Legacy Assets for any given payment date.

As of December 31, 2018 and 2017, there were no probable losses for the guarantee of NGNs associated with the re-securitization transactions. Although the gross estimated guarantee payments were approximately $2.5 billion and $2.7 billion, respectively, these payments are estimated to be offset by:

i) contractual guarantee reimbursements and interest based on NGN governing documents from the Legacy Assets of the NGN Trusts of approximately $2.4 billion and $2.6 billion as of December 31, 2018 and 2017, respectively; and
ii) receivables from the Corporate AMEs based on the value of their economic residual interests in NGN Trusts of up to approximately $1.4 billion and $1.3 billion as of December 31, 2018 and 2017, respectively.

Recoveries in the form of potential guarantor reimbursements by the NGN Trusts to the NCUA are subordinate to payments on the NGNs in accordance with the respective indentures. As such, reimbursements of guarantee payments to the NCUA will not occur until the applicable NGNs have been repaid in full; after the NGNs are repaid in full, any cash flows received on the Legacy Assets underlying the NGN Trusts are directed toward reimbursements until the NCUA is reimbursed in full. The NCUA earns interest on any guarantee payments not yet reimbursed by the NGN Trusts at a rate equal to the interest rate on the associated NGNs.

Guarantee fees are senior in the NGN Trust payment waterfall in accordance with the respective indentures. It is expected that the NCUA will receive a guarantee fee payment from the NGN Trusts on each NGN payment date. The guarantee fee amount due to the NCUA at each monthly payment date is equal to 35 basis points per year on the outstanding NGN balance prior to the distribution of principal on the payment date.

The NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery value of the Corporate AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the indenture of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral that supports the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgage loans and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rates, housing prices and interest rates.

9. OTHER - CAPITAL LEASE LIABILITY

The NCUSIF leases laptops for state credit union examiners under a capital lease agreement with a non-federal vendor that will run through 2021. The capital lease liability as of December 31, 2018 and 2017 was $176.4 thousand and $0, respectively.

The future minimum lease payments to be paid over the remaining life as of December 31, 2018 are as follows (in thousands):

Years Ending December 31	**Minimum Lease Payments**	
2019	$	122
2020		61
2021		-
Total Future Lease Payments	$	183
Less: Imputed Interest		(7)
Net Capital Lease Liability	$	176

The capital lease liability is covered by budgetary resources.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between Intragovernmental and Public to facilitate government-wide financial reporting. Intragovernmental revenue and costs arise from transactions with other federal entities. Public revenue and costs arise from transactions with persons and organizations outside of the federal government. Intragovernmental costs and exchange revenue as of December 31, 2018 and 2017 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue	2018	2017
Intragovernmental Costs	$ 180,201	$ 189,217
Public Costs/(Cost Reduction)	(103,846)	736,094
Total	76,355	925,311
Intragovernmental Exchange Revenue	(123)	(128)
Public Exchange Revenue	(18,035)	(486,843)
Total	(18,158)	(486,971)
Net Cost	$ 58,197	$ 438,340

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor derived from a study of actual usage. In 2018 and 2017, the allocation to the NCUSIF was 61.5% and 67.7% of the NCUA Operating Fund expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $180.2 million and $189.2 million for the years ended December 31, 2018 and 2017, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2018 and 2017, amounts due to the NCUA Operating Fund for allocated administrative expenses were $4.0 million and $5.2 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund (in thousands):

Administrative Services Reimbursed to the NCUA Operating Fund	**2018**	**2017**
Employee Salaries	$92,539	$ 100,606
Employee Benefits	37,395	40,553
Employee Travel	14,740	15,617
Contracted Services	22,475	19,019
Administrative Costs	5,698	5,443
Depreciation and Amortization	3,641	3,655
Rent, Communications, and Utilities	3,713	4,324
Total Services Provided by the NCUA Operating Fund	$ 180,201	$ 189,217

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF has $6.0 billion in borrowing authority from the U.S. Treasury. Available borrowing authority, as of December 31, 2018 and 2017, was $6.0 billion and $6.0 billion, respectively.

Under the FCU Act, the NCUSIF also has the ability to borrow from the CLF. The NCUSIF is authorized to borrow from the CLF up to the amount of the CLF's unused borrowing authority. As of December 31, 2018 and 2017, the CLF had statutory borrowing authority of $7.0 billion and $6.6 billion, respectively. As of December 31, 2018 and 2017, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $2.0 billion and $2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2019.

At December 31, 2018 and 2017, the NCUSIF had $8.0 billion and $8.0 billion, respectively, in total available borrowing capacity.

12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2018 and 2017. Activity impacting budget totals of the overall federal government budget is recorded in the NCUSIF's Statements of Budgetary Resources budgetary accounts. As of December 31, 2018 and 2017, the NCUSIF's resources in budgetary accounts were $17.4 billion and $16.9 billion, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

The NCUSIF has $903.3 thousand and $863.8 thousand in unpaid undelivered orders, and $1.0 million and $1.0 million in paid undelivered orders, as of December 31, 2018 and 2017, respectively. Both unpaid and paid undelivered orders were all from non-federal sources as of December 31, 2018 and 2017.

Budgetary resources listed on the NCUSIF's financial statements and the budgetary resources found in the budget of the federal government differ because the NCUSIF's statements are prepared as of December 31, on a calendar year, rather than as of September 30, the federal government's fiscal year end.

13. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandated changes to the NCUSIF's capitalization provisions, effective January 1, 2000. Under Section 202(c) of the FCU Act, 12 U.S.C. § 1782(c), each insured credit union must pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. The CUMAA added provisions mandating that the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of less than $50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of $50.0 million or more. The annual and semi-annual adjustments are based on insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2018 and 2017, contributed capital owed to the NCUSIF totaled $0 and $1.9 million, respectively. Contributed capital due to insured credit unions was $0 as of December 31, 2018 and 2017.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions be determined from specific ratios, which are based in part upon year-end data. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. The NCUSIF equity ratio is calculated as the ratio of contributed capital plus cumulative results of operations, excluding net cumulative unrealized gains and losses on investments, to the aggregate amount of the insured shares in all insured credit unions. On December 13, 2018, the Board set the NOL at 1.38%, decreasing it from 1.39%. Previously, on September 28, 2017, the Board set the NOL at 1.39%, increasing it from 1.30%.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio is 1.39% as of December 31, 2018. This equity ratio is based on insured shares of $1.1 trillion as of December 31, 2018, and is above the normal operating level of 1.38%.

As of December 31, 2017, the NCUSIF equity ratio of 1.46% was above the normal operating level of 1.39%, which resulted in a $735.7 million distribution to credit unions that was paid during the third quarter of 2018. Total contributed capital as of December 31, 2018 and 2017 was $11.3 billion and $10.8 billion, respectively.

The NCUSIF's available assets ratio as of December 31, 2018 and 2017 was 1.31% and 1.40%, based on total insured shares as of December 31, 2018 and 2017 of $1.1 trillion and $1.1 trillion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the federal government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*. The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Fiduciary assets are recorded at values that are estimated to be recovered based on market information and external valuations, such as appraisals, as well as internal and external models incorporating the NCUA's current assumptions regarding numerous factors, including prepayments, defaults, loss severity and discount rates. Legacy Assets may benefit from litigation and other efforts by various trustees, insurers, investors, and investor consortiums, including the NCUA Board as liquidating agent, to recover losses that the Legacy Assets have suffered. Any benefits from these recovery efforts will be recognized by an AME when receipt is certain. Fiduciary liabilities related to borrowings and claims are recorded at their contractual or settlement amounts as agreed by the liquidating agents and the creditors. Contingent liabilities related to legal actions are recorded if probable and measurable. Accrued liquidation costs reflect the NCUA's estimates and assumptions regarding the timing and associated costs to dispose of the AME assets. The future estimate of liquidation costs, as well as the actual amounts, could differ materially from current estimates and assumptions.

Unless expressly guaranteed by the NCUA and backed by the full faith and credit of the United States, the AMEs' unsecured creditors, including the NCUSIF, could only expect to be paid if recoveries from the assets of the AMEs are sufficient to be distributed to the unsecured creditors in order of priority as set forth in 12 CFR §709.5(b).

(a) Natural Person Credit Unions AMEs

Following is the Schedule of Fiduciary Activity as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Activity	2018	2017
Fiduciary Net Liabilities, beginning of year	$ (795,403)	$ (871,271)
Net Realized Losses upon Liquidation	(752,265)	(23,774)
Revenues		
Interest on Loans	7,561	2,481
Other Fiduciary Revenues	215	451
Expenses		
Professional & Outside Services Expenses	(6,577)	(4,319)
Compensation and Benefits	(458)	(871)
Other Expenses	(381)	(667)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	27,497	16,803
Net Gain/(Loss) on Real Estate Owned	162	(1,090)
Other, Net Gain/(Loss)	(1,798)	7,857
(Increase)/Decrease in Fiduciary Net Liabilities	(726,044)	(3,129)
Write off of Fiduciary Liabilities for Cancelled Charters	54,216	78,997
Fiduciary Net Liabilities, end of year	**$ (1,467,231)**	**$ (795,403)**

The NPCU AMEs’ fiduciary net liabilities increased by $671.8 million from 2017 to 2018, including an increase in fiduciary net liabilities of $726.0 million and cancelled charter write-offs of $54.2 million. The primary drivers were an increase in net realized losses upon liquidation and continued improvement in the recovery value of assets and liabilities, offset by a decrease in cancelled charters. Net realized losses upon liquidation increased by $728.5 million due, in part, to the impact of certain credit union liquidations that occurred in the second half of 2018. The net change in recovery value of assets and liabilities line items increased by $2.3 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by $24.8 million, corresponding with fewer credit union charter cancellations in 2018 than the previous year.

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets based upon expected asset recovery rates and the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities. Following is the Schedule of Fiduciary Net Assets/Liabilities as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	2018	2017
Fiduciary Assets		
Loans	$ 375,382	$ 9,042
Real Estate Owned	6,542	8,798
Other Fiduciary Assets	64,847	3,565
Total Fiduciary Assets	446,771	21,405
Fiduciary Liabilities		
Insured Shares	1,478	1,535
Accrued Liquidation Expenses	39,662	14,441
Unsecured Claims	709	1,277
Uninsured Shares	3,417	3,119
Due to NCUSIF (Note 7)	1,868,736	796,436
Total Fiduciary Liabilities	1,914,002	816,808
Total Fiduciary Net Assets/(Liabilities)	**$ (1,467,231)**	**$ (795,403)**

Loans also includes amounts related to criminal restitution owed to the U.S. government. As of December 31, 2018, gross receivables related to criminal restitution orders were $206.2 million, of which we determined $60.8 thousand were collectible.

(b) Corporate AMEs (Legacy TCCUSF AMEs)

Following are the Schedules of Fiduciary Activity for the year ended December 31, 2018, compared to the three months ended December 31, 2017 (in thousands):

Schedule of Fiduciary Activity	For the Year Ended December 31, 2018			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, December 31, 2017	$ 630,320	$ -	$ -	$ 630,320
Revenues				
Interest on Loans	(1,974)	-	-	(1,974)
Income from AMEs on Re-Securitized Assets	-	(142,062)	142,062	-
Income from Investment Securities	(256,934)	-	-	(256,934)
Settlements and Legal Claims	(7,738)	-	-	(7,738)
Other Fiduciary Revenues	(7,042)	-	-	(7,042)
Expenses				
Professional and Outside Services Expenses	7,274	-	-	7,274
Interest Expense on Borrowings and NGNs	-	125,080	-	125,080
Payments to NGN Trusts	142,062	-	(142,062)	-
Guarantee Fees	-	16,982	-	16,982
Other Expenses	414	-	-	414
Net Change in Recovery Value of Assets and Liabilities	(113,111)	- -	-	(113,111)
Charter Cancellation	-	-	-	-
Increase/(Decrease) in Fiduciary Net Liabilities	(237,049)	-	-	(237,049)
Fiduciary Net Liabilities, December 31, 2018	$ 393,271	$ -	$ -	$ 393,271

Schedule of Fiduciary Activity	For the Three Months Ended December 31, 2017			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, October 1, 2017	$ 682,257	$ -	$ -	$ 682,257
Revenues				
Interest on Loans	(2,361)	-	-	(2,361)
Income from AMEs on Re-Securitized Assets	-	(140,461)	140,461	-
Income from Investment Securities	(190,409)	-	-	(190,409)
Settlements and Legal Claims	(858,080)	-	-	(858,080)
Other Fiduciary Revenues	(5,591)	-	-	(5,591)
Expenses				
Professional and Outside Services Expenses	215,600	-	-	215,600
Interest Expense on Borrowings and NGNs	-	116,990	-	116,990
Payments to NGN Trusts	140,461	-	(140,461)	-
Guarantee Fees	-	23,471	-	23,471
Other Expenses	634	-	-	634
Net Change in Recovery Value of Assets and Liabilities	627,365	-	-	627,365
Charter Cancellation	20,444	-	-	20,444
Increase/(Decrease) in Fiduciary Net Liabilities	(51,937)	-	-	(51,937)
Fiduciary Net Liabilities, December 31, 2017	$ 630,320	$ -	$ -	$ 630,320

For the year ended December 31, 2018, the Corporate AMEs' Fiduciary Net Liabilities decreased by $237.0 million. This decrease represents a benefit to the AME claimants, of which a portion was recognized by the NCUSIF through the reduction of the AME Receivable Bad Debt Expense, as discussed in Note 7. The main drivers for this decrease were the continued improvement of the recovery values for assets and liabilities and a $66.5 million increase in revenues from Investment Securities over the previous year. The Net Change in Recovery Value of Assets and Liabilities line includes the realized and unrealized gains and losses on the Legacy Assets, loans, real estate, investments and other assets and liabilities. For the year ended December 31, 2018, and the three months ended December 31, 2017, this line was $113.1 million and $627.4 million, respectively, which reflects a net loss that is due to improving values of the anticipated future cash flows of the Legacy Assets in the NGN Program.

The Schedule of Fiduciary Activity includes revenues earned on investments, including Legacy Assets, loans, real estate and other investments, and expenses incurred in orderly liquidation of the AMEs, including interest expense on borrowings and the NGNs.

Following are the Schedules of Fiduciary Net Assets/Liabilities as of December 31, 2018 and 2017 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	**As of December 31, 2018**			
	AMEs	**NGN Trusts**	**Eliminations**	**Total**
Fiduciary Assets				
Cash and Cash Equivalents	$ 530,577	$ 115,740	$ -	$ 646,317
Legacy Assets	535,899	-	-	535,899
Legacy Assets/Investments Collateralizing the NGNs	5,243,148	438,144	-	5,681,292
Loans	48,035	-	-	48,035
Receivable from AMEs	-	3,828,579	(3,828,579)	-
Other Fiduciary Assets	15	-	-	15
Total Fiduciary Assets	6,357,674	4,382,463	(3,828,579)	6,911,558
Fiduciary Liabilities				
Accrued Expenses	26,608	9,778	-	36,386
NGNs	-	4,372,685	-	4,372,685
Due to NGN Trusts	3,828,579	-	(3,828,579)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	2,895,652	-	-	2,895,652
Total Fiduciary Liabilities	6,750,945	4,382,463	(3,828,579)	7,304,829
Total Fiduciary Net Assets/(Liabilities)	$ (393,271)	$ -	$ -	$ (393,271)

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2017			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	$ 168,535	$ 125,541	$ -	$ 294,076
Legacy Assets	1,074,365	-	-	1,074,365
Legacy Assets/Investments Collateralizing the NGNs	6,281,218	314,069	-	6,595,287
Loans	54,955	-	-	54,955
Receivable from AMEs	-	5,009,469	(5,009,469)	-
Other Fiduciary Assets	178	-	-	178
Total Fiduciary Assets	7,579,251	5,449,079	(5,009,469)	8,018,861
Fiduciary Liabilities				
Accrued Expenses	34,065	8,669	-	42,734
NGNs	-	5,440,410	-	5,440,410
Due to NGN Trusts	5,009,469	-	(5,009,469)	-
Unsecured Claims and Payables	106	-	-	106
Due to NCUSIF (Note 7)	3,165,931	-	-	3,165,931
Total Fiduciary Liabilities	8,209,571	5,449,079	(5,009,469)	8,649,181
Total Fiduciary Net Assets/(Liabilities)	$ (630,320)	$ -	$ -	$ (630,320)

The Schedule of Fiduciary Net Assets reflects the expected recovery value of the Corporate AMEs' assets, including the Legacy Assets collateralizing the NGNs issued through the NGN Trusts, and the settlement value of valid claims against the Corporate AMEs outstanding at December 31, 2018 and 2017. Certain claims against the Corporate AMEs and the NGNs are guaranteed by the NCUA as previously discussed herein.

There were no maturities of NGN principal balances during 2018. During 2017, cash flows from the Legacy Assets securing the NGN 2011-R4 1A Trust paid off the outstanding NGN principal balances on October 5, 2017, resulting in the maturity of this trust prior to its scheduled maturity date. Additionally, on November 6, 2017, NGN 2010-R2 1A matured on its legal maturity date.

As of December 31, 2018 and December 31, 2017, the NCUA held $528.9 million and $167.0 million, respectively, in fiduciary cash on behalf of the Corporate AMEs.

15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. The Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

Reconciliation of Net Cost of Operations to Budget	**2018**	**2017**
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 2,220,613	$ 731,503
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(1,279,038)	(2,249,175)
Net Obligations	941,575	(1,517,672)
Other Resources:		
Net Unrealized (Gain)/Loss	67,815	41,061
Total Resources Provided to Finance Activities	1,009,390	(1,476,611)
Resources Provided to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(24)	3,502
Costs Capitalized on the Balance Sheet	(225,323)	1,095,211
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(612,560)	89,179
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	(837,907)	1,187,892
Resources Generated to Finance the Net Cost of Operations	171,483	(288,719)
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Provision for Insurance Losses		
Reserve Expense (Reduction)	(13,967)	747,777
AME Receivable Bad Debt Expense (Reduction)	(99,859)	(21,482)
Increase in Exchange Revenue	-	-
Change in Accrued Leave	14	2
Depreciation Expense	526	630
Other Expenses	-	132
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(113,286)	727,059
Net Cost of Operations	$ 58,197	$ 438,340

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations consists largely of unrealized losses on investments net of investment revenue and increases to the receivable from AME Allowance due to transfers, net of AME receivable bad debt expense.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued. Management determined that there were no significant items to be disclosed as of December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

Insured Credit Unions

As of December 31, 2018 and 2017, the aggregate outstanding insured shares of the insured credit unions were $1.1 trillion and $1.1 trillion, respectively. The NCUSIF insures member savings in federally insured credit unions, which account for about 98 percent of all credit unions in the United States. Deposits at all federal credit unions and the vast majority of state-chartered credit unions are covered by NCUSIF protection.

As discussed previously herein, the NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. The NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA uses the CAMEL rating system to evaluate a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. The aggregate amount of reserves recognized for credit union failures was $119.1 million and $925.5 million as of December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the general reserves were $111.8 million and $106.9 million, respectively. At December 31, 2018 and 2017, the specific reserves were $7.3 million and $818.6 million, respectively.

The NCUSIF's contingent liability decreased by $806.4 million from 2017 to 2018, reflecting the overall risk of losses due to potential credit union failures for insured credit unions, and increased by $728.9 million from 2016 to 2017. Assets in CAMEL 3, 4 and 5 rated credit unions increased 2.1% to $66.9 billion at the end of 2018 versus $65.5 billion at the end of 2017. The aggregate net worth ratio increased during the year, ending at 11.3% versus 11.0% at December 31, 2017. The ratio has shown overall improvement since 2011.

NCUA Guaranteed Notes

As discussed previously herein, the purpose of the former TCCUSF was to accrue the losses of the Corporate Credit Union (CCU) system and recover such losses over time. After assuming the balances of the former TCCUSF in October 2017, the NCUSIF has estimated no insurance losses from the NGNs and has recognized no net contingent liability for expected losses from the failed CCUs pursuant to SFFAS No. 5 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the NCUSIF had accrued for losses of the CCU system of approximately $2.6 billion and $2.7 billion, respectively, consisting of allowance for loss against receivables from the Corporate AMEs.

As of December 31, 2018 and 2017, the NCUSIF had gross receivables from the AMEs of $4.8 billion and $4.0 billion against which an allowance for losses of approximately $4.1 billion and $3.5 billion was established, for a net receivable from AMEs of $698.2 million and $495.0 million, respectively.

Fees and Premiums

Insured Credit Unions
During 2018 and 2017, the NCUA Board did not assess premiums to insured credit unions.

NCUA Guaranteed Notes
Under the NGN Program, the NCUSIF is entitled to guarantee fees on a monthly basis for providing associated guarantees as previously discussed in Notes 4 and 8. As of December 31, 2018 and 2017, the estimated value of NCUSIF guarantee fees for the remaining term of the NGNs, which will lessen the expected losses recognized by NCUSIF, was $24.2 million and $42.3 million, respectively.

Sensitivity, Risks and Uncertainties of the Assumptions

Insured Credit Unions

During 2013, the NCUA implemented the use of an econometric reserve model to improve the precision of the loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating probable failures and using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other economic measures. The effectiveness of the reserve methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2018.

The inclusion of variables in the estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include probability of failure and loss rates. The probability of failure is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates macroeconomic data such as the consumer price index and geographic housing prices, as well as individual credit union factors such as delinquencies and charge-offs. Prior to 2017, the loss rate was based on historical loss experience from actual failures. In 2017, the NCUA changed the loss rate used in the estimation model from historical loss experience to using regression analysis to calculate a loss experience rate for each credit union. The variables included in the estimation model are periodically evaluated by the NCUA to determine the reasonableness of the model output.

The internal model provides a range of losses. Per current policy, the minimum in the range of losses is the 75 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. Additionally, management's judgment is used to select the best estimate within the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5. When no estimate is better, the agency will use the low end of the range, in accordance with applicable accounting standards, which was $111.8 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2018. In selecting the best estimate within the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

NCUA Guaranteed Notes

As discussed in Note 8, the NCUA estimated the expected losses from the initiatives created to stabilize the CCU system using various methodologies, including internal and external models that incorporate the NCUA's expectations and assumptions about the anticipated recovery value, if any, of the Corporate AMEs' assets and the Legacy Assets collateralizing the NGNs.

The development of assumptions for key input variables of the estimation models and external valuations is a highly subjective process that involves significant judgment. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling included borrower status, prepayments, default, loss severity, discount rates, forward interest rate curves, house price appreciation forecasts, legal and regulatory changes, property locations, and unemployment expectations. Assumptions also varied by asset type and vintage. The assumptions developed for the estimation models are regularly evaluated by the NCUA to determine the reasonableness of those assumptions over time.

Also discussed in Note 8, the NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery values, if any, of the Corporate AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Asset transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporated the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts were also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral underlying the Legacy Assets and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produced estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgages and other assets. Assumptions about prepayments, defaults and loss severity were developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rate and housing prices, among other factors.

While certain parts of the credit market have seen improvements, the performance of asset- and mortgage-backed securities, such as the Legacy Assets, remains uncertain. The longer-term outlook for borrower and loan performance is uncertain. Uncertainty around housing prices, interest and unemployment rates, legal and regulatory actions, and the relationship of these factors to prepayment, loss severity, default and delinquency rates will likely change over time. Legacy Asset performance continues to be challenging to predict, and the external model used to derive the expected losses from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. For example, changing the assumptions for reasonably possible variations in certain macroeconomic factors such as a decline in housing prices from its most recent peak in the external model would have resulted in no expected losses, net of estimated guarantor reimbursements and the economic residual interests in the NGN Trusts (but exclusive of the estimated guarantee fees for the remaining term of the NGNs) associated with the re-securitization transactions, under any scenario as of December 31, 2018. However, such changes in the assumptions would have resulted in an amount for the Receivables from the Corporate AMEs, Net that differed from the recognized amount on the NCUSIF's Balance Sheet as of December 31, 2018.

Consistent with accounting standards, the assumptions and method used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.

OIG-19-02

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2018 and 2017, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

TABLE OF CONTENTS

KPMG LLP
Suite 12000
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Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2018 and 2017, and its revenues, expenses, changes in fund balance and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents (Note 3)	$ 92,122	$ 69,764
Due from National Credit Union Share Insurance Fund (Note 6)	4,023	5,153
Employee advances	343	11
Other accounts receivable, Net (Notes 6 and 9)	430	344
Prepaid expenses and other assets	2,678	2,386
Fixed assets - Net of accumulated depreciation of $38,530 and $37,845 as of December 31, 2018 and December 31, 2017, respectively (Note 4)	27,341	27,087
Intangible assets - Net of accumulated amortization of $17,569 and $18,653 as of December 31, 2018 and December 31, 2017, respectively (Note 5)	9,658	5,312
TOTAL ASSETS	$ 136,595	$ 110,057
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 10,274	$ 7,511
Obligations under capital leases (Note 7)	1,713	211
Accrued wages and benefits	14,777	12,280
Accrued annual leave	18,779	18,392
Accrued employee travel	619	607
Note payable to National Credit Union Share Insurance Fund (Note 6)	6,369	7,710
TOTAL LIABILITIES	52,531	46,711
COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 10, 11 & 12)		
FUND BALANCE	84,064	63,346
TOTAL LIABILITIES AND FUND BALANCE	$ 136,595	$ 110,057

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
For the years ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
REVENUES		
Operating fees	$ 130,163	$ 106,455
Interest	2,134	796
Other	1,227	1,118
Total Revenues	133,524	108,369
EXPENSES, NET (Notes 6 & 7)		
Employee wages and benefits	81,341	67,348
Travel	9,227	7,451
Rent, communications, and utilities	2,325	2,063
Contracted services	14,070	9,074
Depreciation and amortization	2,103	1,720
Administrative	3,740	2,621
Total Expenses, Net	112,806	90,277
EXCESS OF REVENUES OVER EXPENSES	20,718	18,092
FUND BALANCE—Beginning of year	63,346	45,254
FUND BALANCE—End of year	$ 84,064	$ 63,346

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 20,718	$ 18,092
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	5,744	5,376
(Gain) loss on fixed asset retirements	176	24
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,130	(1,094)
Employee advances	(332)	(6)
Other accounts receivable, net	(86)	93
Prepaid expenses and other assets	(292)	(542)
(Decrease) increase in liabilities:		
Accounts payable	2,763	1,902
Accrued wages and benefits	2,497	2,010
Accrued annual leave	387	223
Accrued employee travel	12	6
Net Cash Provided by Operating Activities	32,717	26,084
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(8,946)	(3,582)
Net Cash Used in Investing Activities	(8,946)	(3,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(72)	(746)
Net Cash Used in Financing Activities	(1,413)	(2,087)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,358	20,415
CASH AND CASH EQUIVALENTS—Beginning of year	69,764	49,349
CASH AND CASH EQUIVALENTS—End of year	$ 92,122	$ 69,764
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ 1,574	$ -
CASH PAYMENTS FOR INTEREST	$ 123	$ 128

See accompanying notes to the financial statements.

1. 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 (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

A significant majority of the Fund's revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based upon a fee schedule that is applied to its prior year-end assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The Fund maintains its accounting records in accordance with the accrual basis of accounting. As such, the Fund recognizes income when earned and expenses when incurred. In addition, the Fund records investment transactions when they are executed and recognizes interest on investments when it is earned.

Related Parties – The Fund exists within the NCUA and is one of four funds managed by the NCUA Board during 2018 and 2017. The other funds managed by the Board, deemed related parties, are:

a) The National Credit Union Share Insurance Fund (NCUSIF),
b) The National Credit Union Administration Central Liquidity Facility (CLF), and
c) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies as well as paying employee salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF and CLF while support of the CDRLF is not reimbursed.

Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties.

Additional related parties are described in Note 6.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the Fund to invest in United States Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2018 and 2017 were cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal software developers and other personnel involved in the development of the software. Capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the buildings and two to ten years for the furniture, equipment, computer software, and leasehold improvements.

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, requirements. Subsequent adjustments to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund may hold certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell, based on a review of available financial information including but not limited to appraisals, markets analyses, etc., is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less cost to sell.

Gains on disposition of real estate are recognized upon sale of the underlying asset. The Fund evaluates each real estate transaction to determine if it qualifies for gain recognition under the full accrual method. If the transaction does not meet the criteria for the full accrual method, the appropriate deferral method is used.

Accounts Receivable – Receivables include employee advances, amounts due from the NCUSIF, and other accounts receivable.

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 10.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the NCUA for these paid claims. The NCUA accrues a liability to recognize those payments and the NCUA subsequently reimburses DOL annually. The Fund records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the agency for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

Operating Fees – Each Federal credit union is assessed an annual fee based on its assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to Freedom of Information Act fees, sales of publications, parking income, and rental income is recognized when earned.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the Fund.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering the NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. The Fund also has capital leases which are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset.

Fair Value Measurements – The following method and assumption was used in estimating the fair value disclosures:

Cash and cash equivalents, due from NCUSIF, employee advances, other accounts receivable (net), obligations under capital leases, and notes payable to NCUSIF are recorded at book values, which approximate their respective estimated fair values.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and, if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deposits with U.S. Treasury	$ 12,270	$ 7,072
U.S. Treasury Overnight Investments	79,852	62,692
Total	$ 92,122	$ 69,764

The Operating Fund does not hold any cash or cash equivalents outside of the U.S. Department of the Treasury.

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Office building and land	$ 52,736	$ 52,381
Furniture and equipment	9,781	9,288
Leasehold improvements	513	406
Equipment under capital leases	1,933	2,498
Total assets in-use	64,963	64,573
Less accumulated depreciation	(38,530)	(37,845)
Assets in-use, net	26,433	26,728
Construction in progress	1,076	359
Less impairment loss	(168)	-
Fixed assets, net	$ 27,341	$ 27,087

Depreciation expense for the years ended December 31, 2018 and 2017 totaled $3.2 million and $3.8 million, respectively, before allocation to the NCUSIF as described in Note 6.

Construction in progress includes costs associated with improvements for the NCUA headquarters that increase the future service potential of the capital asset (building) beyond the existing level of service. A net impairment loss of $168 thousand related to improvements for the NCUA headquarters was recognized for the year ended December 31, 2018. Management determined that a certain improvement to the NCUA headquarters building would not be completed and placed in service as previously planned because it did not increase the future service potential of the building. The construction in progress related to this project was fully impaired with a fair value of $0. The amount of the loss is reported in administrative expenses on the Statements of Revenues, Expenses, and Changes in Fund Balance.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2018 and 2017 (in thousands):

	2018	2017
Internal-use software	$ 23,539	$ 23,664
Less accumulated amortization	(17,569)	(18,653)
Total internal-use software, net	5,970	5,011
Internal-use software under development	3,688	301
Intangible assets, net	$ 9,658	$ 5,312

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2018 and 2017 totaled $2.5 million and $1.5 million, respectively, before allocation to the NCUSIF as described in Note 6.

Internal-use software under development represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house.

6. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. These services include paying personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage. The Fund charges NCUSIF for these services based upon an annual allocation factor derived from a study of actual usage. In 2018 and 2017, the allocation to NCUSIF was 61.5% and 67.7% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled $180.2 million and $189.2 million for 2018 and 2017, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

As of December 31, 2018 and 2017, amounts due from NCUSIF totaled $4.0 million and $5.2 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to $42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $123.1 thousand and $127.6 thousand for 2018 and 2017, respectively. The notes payable balances as of December 31, 2018 and 2017 were $6.4 million and $7.7 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2018. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2018 and 2017 were 1.80% and 1.51%, respectively. The interest rates as of December 31, 2018 and 2017 were 2.01% and 1.59%, respectively.

The secured term note requires principal repayments as of December 31, 2018 as follows (in thousands):

Years ending December 31	Secured Term Note
2019	$ 1,341
2020	1,341
2021	1,341
2022	1,341
Thereafter	1,005
Total	$ 6,369

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF employee salaries and related benefits as well as CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total employees with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were $544.8 thousand and $658.0 thousand for the years ending December 31, 2018 and 2017, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $102.9 thousand and $175.6 thousand of amounts due from the CLF as of December 31, 2018 and 2017, respectively.

(c) Support of CDRLF

The Fund supports the administration of programs under CDRLF by paying related personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage.

For the years ending December 31, 2018 and 2017, unreimbursed administrative support to CDRLF is $559.6 thousand and $544.9 thousand, respectively.

(d) Federal Financial Institutions Examination Council (FFIEC)

The NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, the NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979, as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by the NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. A portion of the NCUA's contributions to the FFIEC cover costs associated with cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act. For the years ended December 31, 2018 and 2017, FFIEC assessments totaled $2,014.6 thousand and $1,553.8 thousand, respectively. The NCUA’s 2019 budgeted assessments from FFIEC total $1,520.8 thousand.

(e) Real Estate Available for Sale

The Fund may purchase homes from employees enrolled in the agency’s home purchase program who are unable to sell their homes in a specified time period. It is the agency’s intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred.

7. LEASE COMMITMENTS

Description of Leasing Agreements – The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes copiers, laptops, and mail equipment.

Operating Leases – The Fund leases a portion of the NCUA’s office space under lease agreements that will continue through 2023. Office rental charges amounted to approximately $1.3 million and $1.2 million, of which approximately $778.1 thousand and $792.0 thousand were reimbursed by NCUSIF for 2018 and 2017, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2021. Amounts presented in the table below include $77.2 thousand of imputed interest.

The future minimum lease payments to be paid over the next four years as of December 31, 2018, before reimbursements, are as follows (in thousands):

Years ending December 31	**Operating Leases**	**Capital Leases**
2019	$ 1,387	$ 613
2020	1,264	610
2021	415	567
2022	427	-
Thereafter	326	-
Total	$ 3,819	$ 1,790

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 60.5% of the 2019 operating lease payments.

8. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions, the total of which were not to exceed $18,500 ($24,500 for age 50 and above) in 2018, an increase of $500 from 2017. In addition, the Fund matches up to 5% of the employee's gross pay.

In 2018 and 2017, the Fund's contributions to the plans were approximately $26.5 million and $26.0 million, respectively, of which approximately $16.3 million and $17.6 million, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund. The current agreement that became effective on July 7, 2015 is in effect for five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties. The Fund will maintain a voluntary 401(k) plan and will contribute, with no employee matching contribution, 3% of the employee's compensation as defined in *Article 9 Compensation and Benefits* of the CBA. The Fund matched an employee's voluntary contribution up to a maximum of 2.0% of the employee's total pay for 2018 and 2017. The Fund's match of 2.0% remains in effect for the duration of the CBA. The NCUA's contributions for 2018 and 2017 were $6.8 million and $6.7 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2018 and 2017 were $96.2 thousand and $94.0 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 61.5% and 67.7% to the NCUSIF in 2018 and 2017, respectively. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

9. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 820, *Fair Value Measurement.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2018 and 2017, were as follows (in thousands):

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 92,122	$ 92,122	$ 69,764	$ 69,764
Due from NCUSIF	4,023	4,023	5,153	5,153
Employee advances	343	343	11	11
Other accounts receivable	430	430	344	344
Obligations under capital lease	1,713	1,713	211	211
Note payable to NCUSIF	6,369	6,369	7,710	7,710

Cash and cash equivalents – The carrying amounts for cash and cash equivalents financial instruments approximate fair value as the short-term nature of these instruments does not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximate fair value as the amount is scheduled to be paid within the first quarter of fiscal year 2019.

Employee advances – The carrying amounts for receivables from employees' financial instruments approximate fair value as the amount is scheduled to be paid in fiscal year 2019.

Other accounts receivable, net – The carrying amounts for other accounts receivable approximate fair value as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2018 and 2017, the Fund's other accounts receivable includes an allowance in the amount of $6.7 thousand and $9.2 thousand, respectively.

Obligation under capital lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximate fair value because the underlying interest rates approximate rates currently available to the Fund.

Note payable to NCUSIF – The carrying amounts for note payable to NCUSIF financial instruments approximate fair value due to its variable rate nature.

10. CONTINGENCIES

The NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is estimable. The NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which have or may ultimately result in settlements or decisions against the agency. For those matters where an estimate is possible and the loss is probable, such amount has been accrued in other liabilities.

11. COLLECTIVE BARGAINING AGREEMENT

The NCUA has a CBA with the National Treasury Employees Union (NTEU) that became effective on July 7, 2015. NTEU is the exclusive representative of approximately 75% of the NCUA employees. This agreement will remain in effect for a period of five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties.

12. RESTRUCTURING PLAN

In 2017, the NCUA Board approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan eliminated agency offices with overlapping functions and improved functions such as examination reporting, records management and procurement. The agency completed the headquarters reorganization in 2018, while the consolidation from five to three regional offices is effective January 7, 2019. The NCUA plans for the facilities improvements associated with the restructuring plan to be complete by 2020.

In accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, the NCUA estimates total restructuring costs to be $13.0 million. This estimate includes employee termination benefits of $950.0 thousand, relocation costs of $2.4 million, and other administrative costs of $9.7 million. To date, $4.2 million in costs have been incurred for this plan including approximately $3.1 million and $1.1 million in 2018 and 2017, respectively.

In 2017, the NCUA incurred $185.5 thousand for relocation expenses, of which $178.9 thousand was a liability. In 2018, the NCUA incurred an additional $1.5 million in relocation expenses and paid $864.8 thousand of the liability. As of December 31, 2018, the NCUA has a $797.5 thousand liability associated with relocation.

In 2017, the NCUA incurred $762.5 thousand in employee termination benefits, of which $732.5 thousand was a liability. In 2018, the NCUA incurred an additional $120.0 thousand in costs associated with employee termination benefits and paid $612.4 thousand of the liability. As of December 31, 2018, the NCUA has a $240.0 thousand liability associated with employee termination benefits.

In 2018, the NCUA incurred $1.5 million in other administrative costs, of which $657.8 thousand was a liability as of December 31, 2018.

Based on the overhead transfer rate allocation, the total allocation to the Fund and NCUSIF in 2018 was approximately $1.2 million and $1.9 million, respectively. In 2017, the total allocation to the Fund and NCUSIF was approximately $345.7 thousand and $724.5 thousand, respectively. Incurred costs are included in the Statement of Revenues, Expenses, and Changes in Fund Balance on the following line items: Employee wages and benefits; Contracted services; and Administrative. Incurred costs associated with facilities improvements are included in the Balance Sheet as a part of Fixed assets.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

OIG-19-03

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2018 and 2017, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

TABLE OF CONTENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CLF's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2018 and 2017, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the CLF's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
As of December 31, 2018 and 2017
(Dollars in thousands, except share data)

	2018	2017
ASSETS		
Cash and Cash Equivalents (Notes 3 and 5)	$ 9,662	$ 5,573
Investments Held to Maturity (Net of $844 and $1,372 unamortized discount and unamortized premium as of 2018 and 2017, respectively, fair value of $300,543 and $284,042 as of 2018 and 2017, respectively) (Notes 4 and 5)	303,321	286,637
Accrued Interest Receivable (Note 5)	1,281	1,370
TOTAL ASSETS	$ 314,264	$ 293,580
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable (Notes 5 and 9)	$ 129	$ 226
Dividends and Interest Payable (Note 5)	1,052	655
Stock Redemption Payable (Note 5)	767	-
Member Deposits (Notes 5 and 7)	3,799	2,446
Total Liabilities	5,747	3,327
MEMBERS' EQUITY		
Capital Stock – Required ($50 per share par value authorized: 10,983,384 and 10,304,634 shares; issued and outstanding: 5,491,692 and 5,152,317 shares as of 2018 and 2017, respectively) (Note 6)	274,584	257,616
Retained Earnings	33,933	32,637
Total Members' Equity	308,517	290,253
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 314,264	$ 293,580

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
REVENUE		
Investment Income	$ 5,230	$ 3,970
Total Revenue	5,230	3,970
EXPENSES (Note 9)		
Personnel Services	320	415
Personnel Benefits	90	155
Other General and Administrative Expenses	110	96
Total Operating Expenses	520	666
Interest – Member Deposits (Note 7)	38	17
Total Expenses	558	683
NET INCOME	$ 4,672	$ 3,287

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands, except share data)

	Capital Stock			
	Shares	**Amount**	**Retained Earnings**	**Total**
BALANCE – December 31, 2016	4,798,149	$ 239,907	$ 31,560	$ 271,467
Issuance of Required Capital Stock	391,433	19,572		19,572
Redemption of Required Capital Stock	(37,265)	(1,863)		(1,863)
Dividends Declared (Notes 6 and 7)			(2,210)	(2,210)
Net Income			3,287	3,287
BALANCE – December 31, 2017	5,152,317	$ 257,616	$ 32,637	$ 290,253
Issuance of Required Capital Stock	380,665	19,033		19,033
Redemption of Required Capital Stock	(41,290)	(2,065)		(2,065)
Dividends Declared (Notes 6 and 7)			(3,376)	(3,376)
Net Income			4,672	4,672
BALANCE – December 31, 2018	5,491,692	$ 274,584	$ 33,933	$ 308,517

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 4,672	$ 3,287
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
Amortization of Investments	274	358
Interest - Member Deposits	38	17
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	89	(286)
Increase/(Decrease) in Accounts Payable	(97)	38
Net Cash Provided by Operating Activities	4,976	3,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(90,258)	(65,613)
Proceeds from Maturing Investments	73,300	44,300
Net Cash Used in Investing Activities	(16,958)	(21,313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	16,989	18,423
Redemption of Capital Stock	(825)	(1,840)
Withdrawal of Member Deposits	(93)	(159)
Net Cash Provided by Financing Activities	16,071	16,424
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,089	(1,475)
CASH AND CASH EQUIVALENTS–Beginning of Year	5,573	7,048
CASH AND CASH EQUIVALENTS–End of Year	$ 9,662	$ 5,573

See accompanying notes to the financial statements.

1. ORGANIZATION AND PURPOSE

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

The CLF was created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. The CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

The CLF is subject to various Federal laws and regulations. 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 U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 6 and 8 for further information about the capital stock and the CLF's borrowing authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards-setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for those Federal entities, such as the CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CLF recognizes interest income on loans and investments when earned, and recognizes interest expense on borrowings when incurred. The CLF recognizes expenses when incurred. In addition, the CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less.

Investments – By statute, the CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities*, as the CLF has the intent and ability to hold these investments until maturity. Accordingly, the CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

The CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is other-than-temporary, the CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the "investment income" line item in the Statements of Operations.

The CLF records investment transactions when they are made.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. The CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. The CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2018 and 2017.

Borrowings – The CLF's borrowings are recorded when they are received, do not hold premiums or discounts, and are carried at cost. Repayments are recorded when they are made.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the CLF.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Related Parties – The CLF exists within the NCUA and is managed by the NCUA Board. The NCUA Operating Fund (OF) provides the CLF with information technology, support services, and supplies; in addition, the NCUA OF pays the CLF's employees' salaries and benefits, as well as the CLF's portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time the CLF employees spend performing the CLF functions.

3. CASH AND CASH EQUIVALENTS

The CLF's cash and cash equivalents as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
U.S. Treasury Overnight Investments	$ 8,662	$ 4,573
Deposits with U.S. Treasury	1,000	1,000
Total	$ 9,662	$ 5,573

U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Carrying Amount, December 31,	$ 303,321	$ 286,637
Gross Unrealized Holding Gains	714	269
Gross Unrealized Holding Losses	(3,492)	(2,864)
Fair Value	$ 300,543	$ 284,042

Maturities of debt securities classified as held-to-maturity were as follows:

	2018		2017	
(Dollars in thousands)	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	$ 66,026	$ 65,626	$ 73,313	$ 73,202
Due after one year through five years	203,450	201,769	179,391	177,415
Due after five years through ten years	33,845	33,148	33,933	33,425
Total	$ 303,321	$ 300,543	$ 286,637	$ 284,042

The following table includes gross unrealized losses on investment securities, for which OTTI has not been recognized, in addition to the fair values of those securities, aggregated by investment classification and length of time the investments have been in a loss position, at December 31, 2018 and 2017.

	Losses Less than 12 Months		Losses More than 12 Months		Total	
(Dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2018						
U.S. Treasury Securities	$ (84)	$ 35,676	$ (3,408)	$ 187,603	$ (3,492)	$ 223,279
As of December 31, 2017						
U.S. Treasury Securities	$ (836)	$ 135,693	$ (2,028)	$ 106,297	$ (2,864)	$ 241,990

5. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – The CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which market prices can be readily obtained. The related fair value is determined using the quoted market prices at the reporting date.

Member Deposits – Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, stock redemption payable, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The following table presents the carrying amounts and established fair values of the CLF's financial instruments as of December 31, 2018 and 2017. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 9,662	$ 9,662	$ 5,573	$ 5,573
Investments held-to-maturity	303,321	300,543	286,637	284,042
Accrued interest receivable	1,281	1,281	1,370	1,370
Accounts payable	129	129	226	226
Dividends and Interest payable	1,052	1,052	655	655
Stock redemption payable	767	767	-	-
Member deposits	3,799	3,799	2,446	2,446

6. CAPITAL STOCK

Membership in the CLF is open to all credit unions that purchase a prescribed amount of capital stock. The CLF capital stock is non-voting and shares have a par value of $50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from the CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 "Liquidity and Contingency Funding Plans," which requires federally insured credit unions with assets of $250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the CLF, or establishing borrowing access at the Federal Reserve Discount Window.

The 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 is required to be remitted to the CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA 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 non-cumulative, and are declared and paid on required capital stock.

A member of the CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in the CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in the CLF two years after notifying the NCUA Board of its intention. As of December 31, 2018, the CLF had one member withdrawal requests pending. As of December 31, 2017, the CLF had no member withdrawal request pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

The CLF's capital stock accounts were composed of the following as of December 31, 2018 and 2017 (in thousands, except share data):

	2018		**2017**	
	Shares	Amounts	Shares	Amounts
Regular members	5,491,692	$ 274,584	5,152,317	$ 257,616

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members change quarterly. For 2018, the dividend rates were $0.50 per share for the first quarter, $0.625 per share for the second and third quarters and $0.75 for the fourth quarter. For 2017, the dividend rates were $0.375 per share for the first and second quarters and $0.50 per share for the third and fourth quarters.

7. MEMBER DEPOSITS

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.

8. BORROWING AUTHORITY

The CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2018 and 2017, the CLF's statutory borrowing authority was $7.0 billion and $6.6 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). The NCUA maintains a note purchase agreement with FFB on behalf of the CLF with a current maximum principal amount of $2.0 billion. Under the terms of its agreement, the CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, the CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2019.

9. RELATED PARTY TRANSACTIONS

The NCUA OF pays the salaries and related benefits of the CLF's employees, as well as the CLF's portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of the CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by the NCUA was approximately $544.8 and $658.2 thousand, respectively, for December 31, 2018 and 2017. Accounts payable includes approximately $102.9 and $175.6 thousand, respectively, for December 31, 2018 and 2017, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

OIG-19-04

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

TABLE OF CONTENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, National Credit Union Administration
and the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (the CDRLF) which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CDRLF's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2018 and 2017, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2018, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of CDRLF's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2019

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 8,844,416	$ 9,680,592
Loans Receivable (Notes 5, 7, and 8)	9,705,000	8,114,999
Interest Receivable (Note 8)	13,523	10,995
TOTAL ASSETS	$ 18,562,939	$ 17,806,586
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 3,030,217	$ 2,461,556
Fund Balance		
Fund Capital (Note 4)	13,674,545	13,572,440
Accumulated Earnings	1,858,177	1,772,590
Total Fund Balance	15,532,722	15,345,030
TOTAL LIABILITIES AND FUND BALANCE	$ 18,562,939	$ 17,806,586

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2018 and 2017

	2018	2017
SUPPORT AND REVENUES		
Interest on Cash Equivalents	$ 104,345	$ 34,865
Interest on Loans	45,359	47,152
Total Interest Income	149,704	82,017
Appropriation Revenue		
Appropriations Expended (Note 4)	2,000,000	2,389,085
Cancelled Technical Assistance Grants (Note 6)	(103,355)	(362,020)
Total Appropriation Revenue	1,896,645	2,027,065
Total Support and Revenues	2,046,349	2,109,082
EXPENSES		
Technical Assistance Grants	2,074,407	2,434,085
Cancelled Technical Assistance Grants (Note 6)	(113,645)	(362,020)
Total Expenses	1,960,762	2,072,065
NET INCOME/(LOSS)	$ 85,587	$ 37,017

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
For the Years Ended December 31, 2018 and 2017

	Fund Capital				
	For Loans	**For Technical Assistance**	**Total Fund Capital**	**Accumulated Earnings**	**Total Fund Balance**
December 31, 2016	$ 13,387,777	$ 238,043	$ 13,625,820	$ 1,735,573	$ 15,361,393
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,389,085)	(2,389,085)	-	(2,389,085)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(26,315)	(26,315)	-	(26,315)
Cancelled Technical Assistance Grants (Note 6)	-	362,020	362,020	-	362,020
Net Income/(Loss)	-	-	-	37,017	37,017
December 31, 2017	$ 13,387,777	$ 184,663	$ 13,572,440	$ 1,772,590	$ 15,345,030
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,000,000)	(2,000,000)	-	(2,000,000)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(1,250)	(1,250)	-	(1,250)
Cancelled Technical Assistance Grants (Note 6)	-	103,355	103,355	-	103,355
Net Income/(Loss)	-	-	-	85,587	85,587
December 31, 2018	$ 13,387,777	$ 286,768	$ 13,674,545	$ 1,858,177	$ 15,532,722

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(Loss)	$ 85,587	$ 37,017
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Appropriations Expended	(2,000,000)	(2,389,085)
Cancelled Technical Assistance	103,355	362,020
Changes in Assets and Liabilities		
Increase in Interest Receivable	(2,528)	(783)
Increase in Accrued Technical Assistance	568,661	173,485
Net Cash Used in Operating Activities	(1,244,925)	(1,817,346)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	409,999	2,599,723
Loan Disbursements	(2,000,000)	(500,000)
Net Cash Used In Investing Activities	(1,590,001)	2,099,723
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2018/2019	2,000,000	-
Appropriations Received 2017/2018	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2012/2013	(1,250)	-
Cancelled Appropriations Remitted to Treasury 2011/2012	-	(26,315)
Net Cash Provided by Financing Activities	1,998,750	1,973,685
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(836,176)	2,256,062
CASH AND CASH EQUIVALENTS — Beginning of Year	9,680,592	7,424,530
CASH AND CASH EQUIVALENTS — End of Year	$ 8,844,416	$ 9,680,592

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (the CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (the NCUA) and the Community Services Administration (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of the CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of the CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, the CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred the CDRLF administration back to the NCUA. The NCUA Board adopted amendments to Part 705 of the NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The purpose of the CDRLF is to stimulate economic activities in the communities served by low-income credit unions, which is expected to result in increased income, ownership, and employment opportunities for low-income residents, and other economic growth. The policy of the NCUA is to revolve the loans to qualifying credit unions as often as practical in order to gain maximum impact on as many participating credit unions as possible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CDRLF has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of Federal Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for Federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CDRLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CDRLF recognizes income when earned and expenses when incurred. In addition, the CDRLF records investment transactions when they are executed and recognizes interest on investments when it is earned.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2018 and 2017 were cash equivalents and were stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – NCUA Rules and Regulations do not provide a maximum limit on loan applications. Loan amounts of up to $500,000 are approved based on the financial condition of the credit union. The maximum loan term is five (5) years. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. The CDRLF reviews the interest rate on an annual basis. Effective May 1, 2014, the interest rate was set to 0.60%. In 2018 and 2017, the CDRLF maintained the interest rate at 0.60%.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any.

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2018 and 2017. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Accrued Technical Assistance Grants – The CDRLF issues technical assistance grants to low-income designated credit unions. The CDRLF utilizes multiyear appropriated funds and income generated from the revolving fund to issue technical assistance grants. Grant income and expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. The CDRLF performs a review of long term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and then formal steps are taken to cancel identified technical assistance grants. The cancelled technical assistance grant funds are credited back to the original appropriated fund from which they are awarded.

Related Party Transactions – The NCUA, through the Operating Fund (OF), provides certain general and administrative support to the CDRLF, including personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. The value of these contributed services is not charged to the CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because technical assistance grants are funded by appropriations and income generated from the revolving fund. Interest income on cash and cash equivalents and on loans is recognized when earned.

Use of Estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the CDRLF.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The CDRLF's cash and cash equivalents as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deposits with U.S. Treasury	$ 3,747,416	$ 3,880,592
U.S. Treasury Overnight Securities	5,097,000	5,800,000
	$ 8,844,416	$ 9,680,592

4. GOVERNMENT REGULATIONS

The CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance grants, is limited to the amount appropriated by Congress to date for the CDRLF, which includes accumulated earnings. Federally-chartered and state-chartered credit unions with a low-income designation are eligible to participate in the CDRLF's loan and technical assistance grant program.

Since inception, Congress has appropriated $13.4 million for the revolving loan component of the program. This component is governed by Part 705 of the NCUA Rules and Regulations.

During the year ended December 31, 2018, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for the Federal fiscal year (FY) 2018. This is a multiyear appropriation that is available for obligation through September 30, 2019. Of this amount, $2.0 million was expended for the year ended December 31, 2018.

During the year ended December 31, 2017, the CDRLF received an appropriation for technical assistance grants in the amount of $2.0 million for FY 2017. This was a multiyear appropriation that was available for obligation through September 30, 2018. Of this amount, $2.0 million was expended for the year ended December 31, 2017. An additional $389 thousand was expended from the FY 2016 appropriation.

Appropriated funds in the amount of $1 thousand from the FY 2012 appropriation were remitted to the U.S. Treasury in 2018 upon cancellation. Appropriated funds in the amount of $26 thousand from the FY 2011 appropriation were remitted to the U.S. Treasury in 2017 upon cancellation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans.

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Balance as of the Beginning of the Year	$ 8,114,999	$ 10,214,722
Loans Disbursed	2,000,000	500,000
Loan Repayments	(409,999)	(2,599,723)
Loans Receivable as of the End of the Year	9,705,000	8,114,999
Changes in the Allowance for Loan Losses Consisted of the Following:		
Balance as of the Beginning of the Year	-	-
Decrease (increase) in the Allowance	-	-
Allowance for Loan Losses as of the End of the Year	-	-
Loans Receivable, Net, as of the End of the Year	$ 9,705,000	$ 8,114,999

Loans outstanding as of December 31, 2018 are scheduled to be repaid during the following subsequent years:

	2018
2019	4,530,000
2020	1,500,000
2021	1,175,000
2022	500,000
2023	2,000,000
Total Loans Receivable	$ 9,705,000

The CDRLF has the intent and ability to hold its loans to maturity. The CDRLF anticipates realizing the carrying amount in full.

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2018, the CDRLF cancelled $10 thousand of technical assistance grants awarded from the revolving fund and $103 thousand of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $103 thousand was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2017, the CDRLF cancelled $0 of technical assistance grants awarded from the revolving fund and $362 thousand of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2013 through 2017 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, the CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union’s accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $3.6 million and $2.9 million as of December 31, 2018 and 2017, respectively. The increase in FY 2018 is primarily due to loans issued of $750 thousand in loan amounts over $250,000.

8. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants by the measurement date. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan’s projected future cash flow. The CDRLF believes that the discount rate reflects the pricing and is commensurate with the risk of the loans to the CDRLF. Loans are valued annually on December 31.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

The following table presents the carrying value amounts and established fair values of the CDRLF's financial instruments as of December 31, 2018 and 2017.

	2018		**2017**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and Cash Equivalents	$ 8,844,416	$ 8,844,416	$ 9,680,592	$ 9,680,592
Loans Receivable	9,705,000	9,770,976	8,114,999	8,125,520
Interest Receivable	13,523	13,523	10,995	10,995
Liabilities				
Accrued Technical Assistance Grants	3,030,217	3,030,217	2,461,556	2,461,556

9. RELATED PARTY TRANSACTIONS

The NCUA, through the OF, supports the administration of programs under the CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage.

For the years ending December 31, 2018 and 2017, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF:

	2018	**2017**
Employee	$ 504,304	$ 474,146
Other	55,313	70,716
Total	$ 559,617	$ 544,862

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2019, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.