NCUA National Credit Union Administration

OFFICE OF INSPECTOR GENERAL

NCUA 2020
FINANCIAL STATEMENT AUDITS
FOR
SHARE INSURANCE FUND
OPERATING FUND
CENTRAL LIQUIDITY FACILITY
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

For the year ended December 31, 2020

Audited Financial Statements	Audit Report Number
Share Insurance Fund	OIG-21-02
Operating Fund	OIG-21-03
Central Liquidity Facility	OIG-21-04
Community Development Revolving Loan Fund	OIG-21-05

February 16, 2021

February 16, 2021

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable Rodney E. Hood, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Chairman Harper, Vice Chairman Hauptman, and Board Member Hood:

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, 2020 and 2019. 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, 2020. 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, OMB audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2020 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 the 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 16, 2021, 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 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.

The Inspector General's Statement on the NCUA's Management and Performance Challenges

The Inspector General is required by law[3] to provide a summary statement on management and performance challenges facing the agency. Below is 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, the 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, 2020, over 124 million members have $1.5 trillion in insured deposits at approximately 5,110 federally insured credit unions. These credit unions have approximately $1.9 trillion in assets.

<u>Agency Mission and Vision</u>

Throughout 2021, 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."

[3] Reports Consolidation Act of 2000 (Pub. L. No. 106-531).

Agency Challenges

In deciding whether to identify an issue as a challenge, we consider its significance in relation to the NCUA's mission; its susceptibility to fraud, waste, and abuse; and the NCUA's progress in addressing the challenge. We compiled the attached statement on the basis of our past and ongoing audit, evaluation, investigation, and review work; our knowledge of the NCUA's programs and operations; and information from the U.S. Government Accountability Office and NCUA management and staff.

We also consider the economic environment as a key determinant of credit union performance and for the last several years, the economy has supported solid performance of the credit union system. However, the NCUA will continue to face several risks that threaten the safety and soundness of the system and the Share Insurance Fund, as well as a number of complex challenges that could potentially impact its operations in the future. As a result, the NCUA must remain diligent in its supervisory efforts.

For calendar year 2021, we have again identified the following as areas where the NCUA faces management and performance challenges to varying degrees: cyber threats, technology driven changes to the financial landscape, interest rate risk, and membership trends. However, we believe the economy and credit unions' recovery from the COVID-19 pandemic will be the NCUA's greatest management challenge going forward in 2021 and possibly beyond.

Economic Outlook – After several years of solid growth, the economy entered a recession at the start of 2020. The COVID-19 pandemic and efforts to slow the spread of the virus led to a dramatic pull-back in spending and the economy contracted sharply with employment plunging by 22 million and the unemployment rate surging from a five-decade low of 3.5 percent to a post-war high of 14.7 percent. In reaction to the recession, the Federal Reserve cut short-term interest rates, increased asset holdings, and established a number of lending programs to support financial conditions and the flow of credit to households, businesses, and state and local governments.

Interest rates fell to historically low levels and are forecast to remain low. Analysts expect other short-term interest rates, which largely determine the interest payments credit unions make, to remain near their current low levels through 2021, moving modestly higher in 2022. Longer-term rates, which largely determine the interest payments credit unions receive, are expected to edge higher as economic conditions improve. Even if the economy continues to recover as expected, the operating environment for credit unions over the next two years could prove to be more difficult than in prior years, and credit union performance could deteriorate. Credit unions should plan for a range of economic outcomes that could affect their performance and resource needs.

Cyber Threats — I have noted this same challenge over the past several years, that is, credit unions' increasing use of technology exposes the credit union system to increasing cyber-attacks. Specifically, malware, ransomware, distributed denial of service (DDOS) attacks, and other forms of cyber intrusion affect credit unions of all sizes and will continue to require ongoing measures for containment. These threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to only increase in frequency and severity. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. As I noted over these last several years, with credit unions and other small financial institutions increasingly targeted, credit unions must continue to harden, monitor, and enhance the security of their systems.

For 2021, I am encouraged that the NCUA continues to update its supervisory priorities, which continues to include cybersecurity where the NCUA plans to advance consistency, transparency, and accountability within the cybersecurity examination program. The NCUA is piloting InTREx-CU, which aligns the IT and cybersecurity examination procedures shared by the Federal Deposit Insurance Corporation, the Federal Reserve System, and some state financial regulators to ensure consistent approaches are applied to community financial institutions. InTREx-CU will be deployed to identify gaps in security safeguards, allowing examiners and credit unions to identify and remedy potential high-risk areas through the identification of critical information security program deficiencies.

Technology-driven Changes — Last year I spoke of emerging financial products that mimic deposit and loan accounts such as mobile payment systems, pre-paid shopping cards, and peer-to-peer lending that pose a competitive challenge to credit unions as does the increasing importance of digital currencies. In addition to these products, credit unions will also face challenges from financial technology (Fintech) companies in underwriting and lending. Fintech companies may be able to automate these services at a cost below levels associated with more traditional financial institutions but may not be subject to the same regulations and safeguards that credit unions and other traditional financial institutions face. As these companies and products gain popularity, credit unions may have to be more active in marketing their products and services and rethink their business models.

Interest Rate Risk — Even if the economy continues to recover as expected, the operating environment for credit unions over the next two years could prove to be more difficult than in prior years, and credit union performance could deteriorate. Credit unions should plan for a range of economic outcomes that could affect their performance and resource needs.

As I noted in prior years, the NCUA and credit unions will need to focus on managing and mitigating interest rate risk. On the liability side, deposit rates have fallen since the start of 2020 and will likely remain low. Credit unions will continue to face pressure to offer competitive deposit rates to avoid deposit attrition, as many members have several financial institution alternatives and can move funds quickly across institutions. A prolonged period of low interest rates also poses risks on the asset side. Credit unions that rely primarily on investment income may find their net income remaining low or falling. In addition, as I noted a year ago, credit unions could resume their “reach for yield” by adding longer-term and higher-risk assets to their portfolio.

Not only will credit union managers need to take appropriate actions to ensure their balance sheets remain stable in a variety of interest rate environments, but the NCUA must also continue to help credit unions plan and prepare for a range of economic outcomes that can affect their performance.

Membership Trends— As I have noted over the last several years, the NCUA and credit unions face the challenge of an aging demographic, and unfortunately, these same membership concerns continue. 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 2020 than a year earlier. All credit unions need to consider whether their product mix is consistent with their members' needs and demographic profile and I am encouraged that the NCUA continues to seek to promote financial inclusion to better serve a changing population and economy. The Office of Credit Union Resources and Expansion continues to provide an array of technical assistance to credit unions, including chartering and field-of-membership expansions, grants and loans training, and the preservation program for minority credit unions. In 2021, the NCUA plans to continue to develop initiatives to create opportunities to promote financial education and financial inclusion, and foster an environment where those with low-to-moderate incomes, people with disabilities, and the otherwise underserved have access to affordable financial services.

Respectfully,

James W. Hagen
Inspector General

cc: Executive Director Larry Fazio
Deputy Executive Director (Audit Follow-up Official) Rendell Jones
General Counsel Frank Kressman
OEAC Acting Director and Special Assistant to the ED Joy Lee
Chief Financial Officer Eugene Schied
Chief Information Officer Rob Foster
CURE Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Myra Toeppe
E&I, Division of Capital and Credit Markets, Associate Director J. Owen Cole, Jr.

OIG-21-02

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2020 and 2019, 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 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. As of December 31, 2020, the NCUSIF insures $1.5 trillion in member shares in approximately 5,110 credit unions.

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 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) and 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 2020 and 2019, the following additional measures should be considered:

[1] The NCUSIF is one of four funds established in the U.S. Treasury and administered by the NCUA Board as of December 31, 2020. 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.

2020 and 2019 Performance Measures		
	December 31, 2020	December 31, 2019
Equity Ratio	1.26%	1.35%
Insured Shares	$1.5 trillion	$1.2 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	1	2
Assets in CAMEL[2] 3, 4 and 5 rated Credit Unions	$50.3 billion	$52.5 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 Federal Credit Union Act, the NCUA Board sets the NOL between 1.20% and 1.50%. On December 17, 2020, the Board set the NOL at 1.38%, equal to the previous level of 1.38%.

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, 2020, the equity ratio was 1.26%, which is below the NOL. Previously, the equity ratio was 1.35% as of December 31, 2019, which was below the established NOL of 1.38%.

Insurance Related Activities

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.

For 2020, there was one credit union failure compared to two failures in 2019. The cost of this failure, or the estimated cost of resolution at the time of liquidation, for the current year is $1.6 million compared to $40.3 million for failures that occurred in 2019.

The NCUA's supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2020, there were two 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 aggregate net worth ratio decreased during the year ending at 10.3% versus 11.4% at December 31, 2019. Assets in CAMEL 3, 4 and 5 rated credit unions decreased slightly to $50.3 billion at the end of 2020 versus $52.5 billion at the end of 2019.

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[2] 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: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/Asset-Liability Management (CAMEL). The NCUA employs the CAMEL rating system as a tool to measure risk and allocate resources for supervisory purposes.

III. Financial Statement Analysis

The NCUSIF ended 2020 with an increase in Total Assets and Net Position. Net Cost of Operations increased to $239.1 million, primarily as a result of an increase in the Reserve Expense within the Provision for Insurance Losses, partially offset by a decrease in Operating Expenses. These changes are explained in further detail below.

Summarized Financial Information				
(Dollars in Thousands)	**2020**	**2019**	**Increase / (Decrease) $**	**%**
Net Position				
Assets:				
Investments, Net	18,276,711	16,019,816	2,256,895	14.1%
Receivables from Asset Management Estates (AMEs), Net	761,816	610,227	151,589	24.8%
Other	90,417	91,514	(1,097)	-1.2%
Total Assets	**$19,128,944**	**$16,721,557**	**$2,407,387**	**14.4%**
Total Liabilities	**$186,103**	**$121,596**	**$64,507**	**53.1%**
Net Position (Assets minus Liabilities)	**$18,942,841**	**$16,599,961**	**$2,342,880**	**14.1%**
Net Cost				
Gross Costs:				
Operating Expenses	181,037	191,077	(10,040)	-5.3%
Provision for Insurance Losses	68,688	(40,595)	109,283	269.2%
Other Losses	63	87	(24)	-27.6%
Total Gross Costs	**$249,788**	**$150,569**	**$99,219**	**65.9%**
Exchange Revenue	**$10,648**	**$13,768**	**($3,120)**	**-22.7%**
Total Net Cost of Operations	**$239,140**	**$136,801**	**$102,339**	**74.8%**
Cumulative Results of Operations				
Beginning Balance	**$4,632,574**	**$4,394,392**	**$238,182**	**5.4%**
Financing Sources:				
Interest Revenue - Investments	272,005	306,467	(34,462)	-11.2%
Distribution to Credit Unions	-	(160,099)	160,099	100.0%
Net Unrealized Gain - Investments	466,728	228,615	238,113	104.2%
Total Financing Sources	**$738,733**	**$374,983**	**$363,750**	**97.0%**
Net Cost of Operations	**$239,140**	**$136,801**	**$102,339**	**74.8%**
Cumulative Results of Operations	**$5,132,167**	**$4,632,574**	**$499,593**	**10.8%**
Contributed Capital	**$13,810,674**	**$11,967,387**	**$1,843,287**	**15.4%**
Net Position	**$18,942,841**	**$16,599,961**	**$2,342,880**	**14.1%**

Fiduciary Activity Highlights

The financial results of the NPCU AMEs and Corporate AMEs with the NCUA Guaranteed Notes (NGN) Program Trusts 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 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 $431.3 million and $3.2 billion as of December 31, 2020 and 2019, 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 a model and reflects the NCUA's expectations and assumptions about the estimated cash flows of the Corporate AMEs' assets.

As of December 31, 2020 and 2019, the NCUA Board, as liquidating agent of the Corporate AMEs, held approximately $3.5 billion and $0.9 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 two NGNs with an aggregate unpaid principal balance of $844.5 million and recovery value of approximately $422.9 million as of December 31, 2020. There were nine NGNs with an aggregate unpaid principal balance of $5.4 billion and recovery value of approximately $4.3 billion as of December 31, 2019.

Composition of Legacy Assets Collateralizing the NGN Trusts									
		Based on Recovery Value				Based on Unpaid Principal Balance			
Asset Type and Credit Rating[1]		December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019	
RMBS	AAA	72%	2%	87%	0%	55%	1%	85%	0%
	AA		2%		2%		1%		2%
	A		3%		3%		2%		2%
	BBB		3%		3%		2%		3%
	Below Investment Grade		75%		85%		83%		87%
	NA		15%		7%		11%		6%
CMBS	AAA	14%	0%	2%	0%	7%	0%	1%	0%
	AA		0%		0%		0%		0%
	A		3%		3%		3%		3%
	BBB		9%		0%		9%		0%
	Below Investment Grade		88%		97%		88%		97%
	NA		0%		0%		0%		0%
ABS[2]	AAA	9%	0%	5%	64%	31%	0%	8%	31%
	AA		0%		0%		0%		0%
	A		0%		0%		0%		0%
	BBB		62%		13%		10%		7%
	Below Investment Grade		25%		22%		71%		52%
	NA		13%		1%		19%		10%
Agency		2%	100%	4%	100%	1%	100%	4%	100%
Corporate	AAA	3%	0%	2%	0%	6%	0%	2%	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.

Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of federal entities in accordance with federal generally accepted accounting principles and the formats prescribed by the Office of Management and Budget. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

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.

2020 and 2019 Fund Balance with Treasury and Investments		
	December 31, 2020	December 31, 2019
Fund Balance with Treasury	$ 4.8 million	$ 7.9 million
U.S. Treasury Securities		
Overnight	1,336.0 million	516.3 million
Available-for-Sale	16,940.7 million	15,503.5 million

During 2020, the NCUSIF's Investments increased primarily due to capital contributions of $1.8 billion 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.

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.

KPMG LLP
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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 Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2020 and 2019, 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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, 2020 and 2019, 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 section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 response 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, 2020, 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 Manager's 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. 19-03.

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, the communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 16, 2021

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 4,782	$ 7,947
Investments, Net - U.S. Treasury Securities (Note 3)	18,276,711	16,019,816
Accrued Interest Receivable - Investments (Note 3)	84,484	76,631
Note Receivable - Note due from the NCUA Operating Fund (Note 5)	-	5,028
Total Intragovernmental Assets	18,365,977	16,109,422
PUBLIC		
Accounts Receivable - Guarantee Fee on NGNs, Net (Note 4)	79	775
General Property, Plant and Equipment, Net (Note 6)	54	113
Advances and Prepayments	1,018	1,020
Receivables from Asset Management Estates (AMEs), Net (Note 7)	761,816	610,227
Total Public Assets	762,967	612,135
TOTAL ASSETS	$ 19,128,944	$ 16,721,557
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the NCUA Operating Fund (Note 10)	3,262	2,308
Total Intragovernmental Liabilities	3,262	2,308
PUBLIC		
Accounts Payable	4,353	463
Insurance and Guarantee Program Liabilities (Note 8)	177,300	116,978
Other Liabilities (Note 9)	1,188	1,847
Total Public Liabilities	182,841	119,288
TOTAL LIABILITIES	186,103	121,596
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	13,810,674	11,967,387
Cumulative Result of Operations	5,132,167	4,632,574
Total Net Position	18,942,841	16,599,961
TOTAL LIABILITIES AND NET POSITION	$ 19,128,944	$ 16,721,557

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
GROSS COSTS		
Operating Expenses	$ 181,037	$ 191,077
Provision for Insurance Losses		
Reserve Expense (Note 8)	50,097	38,835
AME Receivable Bad Debt Expense (Reduction) (Note 7)	18,591	(79,430)
Total Provision for Insurance Losses	68,688	(40,595)
Other Losses	63	87
Total Gross Costs	249,788	150,569
LESS EXCHANGE REVENUES		
Interest Revenue on Note Receivable from the NCUA Operating Fund (Note 5)	(71)	(112)
Guarantee Fee Revenue - NGNs	(7,917)	(13,167)
Other Revenue	(2,660)	(489)
Total Exchange Revenues	(10,648)	(13,768)
TOTAL NET COST OF OPERATIONS	$ 239,140	$ 136,801

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 4,632,574	$ 4,394,392
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	272,005	306,467
Distribution to Credit Unions	-	(160,099)
Total Budgetary Financing Sources	272,005	146,368
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain - Investments (Note 3)	466,728	228,615
Total Financing Sources	738,733	374,983
Net Cost of Operations	(239,140)	(136,801)
Net Change	499,593	238,182
CUMULATIVE RESULTS OF OPERATIONS	5,132,167	4,632,574
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	11,967,387	11,327,234
Change in Contributed Capital	1,843,287	640,153
CONTRIBUTED CAPITAL	13,810,674	11,967,387
NET POSITION	$ 18,942,841	$ 16,599,961

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
BUDGETARY RESOURCES (Notes 11, 12 and 15)		
Unobligated balance from prior year budget authority, net	$ 15,874,237	$ 15,186,319
Spending authority from offsetting collections (mandatory)	3,412,495	1,272,155
TOTAL BUDGETARY RESOURCES	$ 19,286,732	$ 16,458,474
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	$ 1,981,161	$ 584,237
Unobligated balance, end of year:		
Exempt from apportionment	17,305,571	15,874,237
Total unobligated balance, end of year	17,305,571	15,874,237
TOTAL BUDGETARY RESOURCES	$ 19,286,732	$ 16,458,474
OUTLAYS, NET		
Outlays, net (discretionary and mandatory)	$ (1,443,704)	$ (672,771)
AGENCY OUTLAYS, NET (DISCRETIONARY AND MANDATORY)	$ (1,443,704)	$ (672,771)

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 federally insured state chartered credit unions.

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.

Fiduciary Responsibilities

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) and corporate credit union (CCU) AMEs (Corporate AMEs).

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.

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition of cash and other assets held by an AME, 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. The assets reported on the NCUSIF Balance Sheet are non-fiduciary.

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.

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).

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 1.00% of its insured shares in the NCUSIF. 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).

Accounting Principles

The NCUSIF's financial statements have been prepared from its accounting records in accordance with standards promulgated by the Federal Accounting Standards Advisory Board (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 August 27, 2020.

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.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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. 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.

Budgetary and financial accounting information are complementary, but the types of information and the timing of their recognition are different. Information is needed about the differences between proprietary and budgetary accounting, which is accomplished in part by presenting a Reconciliation of Net Cost of Operations to Net Outlays in Note 15. In accordance with SFFAS No. 53, *Budget and Accrual Reconciliation,* the Reconciliation of Net Cost of Operations to Net Outlays helps explain and clarify how proprietary basis of accounting Net Cost of Operations (cash and non-cash transactions) relates to budgetary basis of accounting Net Outlays (cash transactions) and the reconciling items between the two.

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

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.

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

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of funds in accounts held by the U.S. Treasury from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments, Net

The FCU Act, Section 203(c), 12 U.S.C. § 1783(c), as amended, provides guidance regarding U.S. Treasury security investments. The NCUSIF maintains an investment portfolio comprised of both market-based (available-for-sale) U.S. Treasury securities of varying maturies and non-marketable (held-to-maturity) U.S. Treasury daily overnight securities. All marketable securities are carried as available-for-sale in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. All non-marketable U.S. Treasury overnight securities are purchased and reported at par value, which are classified as held-to-maturity.

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 either 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 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 non-federal entities 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 NGN Trusts.

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 2020 and 2019.

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 accounts receivable. A permanent reduction of an account may occur if it is probable that the NCUSIF will not collect all amounts contractually due.

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*. 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 computed by the straight-line method over the estimated useful lives of equipment and software; (the shorter of either the estimated useful life or lease term is applied for leasehold improvements and capital leases). Assets under capital lease are depreciable over three years, 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.

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. 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 2019, the NCUA implemented SFFAS No. 51, *Insurance Programs*. The purpose of this statement is to establish consistent accounting and financial reporting standards for insurance programs across the federal government. SFFAS No. 51 requires that the financial statements and accompanying footnote disclosures provide concise, meaningful and transparent information regarding the operating performance of the NCUA's two insurance activities – Insured Credit Unions and NCUA Guaranteed Notes (NGN), which are classified as exchange transaction insurance programs.

Pursuant to SFFAS No. 51, the NCUA is required to recognize revenue on insurance premiums as earned. The NCUA must also recognize, measure and record liabilities for unearned premiums, unpaid insurance claims and losses on remaining coverage as applicable. In addition, the NCUA must disclose information about the purpose, full costs (to include premium collections and borrowing authority), investing activities and arrangement duration of our insurance programs as well as our premium pricing policies, the nature and magnitude of our estimates, the total amount of insurance coverage provided through the end of the reporting period and any events that could have a material effect on the recorded liability. Information concerning the NCUSIF's premium pricing policies and premiums collections can be found under the Accounts Receivable header herein. The NCUSIF's investment securities primarily consist of market-based U.S. Treasury securities of varying maturities (debt securities) and its investing activities are described in Notes 2 and 3. The nature and terms of the NCUSIF's borrowing authority is addressed in Note 11. The total amount of insurance coverage provided through the end of the reporting period is outlined in Note 13. The remaining information required to be disclosed is discussed further in Note 8.

Consistent with the presentation in prior reporting periods, SFFAS No. 51 also requires a roll-forward of the Insurance and Guarantee Program Liabilities balance from the prior year to the current period. The NCUA has adopted the revised titles for each component of the roll-forward as applicable, except for the term “Claim expenses”, which will remain “Reserve expense”. Though the titles represent the exact same activity, the NCUA has elected to retain the prior presentation of “Reserve expense” in an effort to: 1) maintain clarity for the users of the financial statements; and 2) ensure comparability between the Statements of Net Cost and Note 8.

The NCUSIF records a liability for probable losses relating to insured credit unions and the NGNs. The year-end liability for insurance losses is comprised of general and specific reserves. The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates while the specific reserve is based on analyses performed on credit unions where failure is probable and additional information is available to make a reasonable estimate of losses.

Liabilities for loss contingencies on the NGNs arise from claims, assessments, litigation, fines and 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.

Other Liabilities - 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

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandates 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. 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.

The CUMAA mandates that distributions to insured credit unions be determined from specific ratios, which are based in part upon year-end data. 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.

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.

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 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*, the NCUSIF recognizes interest revenue on investments in U.S. Treasury securities as non-exchange revenue because the main source of funds for investments comes from capital deposits. 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.

Disclosure Entities

SFFAS No. 47, *Reporting Entity*, requires that our financial statements reflect the balances and activities of the fund and any other reporting entities under NCUSIF control. 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. AMAC conducts liquidations and oversees the management and recovery of assets for failed credit unions. The NCUA has two types of AMEs: 1) NPCUs 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 and are disclosed under Note 14.

Conservatorships

The NCUA may place 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.

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 17,305,571	$ 15,874,406
Obligated Balance Not Yet Disbursed	26,012	5,621
Non-Budgetary Investment Accounts	(17,242,317)	(15,795,449)
Non-Budgetary FBWT Accounts	(84,484)	(76,631)
Total	$ 4,782	$ 7,947

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 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. 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-Budgetary FBWT 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. Should the overnight account exceed NCUSIF policy limits, the NCUSIF will invest the additional funds in market-based U.S. Treasury securities according to the Fund’s investment policy guidelines.

As of December 31, 2020 and 2019, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF’s general ledger.

3. INVESTMENTS

The NCUSIF maintains an investment portfolio comprised of both 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, 2020 and 2019, the carrying amount, gross unrealized holding gains/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, 2020:						
U.S. Treasury Securities						
Available-for-Sale	$ 16,545,061	$ (115,467)	$ 84,484	$ 15,949,684	$ 511,077	$ 16,940,671
Held to Maturity	1,336,040	-	-	1,336,040	-	1,336,040
Total	$ 17,881,101	$ (115,467)	$ 84,484	$ 17,285,724	$ 511,077	$ 18,276,711
As of December 31, 2019:						
U.S. Treasury Securities						
Available-for-Sale	$ 15,557,172	$ (97,974)	$ 76,631	$ 15,350,000	$ 44,349	$ 15,503,547
Held to Maturity	516,269	-	-	516,269	-	516,269
Total	$ 16,073,441	$ (97,974)	$ 76,631	$ 15,866,269	$ 44,349	$ 16,019,816

Maturities of U.S. Treasury securities as of December 31, 2020 and 2019 were as follows (in thousands):

	2020 Fair Value	2019 Fair Value
Held to Maturity (Overnights)	$ 1,336,040	$ 516,269
Available-for-Sale:		
Due in one year or less	1,870,156	4,511,563
Due after one year through five years	9,952,398	7,372,156
Due after five years through ten years	5,118,117	3,619,828
Total	$ 18,276,711	$ 16,019,816

For the years ended December 31, 2020 and 2019, there were no realized gains or losses from sales of U.S. Treasury securities.

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, 2020 and 2019 (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, 2020:						
Available-for-Sale:						
U.S. Treasury Securities	$ (7,555)	$ 1,804,837	$ -	$ -	$ (7,555)	$ 1,804,837
As of December 31, 2019:						
Available-for-Sale:						
U.S. Treasury Securities	$ (32,629)	$ 4,093,188	$ (3,094)	$ 1,609,594	$ (35,723)	$ 5,702,782

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2020 and 2019, no accounts receivable were due from insured credit unions.

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, 2020 and 2019, the NGN guarantee fee receivable was $78.8 thousand and $0.8 million, respectively.

The allowance for doubtful accounts on public accounts receivable as of December 31, 2020 and 2019 was $0.

5. NOTE RECEIVABLE

Intragovernmental – Note 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's Central Office in Alexandria, Virginia. In December 2020, the Operating Fund paid off the remaining note balance of $3.7 million. The note receivable balance as of December 31, 2020 and 2019 was $0 and $5.0 million, respectively. Interest income recognized was approximately $71.3 thousand and $112.4 thousand for the years ended December 31, 2020 and 2019, respectively. The variable rate on the note was equal to the NCUSIF's prior-month yield on investments. The average interest rate during 2020 and 2019 was 1.59% and 1.98%, respectively.

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment, Net as of December 31, 2020 and 2019 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
As of December 31, 2020:			
Assets under Capital Lease	$ 176	$ (122)	$ 54
Internal-Use Software	2,017	(2,017)	-
Total General Property, Plant and Equipment, Net	$ 2,193	$ (2,139)	$ 54
As of December 31, 2019:			
Assets under Capital Lease	$ 176	$ (63)	$ 113
Internal-Use Software	2,017	(2,017)	-
Total General Property, Plant and Equipment, Net	$ 2,193	$ (2,080)	$ 113

7. RECEIVABLES FROM ASSET MANAGEMENT ESTATES (AMES), NET

AMEs include assets and liabilities from failed NPCU AMEs and Corporate AMEs. The components of the Receivables from AMEs, Net as of December 31, 2020 and 2019 were as follows (in thousands):

	2020			2019		
	NPCU AMEs	Corporate AMEs	Total	NPCU AMEs	Corporate AMEs	Total
Gross Receivable from AME	$ 1,399,721	$ 3,329,220	$ 4,728,941	$ 1,800,089	$ 2,804,049	$ 4,604,138
Allowance for Loss, beginning balance	1,457,205	2,536,706	3,993,911	1,459,868	2,606,305	4,066,173
AME Receivable Bad Debt Expense (Reduction)	(18,165)	36,756	18,591	(9,831)	(69,599)	(79,430)
Increase/(Decrease) in Allowance	(10,225)	-	(10,225)	40,048	-	40,048
Write-off of Canceled Charters	(35,152)	-	(35,152)	(32,880)	-	(32,880)
Allowance for Loss, ending balance	1,393,663	2,573,462	3,967,125	1,457,205	2,536,706	3,993,911
Receivable from AME, Net	$ 6,058	$ 755,758	$ 761,816	$ 342,884	$ 267,343	$ 610,227

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

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

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

Insured Credit Unions

The NCUSIF insures member deposits held in federal and federally insured state-chartered credit unions up to $250,000 per account in the event of a credit union failure. As the regulator of credit unions, the NCUA evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. The NCUA also 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 uses this information to identify insured credit unions experiencing financial difficulty and estimate future losses on both a general and specific basis. The NCUSIF records an insurance program liability – comprised of general and specific reserves – to cover losses resulting from insured credit union failures.

The general reserve is derived using an internal econometric model that applies estimated probability of failure and loss rates. The probability of failure is driven by CAMEL ratings and credit union level financial data; it also incorporates macroeconomic data such as the consumer price index and geographic housing prices. The loss rates take into account historical losses, CAMEL ratings, credit union level financial ratios and other economic measures. These variables are evaluated periodically to determine the reasonableness of the model output, which provides a range of forecasted losses between the 75 percent and 90 percent confidence level intervals.

Specific reserves are established for credit unions whose failure is probable and sufficient information is available to make a reasonable estimate of losses. The specific reserves are presented net of estimated recoveries from the disposition of assets held by failed credit unions.

The aggregate amount of reserves recognized for insured credit unions and AMEs was $177.3 million and $117.0 million as of December 31, 2020 and 2019, respectively. The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	2020	2019
Beginning balance	$ 116,978	$ 119,053
Reserve expense (reduction)	50,097	38,835
Payments to settle claims	(25,173)	(51,418)
Recoveries and other adjustments	35,398	10,508
Ending balance	$ 177,300	$ 116,978

The Insurance and Guarantee Program Liabilities at December 31, 2020 and 2019 were comprised of the following:

- Specific reserves were $18.1 million and $6.4 million, respectively.
- General reserves were $159.2 million and $110.6 million, 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 2020 or as of December 31, 2020. There were no guarantees outstanding during 2019 or as of December 31, 2019.

The NCUSIF may also grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if an insured credit union had a current or immediate liquidity concern and the third-party lender refused to extend credit without a guarantee. The NCUSIF would be obligated if the insured credit union failed to perform. Total line-of-credit guarantees for credit unions as of December 31, 2020 and December 31, 2019 were approximately $4.2 million and $3.5 million, respectively. The insured credit unions borrowed $0 and $1.3 million from the third-party lender under these lines-of-credit guarantees as of December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the NCUSIF reserved $77.6 thousand and $75.5 thousand, 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, 2020 and 2019.

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 could differ significantly from these estimates.

NCUA Guaranteed Notes

The NCUA, through the NCUSIF, administers the NGN Program, which was implemented when the Legacy Assets formerly held by the failed CCUs were transferred to NGN Trusts and securitized through the issuance of notes. These notes were issued as a series of floating and fixed-rate NGNs and have final maturities ranging from 2016 to 2021. As payments are made on the collateral underlying the Legacy Assets, the NGN Trusts are required to distribute the cash flows received in the following order: guarantee fees, guarantee payments of principal and interest, guarantor reimbursements and residuals (recovery values).

The NCUA receives a guarantee fee payment from the NGN Trusts on each NGN payment date equal to 35 basis points of the outstanding NGN balance prior to the distribution of principal on the payment date. In exchange for this fee, the NCUSIF ensures the timely payment of principal and interest due to NGN investors and guarantees parity payments if there are differences between the expected and actual unpaid principal balance on the monthly payment date.

Guarantor reimbursements from the NGN Trusts to the NCUA will not occur until the applicable NGNs have been repaid in full. Once the NGNs are repaid in full, any cash flows received on the Legacy Assets underlying the NGN Trusts are directed toward reimbursement 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.

As of December 31, 2020, the outstanding principal balance of the NGNs was $431.3 million. This amount represents the maximum potential, but not the expected, future guarantee payments that the NCUA could be required to make. The gross estimated guarantee payments of $124.4 million were offset by contractual guarantor reimbursements and earned interest of $122.4 million and receivables from the Corporate AMEs based on the value of their economic residual interests in the NGN Trusts of up to $260.5 million.

At December 31, 2019, the outstanding principal balance of the NGNs was $3.2 billion. The gross estimated guarantee payments of $2.4 billion were offset by contractual guarantor reimbursements and earned interest of $2.4 billion and receivables from the Corporate AMEs based on the value of their economic residual interests in the NGN Trusts of up to $1.6 billion.

There were no probable losses for the guarantee of NGNs associated with the re-securitization transactions as of December 31, 2020 and 2019.

The NCUA uses a model to estimate the guarantee liability associated with the NGN Program. The guarantee liability is comprised of 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 a model that distributes estimated cash flows of the Legacy Assets 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 NCUSIF recorded no liabilities on its Balance Sheet for NGNs as of December 31, 2020 and 2019.

The 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.

The model used to derive the expected losses from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. Key assumptions in the modeling include 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. Management evaluates these inputs and variables regularly to determine the reasonableness of the assumptions over time.

9. OTHER LIABILITIES

The NCUSIF leases laptops for state credit union examiners under a capital lease agreement with a non-federal vendor that ends in 2021. The capital lease liability as of December 31, 2020 and 2019 was $60.0 thousand and $118.8 thousand, respectively.

The future minimum lease payments to be paid over the remaining life as of December 31, 2020 are as follows (in thousands):

Years Ended December 31		Minimum Lease Payments
2021		61
Total Future Lease Payments	$	61
Less: Imputed Interest		(1)
Net Capital Lease Liability	$	60

The capital lease liability is covered by budgetary resources. The remaining balance in Other Liabilities includes payroll and other accrued liabilities, totaling $1.1 million and $1.7 million at December 31, 2020 and 2019, respectively.

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, 2020 and 2019 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue		2020		2019
Intragovernmental Costs	$	183,629	$	182,894
Public Costs/(Cost Reduction)		66,159		(32,325)
Total		249,788		150,569
Intragovernmental Exchange Revenue		(71)		(112)
Public Exchange Revenue		(10,577)		(13,656)
Total		(10,648)		(13,768)
Net Cost	$	239,140	$	136,801

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 2020 and 2019, the allocation to the NCUSIF was 61.3% and 60.5% of the NCUA Operating Fund's expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $183.6 million and $182.9 million for the years ended December 31, 2020 and 2019, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. 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	**2020**	**2019**
Employee Salaries	$ 101,308	$ 93,211
Employee Benefits	39,703	36,715
Employee Travel	2,968	13,946
Rent, Communications, and Utilities	3,336	3,962
Contracted Services	27,718	26,356
Depreciation and Amortization	5,229	3,940
Administrative Costs	3,367	4,764
Total Services Provided by the NCUA Operating Fund	$ 183,629	$ 182,894

As of December 31, 2020 and 2019, amounts due to the NCUA Operating Fund for allocated expenses were $3.3 million and $2.3 million, respectively.

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, 2020 and 2019, 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. The CARES Act temporarily increased borrowing authority from 12 times to 16 times the subscribed capital stock and surplus and amended the CLF membership provision to provide greater flexibility to corporate credit unions and natural-person credit unions. These amendments only apply during the period when the CARES Act is in effect, from March 27, 2020 through December 31, 2021.

As of December 31, 2020 and 2019, the CLF had statutory borrowing authority of $33.0 billion and $7.3 billion, respectively. As of December 31, 2020 and 2019, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $25.0 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, 2021. The NCUSIF did not exercise its borrowing authority in 2020 or 2019.

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, 2020 and 2019. 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, 2020 and 2019, the NCUSIF's resources in budgetary accounts were $19.3 billion and $16.5 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 $17.3 million and $1.3 million in unpaid undelivered orders, and $1.0 million and $1.0 million in paid undelivered orders, as of December 31, 2020 and 2019, respectively. The breakdown of unpaid and paid undelivered orders from federal and non-federal sources as of December 31, 2020 and 2019 are as follows (in thousands):

	2020		2019	
Undelivered Orders	Paid	Unpaid	Paid	Unpaid
Federal	$ -	$ -	$ -	$ -
Nonfederal	1,018	17,342	1,020	1,271
Total Undelivered Orders	$ 1,018	$ 17,342	$ 1,020	$ 1,271

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 annual financial 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

As of December 31, 2020 and 2019, contributed capital owed to the NCUSIF totaled $0. Contributed capital due to insured credit unions was $0 as of December 31, 2020 and 2019.

On December 17, 2020, the Board set the NOL at 1.38%, which is equal to the previously set NOL level on December 12, 2019.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio is 1.26% as of December 31, 2020. This equity ratio is based on insured shares of $1.5 trillion as of December 31, 2020, and is below the normal operating level of 1.38%.

As of December 31, 2019, the NCUSIF equity ratio of 1.35% was below the normal operating level of 1.38%. Therefore, the NCUSIF did not estimate or record a distribution in 2020. Total contributed capital as of December 31, 2020 and 2019 was $13.8 billion and $12.0 billion, respectively.

The NCUSIF's available assets ratio as of December 31, 2020 and 2019 was 1.23% and 1.30%, based on total insured shares as of December 31, 2020 and 2019 of $1.5 trillion and $1.2 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

(a) Natural Person Credit Unions AMEs

Following is the Schedule of Fiduciary Activity as of December 31, 2020 and 2019 (in thousands):

Schedule of Fiduciary Activity	2020	2019
Fiduciary Net Liabilities, beginning of year	$ (1,463,387)	$ (1,467,231)
Net Realized Losses upon Liquidation	(1,614)	(40,198)
Revenues		
Interest on Loans	8,818	30,596
Other Fiduciary Revenues	91	132
Expenses		
Professional & Outside Services Expenses	(10,941)	(18,253)
Compensation and Benefits	(361)	(537)
Other Expenses	(303)	(803)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain on Loans	44,784	9,177
Net Gain/(Loss) on Real Estate Owned	1,445	(802)
Other, Net Gain/(Loss)	(29,347)	(8,348)
(Increase)/Decrease in Fiduciary Net Liabilities	12,572	(29,036)
Write-off of Fiduciary Liabilities for Canceled Charters	35,152	32,880
Fiduciary Net Liabilities, end of year	**$ (1,415,663)**	**$ (1,463,387)**

The NPCU AMEs' fiduciary net liabilities decreased by $47.7 million from 2019 to 2020 due to canceled charter write-offs of $35.1 million, combined with a decrease in fiduciary net liabilities of $12.6 million.

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, 2020 and 2019 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	**2020**	**2019**
Fiduciary Assets		
Loans	$ 7,620	$ 316,346
Real Estate Owned	897	2,731
Other Fiduciary Assets	(432)	48,642
Total Fiduciary Assets	8,085	367,719
Fiduciary Liabilities		
Insured Shares	223	472
Accrued Liquidation Expenses	14,807	27,314
Unsecured Claims	7,403	1,563
Uninsured Shares	1,594	1,668
Due to the NCUSIF (Note 7)	1,399,721	1,800,089
Total Fiduciary Liabilities	1,423,748	1,831,106
Total Fiduciary Net Assets/(Liabilities)	**$ (1,415,663)**	**$ (1,463,387)**

Loans also includes amounts related to criminal restitution owed to the U.S. government. As of December 31, 2020 and 2019, gross receivables related to criminal restitution orders were $251.9 million and $247.1 million, of which we determined $6.1 thousand and $40.6 thousand were collectible, respectively.

(b) Corporate AMEs (Legacy TCCUSF AMEs)

Following are the Schedules of Fiduciary Activity for the periods ended December 31, 2020 and 2019 (in thousands):

Schedule of Fiduciary Activity	**For the Year Ended December 31, 2020**			
	AMEs	**NGN Trusts**	**Eliminations**	**Total**
Fiduciary Net Liabilities, December 31, 2019	$ 67,621	$ -	$ -	$ 67,621
Revenues				
Interest on Loans	-	-	-	-
Income from AMEs on Re-Securitized Assets	-	(43,715)	43,715	-
Income from Investment Securities	(79,515)	-	-	(79,515)
Settlements and Legal Claims	(12,811)	-	-	(12,811)
Other Fiduciary Revenues	(8,255)	-	-	(8,255)
Expenses				
Professional and Outside Services Expenses	12,087	-	-	12,087
Interest Expense on Borrowings and NGNs	2,205	35,799	-	38,004
Payments to NGN Trusts	43,715	-	(43,715)	-
Guarantee Fees	-	7,916	-	7,916
Other Expenses	647	-	-	647
Net Change in Recovery Value of Assets and Liabilities	222,240	-	-	222,240
Increase in Fiduciary Net Liabilities	180,313	-	-	180,313
Fiduciary Net Liabilities, December 31, 2020	$ 247,934	$ -	$ -	$ 247,934

Schedule of Fiduciary Activity	For the Year Ended December 31, 2019			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, December 31, 2018	$ 393,271	$ -	$ -	$ 393,271
Revenues				
Interest on Loans	(966)	-	-	(966)
Income from AMEs on Re-Securitized Assets	-	(121,139)	121,139	-
Income from Investment Securities	(185,979)	-	-	(185,979)
Settlements and Legal Claims	(23,092)	-	-	(23,092)
Other Fiduciary Revenues	(12,752)	-	-	(12,752)
Expenses				
Professional and Outside Services Expenses	8,813	-	-	8,813
Interest Expense on Borrowings and NGNs	33	107,972	-	108,005
Payments to NGN Trusts	121,139	-	(121,139)	-
Guarantee Fees	-	13,167	-	13,167
Other Expenses	445	-	-	445
Net Change in Recovery Value of Assets and Liabilities	(233,291)	-	-	(233,291)
(Decrease) in Fiduciary Net Liabilities	(325,650)	-	-	(325,650)
Fiduciary Net Liabilities, December 31, 2019	$ 67,621	$ -	$ -	$ 67,621

For the year ended December 31, 2020, the Corporate AMEs' Fiduciary Net Liabilities increased by $180.3 million. This increase represents a loss to the AME claimants, of which a portion was recognized by the NCUSIF through an increase in the AME Receivable Bad Debt Expense, as discussed in Note 7.

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, 2020 and 2019 (in thousands):

Schedule of Fiduciary Net Assets / Liabilities	As of December 31, 2020			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	$ 362,918	$ 25,501	$ -	$ 388,419
Legacy Assets	2,438,258	-	-	2,438,258
Legacy Assets/Investments Collateralizing the NGNs	422,915	292,288	-	715,203
Loans	-	-	-	-
Receivable from AMEs	4	114,236	(114,236)	4
Total Fiduciary Assets	3,224,095	432,025	(114,236)	3,541,884
Fiduciary Liabilities				
Accrued Expenses	28,468	751	-	29,219
NGNs	-	431,274	-	431,274
Due to NGN Trusts	114,236	-	(114,236)	-
Unsecured Claims and Payables	105	-	-	105
Due to the NCUSIF (Note 7)	3,329,220	-	-	3,329,220
Total Fiduciary Liabilities	3,472,029	432,025	(114,236)	3,789,818
Total Fiduciary Net Assets / (Liabilities)	$ (247,934)	$ -	$ -	$ (247,934)

Schedule of Fiduciary Net Assets / Liabilities	As of December 31, 2019			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	$ 710,759	$ 316,462	$ -	$ 1,027,221
Legacy Assets	409,165	-	-	409,165
Legacy Assets/Investments Collateralizing the NGNs	4,303,121	237,094	-	4,540,215
Loans	27	-	-	27
Receivable from AMEs	-	2,655,418	(2,655,418)	-
Total Fiduciary Assets	5,423,072	3,208,974	(2,655,418)	5,976,628
Fiduciary Liabilities				
Accrued Expenses	31,120	5,910	-	37,030
NGNs	-	3,203,064	-	3,203,064
Due to NGN Trusts	2,655,418	-	(2,655,418)	-
Unsecured Claims and Payables	106	-	-	106
Due to the NCUSIF (Note 7)	2,804,049	-	-	2,804,049
Total Fiduciary Liabilities	5,490,693	3,208,974	(2,655,418)	6,044,249
Total Fiduciary Net Assets / (Liabilities)	$ (67,621)	$ -	$ -	$ (67,621)

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, 2020 and 2019. Certain claims against the Corporate AMEs and the NGNs are guaranteed by the NCUA as previously discussed herein.

During 2020, seven NGN Trusts matured on their legal matured dates. There were no maturities of NGN principal balances during 2019.

15. RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The Reconciliation of Net Cost of Operations to Net Outlays for 2020 and 2019 is shown below (in thousands):

	2020		
Reconciliation of Net Cost of Operations to Net Outlays	**Intra-governmental**	**With the public**	**Total**
Net Cost of / (Income from) Operations	$ 183,558	$ 55,582	$ 239,140
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Provision for Insurance Losses			
Reserve Expense (Reduction)	-	(50,097)	(50,097)
AME Receivable Bad Debt Expense (Reduction)	-	(18,591)	(18,591)
Depreciation Expense	-	(59)	(59)
Increase / (decrease) in assets:			
Accounts Receivable	-	(696)	(696)
Other Assets	-	(2)	(2)
(Increase) / decrease in liabilities:			
Accounts Payable	(954)	(3,888)	(4,842)
Other Liabilities	-	659	659
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	(954)	(72,674)	(73,628)
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Change in Receivable from AMEs	-	159,955	159,955
Interest Revenue - Investments	(264,153)	-	(264,153)
Change in Contributed Capital	-	(1,843,287)	(1,843,287)
Dividend Distribution to Insured Credit Unions	-	-	-
Other Adjustments that do not affect Net Cost of Operations	338,269	-	338,269
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	74,116	(1,683,332)	(1,609,216)
Net Outlays	$ 256,720	$ (1,700,424)	$ (1,443,704)

	2019		
Reconciliation of Net Cost of Operations to Net Outlays	**Intra-governmental**	**With the public**	**Total**
Net Cost of / (Income from) Operations	$ 182,782	$ (45,981)	$ 136,801
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Provision for Insurance Losses			
Reserve Expense (Reduction)	-	(38,835)	(38,835)
AME Receivable Bad Debt Expense (Reduction)	-	79,430	79,430
Depreciation Expense	-	(99)	(99)
Increase / (decrease) in assets:			
Accounts Receivable	(35)	(425)	(460)
Other Assets	-	25	25
(Increase) / decrease in liabilities:			
Accounts Payable	1,715	393	2,108
Other Liabilities	-	(723)	(723)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	1,680	39,766	41,446
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Change in Receivable from AMEs	-	(126,844)	(126,844)
Interest Revenue - Investments	(292,289)	-	(292,289)
Change in Contributed Capital	-	(640,153)	(640,153)
Dividend Distribution to Insured Credit Unions	-	160,099	160,099
Other Adjustments that do not affect Net Cost of Operations	47,833	336	48,169
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	(244,456)	(606,562)	(851,018)
Net Outlays	$ (59,994)	$ (612,777)	$ (672,771)

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 16, 2021, 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, 2020.

OIG-21-03

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2020 and 2019, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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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 Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statement 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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, 2020 and 2019, and its revenues, expenses, changes in fund balance and cash flow 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, 2020, 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 Manager's 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. 19-03.

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, the communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 16, 2021

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
As of December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
ASSETS		
Cash and cash equivalents (Note 3)	$ 111,387	$ 94,492
Due from National Credit Union Share Insurance Fund (Note 7)	3,262	2,309
Employee advances	16	7
Other accounts receivable, Net (Note 7)	315	361
Prepaid expenses and other assets	4,034	4,014
Assets held for sale (Note 6)	-	423
Fixed assets — Net of accumulated depreciation of $38,720 and $34,651 as of December 31, 2020 and 2019, respectively (Note 4)	28,344	31,758
Intangible assets — Net of accumulated amortization of $24,059 and $20,422 as of December 31, 2020 and 2019, respectively (Note 5)	34,658	22,234
TOTAL ASSETS	$ 182,016	$ 155,598
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 8,089	$ 9,302
Obligations under capital leases (Note 8)	89	1,193
Accrued wages and benefits	10,589	10,026
Accrued FECA and unemployment benefits	154	169
Accrued actuarial FECA benefits	4,381	4,276
Accrued annual leave	22,338	18,945
Accrued employee travel	82	708
Note payable to National Credit Union Share Insurance Fund (Note 7)	-	5,028
TOTAL LIABILITIES	45,722	49,647
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11, 12, and 13)		
FUND BALANCE	136,294	105,951
TOTAL LIABILITIES AND FUND BALANCE	$ 182,016	$ 155,598

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
REVENUES		
Operating fees	$ 145,589	$ 137,731
Interest	354	2,485
Other	517	1,008
Total Revenues	146,460	141,224
EXPENSES, NET (Notes 7 and 8)		
Employee wages and benefits	89,023	84,827
Travel	1,874	9,105
Rent, communications, and utilities	2,106	2,587
Contracted services	17,499	17,208
Depreciation and amortization	3,081	2,543
Administrative	2,534	3,067
Total Expenses, Net	116,117	119,337
EXCESS OF REVENUES OVER EXPENSES	30,343	21,887
FUND BALANCE—Beginning of year	105,951	84,064
FUND BALANCE—End of year	$ 136,294	$ 105,951

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 30,343	$ 21,887
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Notes 4 and 5)	8,311	6,483
Provision for (gain)/loss on disposal of assets held for sale	(11)	96
Loss on fixed and intangible asset retirements	220	30
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(953)	1,714
Employee advances	(9)	336
Other accounts receivable, net	46	69
Prepaid expenses and other assets	(20)	(1,336)
(Decrease) increase in liabilities:		
Accounts payable	(1,213)	(972)
Accrued wages and benefits	563	(400)
Accrued FECA and unemployment benefits	(15)	(13)
Accrued actuarial FECA benefits	105	107
Accrued annual leave	3,393	166
Accrued employee travel	(626)	89
Net Cash Provided by Operating Activities	40,134	28,256
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(17,458)	(23,445)
Purchases of assets held for sale	-	(919)
Proceeds from sale of assets held for sale	434	400
Net Cash Used in Investing Activities	(17,024)	(23,964)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	(5,028)	(1,341)
Principal payments under capital lease obligations	(1,187)	(581)
Net Cash Used in Financing Activities	(6,215)	(1,922)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,895	2,370
CASH AND CASH EQUIVALENTS—Beginning of year	94,492	92,122
CASH AND CASH EQUIVALENTS—End of year	$ 111,387	$ 94,492
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ 83	$ 61
CASH PAYMENTS FOR INTEREST	$ 71	$ 112

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal Credit Union Act of 1934 (Public Law 73-467, as amended). The Fund is a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board 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 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 and 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.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the following:

- 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 items subject to those estimates and assumptions include: (i) the determination of the FECA actuarial liability; (ii) certain intangible asset values; (iii) determination of the accounts payable accrual; and (iv) if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

Related Party Transactions – The Fund exists within the NCUA and is one of four funds managed by the NCUA Board during 2020 and 2019. 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 the NCUSIF and the 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 7.

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 Treasury securities. All investments in 2020 and 2019 are cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, software, and leasehold improvements are recorded at cost. 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 software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. The schedule below shows a summary of the capitalization thresholds and useful lives used by the NCUA.

Type of Asset	Capitalization Threshold	Useful Life
Buildings	$100,000	40 years
Building Improvements	$25,000	2-40 years
Furniture and Fixtures	$15,000	7 years
Equipment (IT and Telecommunication)	$15,000	3 years
Commercial Software	$15,000	3 years
Internal-Use Software (IUS)	$100,000 or 1,000 hours	3 years
Additions/Improvements to IUS	$50,000	≤ 3 years
Bulk Purchases	$100,000	2-3 years
Leasehold Improvements	$15,000	Life of the lease

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 loss is recognized and the asset is reported at the lower of carrying amount or fair value less the cost to sell. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as needed.

Assets Held for Sale – The Fund may have real estate held for sale. These 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 amounts due from the NCUSIF, employee advances, and other accounts receivable, net.

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 recorded as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities. Additional information for retirement plans are described in Note 9.

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 December 31st of the preceding year. 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 sales of publications, parking income, and rental income is recognized when earned.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering the NCUA's programs. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes any reductions resulting from incentives such as rent holidays, if applicable. 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 – Cash and cash equivalents, due from NCUSIF, employee advances, other accounts receivable, net, obligations under capital leases, and note payable to NCUSIF are recorded at book value, which approximates estimated fair value.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

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.

Reclassification – Certain prior year amounts have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Deposits with U.S. Treasury	$ 10,001	$ 10,920
U.S. Treasury Overnight Investments	101,386	83,572
Total	$ 111,387	$ 94,492

4. FIXED ASSETS

Fixed assets are comprised of the following as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Office building and land	$ 58,704	$ 56,213
Furniture and equipment	5,210	4,830
Leasehold improvements	513	513
Equipment under capital leases	1,972	1,889
Total assets in-use	66,399	63,445
Less accumulated depreciation	(38,720)	(34,651)
Assets in-use, net	27,679	28,794
Construction in progress	665	2,964
Fixed assets, net	$ 28,344	$ 31,758

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $4.3 million and $3.6 million, respectively, before allocation to the NCUSIF as described in Note 7. Construction in progress includes costs associated with improvements for the NCUA headquarters that increase the future service potential of the building beyond the existing level of service.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Internal-use software	$ 56,443	$ 24,901
Less accumulated amortization	(24,059)	(20,422)
Total internal-use software, net	32,384	4,479
Internal-use software under development	2,274	17,755
Intangible assets, net	$ 34,658	$ 22,234

Internal-use software 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. In 2020, approximately $32.2 million in new capitalized internal-use software was implemented to ensure compliance with new technical and security requirements. Amortization begins on the date the software is placed in service. Amortization expense for the years ended December 31, 2020 and 2019 totaled $4.0 million and $2.9 million, respectively, before allocation to the

NCUSIF as described in Note 7. Internal-use software under development represents software not ready for its intended use.

6. ASSETS HELD FOR SALE

Real estate available for sale is purchased from employees enrolled in the agency's home purchase program who are unable to sell their homes within 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. Impairment charges for 2020 and 2019 were $0 and $96.4 thousand, respectively, and are recorded as an Administrative expense within the Statements of Revenues, Expenses and Changes in Fund Balance. The balance of real estate available for sale as of December 31, 2020 was $0. The balance of real estate available for sale as of December 31, 2019 was $423.0 thousand net of impairment and costs to sell of $49.6 thousand.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with the NCUSIF

Certain administrative services are provided by the Fund to the 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 the NCUSIF for these services based on an annual Board approved allocation factor derived from a study of actual usage. In 2020 and 2019, the allocation to the NCUSIF was 61.3% and 60.5% of all expenses, respectively. The cost of the services allocated to the NCUSIF totaled $183.6 million and $182.9 million for 2020 and 2019, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. As of December 31, 2020 and 2019, amounts due from the NCUSIF totaled $3.3 million and $2.3 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 the NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. In December 2020, the Operating Fund paid off the remaining note balance of $3.7 million. The note payable balance as of December 31, 2020 and 2019 was $0 and $5.0 million, respectively. Interest costs incurred were $71.3 thousand and $112.4 thousand for 2020 and 2019, respectively. The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate during 2020 and 2019 was 1.59% and 1.98%, respectively.

(b) Transactions with the CLF

Administrative services are provided by the Fund to the CLF. The Fund pays CLF employee salaries and related benefits 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 employees with settlement and payment occurring quarterly. The CLF's remaining reimbursement expenses are paid annually. The costs of the services provided to the CLF were $857.5 thousand and $542.4 thousand for the years ending December 31, 2020 and 2019, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. Other accounts receivable include $242.6 thousand and $193.1 thousand due from the CLF as of December 31, 2020 and 2019, respectively.

(c) Support of the CDRLF

The Fund supports the administration of programs under the 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 ended December 31, 2020 and 2019, unreimbursed administrative support to the CDRLF is $816.7 thousand and $630.5 thousand, respectively.

(d) Federal Financial Institutions Examination Council (FFIEC)

The FFIEC was established on March 10, 1979, as a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the constituent agencies, and to make recommendations to promote uniformity in the supervision of financial institutions. By statute, the Chairman of the NCUA is one of six voting Council Members.

The NCUA is one of the five federal agencies that fund the FFIEC's operations. The 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, 2020 and 2019, FFIEC assessments totaled $1.0 million and $1.4 million, respectively. In addition, the NCUA received refunds of $146.7 thousand and $1.1 million in 2020 and 2019, respectively, due to lower than anticipated costs related to prior year payments. The NCUA's 2021 budgeted assessments from the FFIEC total $1.4 million.

(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 within 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 conditions. Ongoing costs to maintain properties are expensed as incurred.

8. 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 regional office space under lease agreements that will continue through 2023. Office rental charges amounted to approximately $896.0 thousand and $1.4 million for 2020 and 2019, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2024.

The future minimum lease payments to be paid over the next four years as of December 31, 2020, before reimbursements, are as follows (in thousands):

Years Ended December 31	**Operating Leases**	**Capital Leases**
2021	415	66
2022	426	15
2023	326	9
2024	-	5
Total Future Lease Payments	1,167	95
Less: Imputed Interest	-	(6)
Net Lease Liability	$ 1,167	$ 89

9. 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 $19,500 ($26,000 for age 50 and above) in 2020, an increase of $500 ($1,000 for age 50 and above) from 2019. In addition, the Fund matches up to 5.0% of the employee's gross pay.

As of December 31, 2020 and 2019, the Fund's contributions to the plans were approximately $32.3 million and $27.8 million, respectively.

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, 3.0% 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 2020 and 2019. The Fund's match of 2.0% remains in effect for the duration of the CBA. The NCUA's contributions as of December 31, 2020 and 2019 were $7.3 million and $7.0 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2020 and 2019 were $82.9 thousand and $95.7 thousand, respectively.

10. FAIR VALUE MEASUREMENTS

The fair value of an instrument 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.

(a) Non-recurring Fair Value Measures

Assets held for sale is presented at aggregate fair value less cost to sell. The fair value measurement recorded during the period includes pending purchase contracts, the lower of list prices of appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. These measurements fairly reflect the most current valuation of the assets.

The carrying amounts and established fair values of the Fund's assets held for sale as of December 31, 2020 and 2019 are as follows (in thousands):

Assets held for sale	**Cost Basis**	**Fair Value**	**Impairment at Year-end**
2020	$ -	$ -	$ -
2019	$ 423	$ 423	$ 50

(b) Summary Financial Instrument Fair Values

The following table presents the carrying values and established fair values of the Fund's financial instruments as of December 31, 2020 and 2019 (in thousands):

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 111,387	$ 111,387	$ 94,492	$ 94,492
Due from NCUSIF	3,262	3,262	2,309	2,309
Employee advances	16	16	7	7
Other accounts receivable, net	315	315	361	361
Obligations under capital leases	89	89	1,193	1,193
Note payable to NCUSIF	-	-	5,028	5,028

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

Due from NCUSIF – The carrying amount for due from NCUSIF approximates fair value as the amount is scheduled to be paid within the first quarter of 2021.

Employee advances – The carrying amount for receivables from employees approximates fair value as the amount is scheduled to be paid in 2021.

Other accounts receivable, net – The carrying amount for other accounts receivable approximates fair value as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2020 and 2019, the Fund's other accounts receivable, net includes an allowance in the amount of $15.8 thousand and $14.7 thousand, respectively.

Obligations under capital leases – The carrying amount for obligations under capital leases approximates fair value because the underlying interest rate approximates rates currently available to the Fund.

Note payable to NCUSIF – The carrying amount for note payable to NCUSIF approximates fair value due to its variable rate nature.

11. 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. As of December 31, 2020, the NCUA had four asserted and pending legal claims with a reasonably possible likelihood of loss and estimated range of loss from $200.0 thousand to $450.0 thousand. As of December 31, 2020, the NCUA had one probable loss from asserted and pending legal claims and has recorded an estimated contingent liability of $200.0 thousand in the accompanying financial statements. The NCUA did not have any probable losses from asserted and pending legal claims as of December 31, 2019.

12. 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's employees.

13. 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 became effective on January 7, 2019. The facilities improvements associated with the restructuring plan will be complete by 2021.

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 $855.0 thousand, relocation costs of $2.4 million, and other administrative costs of $9.8 million. To date, $11.5 million in costs have been incurred for this plan including approximately $752.7 thousand and $6.5 million in 2020 and 2019, respectively.

In 2019, the NCUA did not incur any costs associated with employee termination benefits and paid $240.0 thousand of the 2018 liability. As of December 31, 2020, the NCUA does not have a liability associated with employee termination benefits. To date, the NCUA has incurred $882.5 thousand in costs for employee termination benefits.

In 2019, the NCUA incurred $117.4 thousand for relocation expenses, of which $135.0 thousand was a liability. In 2020, the NCUA reduced the estimated relocation costs by $9.3 thousand and paid $105.0 thousand of the liability. As of December 31, 2020, the NCUA has a $20.7 thousand liability associated with relocation. To date, the NCUA has incurred $1.8 million in costs for relocation expenses.

In 2019, the NCUA incurred $6.4 million in other administrative costs, of which $424.9 thousand was a liability. In 2020, the NCUA incurred an additional $762.0 thousand in other administrative costs and paid $424.9 thousand of the liability. As of December 31, 2020, the NCUA does not have a liability associated with other administrative costs. To date, the NCUA has incurred $8.8 million in other administrative costs.

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.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 16, 2021, 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, 2020.

OIG-21-04

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2020 and 2019, and
Independent Auditors’ Report

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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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, 2020 and 2019 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.19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No.19-03 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 Central Liquidity Facility as of December 31, 2020 and 2019 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, 2020, we considered the CLF's internal control over financial reporting (internal control) as a basis for designing 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 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 CLF's financial statements as of and for the year ended December 31, 2020 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 financial statements. 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.19-03.

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 16, 2021

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
As of December 31, 2020 and 2019
(Dollars in thousands, except share data)

		2020		2019
ASSETS				
Cash and Cash Equivalents (Notes 3 and 5)	$	438,138	$	14,071
Investments Held to Maturity (Net of $684 and $838 unamortized discount as of 2020 and 2019, respectively, fair value of $623,709 and $321,692 as of 2020 and 2019, respectively) (Notes 4 and 5)		615,706		318,528
Accrued Interest Receivable (Note 5)		1,015		1,327
TOTAL ASSETS	$	1,054,859	$	333,926
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts Payable (Notes 5 and 9)	$	346	$	270
Dividends and Interest Payable (Note 5)		382		1,310
Stock Redemption Payable (Note 5)		-		3,196
Member Deposits (Notes 5 and 7)		4,009		5,496
Total Liabilities		4,737		10,272
MEMBERS' EQUITY				
Capital Stock – Required ($50 per share par value authorized: 40,508,340 and 11,547,711 shares; issued and outstanding: 20,254,170 and 5,773,856 shares as of 2020 and 2019, respectively) (Note 6)		1,012,708		288,693
Retained Earnings		37,414		34,961
Total Members' Equity		1,050,122		323,654
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	1,054,859	$	333,926

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
REVENUE		
Investment Income	$ 5,614	$ 6,348
Interest on Loan	-	3
Total Revenue	5,614	6,351
EXPENSES (Note 9)		
Personnel Services	507	306
Personnel Benefits	226	160
Other General and Administrative Expenses	149	128
Total Operating Expenses	882	594
Interest – Federal Financing Bank Notes Payable (Note 8)	-	3
Interest – Member Deposits (Note 7)	21	75
Total Expenses	903	672
NET INCOME	$ 4,711	$ 5,679

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2020 and 2019
(Dollars in thousands, except share data)

	Capital Stock			
	Shares	Amount	Retained Earnings	Total
BALANCE – December 31, 2018	5,491,692	$ 274,584	$ 33,933	$ 308,517
Issuance of Required Capital Stock	384,633	19,232		19,232
Redemption of Required Capital Stock	(102,469)	(5,123)		(5,123)
Dividends Declared (Notes 6 and 7)			(4,651)	(4,651)
Net Income			5,679	5,679
BALANCE – December 31, 2019	5,773,856	$ 288,693	$ 34,961	$ 323,654
Issuance of Required Capital Stock	14,629,162	731,458		731,458
Redemption of Required Capital Stock	(148,848)	(7,443)		(7,443)
Dividends Declared (Notes 6 and 7)			(2,258)	(2,258)
Net Income			4,711	4,711
BALANCE – December 31, 2020	20,254,170	$1,012,708	$ 37,414	$1,050,122

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 4,711	$ 5,679
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
Amortization of Investments	(512)	(13)
Interest - Member Deposits	21	75
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	312	(46)
Increase/(Decrease) in Accounts Payable	76	141
Net Cash Provided by Operating Activities	4,608	5,836
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(783,942)	(81,193)
Proceeds from Maturing Investments	487,275	66,000
Net Cash Used in Investing Activities	(296,667)	(15,193)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	726,313	15,958
Redemption of Capital Stock	(10,134)	(1,845)
Withdrawal of Member Deposits	(53)	(347)
Net Cash Provided by Financing Activities	716,126	13,766
NET INCREASE IN CASH AND CASH EQUIVALENTS	424,067	4,409
CASH AND CASH EQUIVALENTS–Beginning of Year	14,071	9,662
CASH AND CASH EQUIVALENTS–End of Year	$ 438,138	$ 14,071

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019

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'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.

In response to the COVID-19 pandemic, several temporary changes to the Federal Credit Union Act (FCU Act) and the NCUA's Rules and Regulations §725 (the "CLF rule") were made by Congress and the NCUA Board, respectively, in 2020. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law by President Trump on March 27, 2020 and it was set to expire on December 31, 2020. The Consolidated Appropriations Act was signed on December 27, 2020 and it extended the key provisions of the CARES Act through December 31, 2021. The NCUA Board adopted additional authorities within §725 to help implement and augment these CARES Act provisions.

The CARES Act temporarily amended the loan provision with less restrictive language. It granted the NCUA Board the authority for a corporate credit union to become an agent member of the CLF for a subset of its members. Also, it allowed temporary increases in borrowing authority from 12 to 16 times the subscribed capital stock and surplus. See Notes 2, 6, and 8 for further information about the loans, 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 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 and recognizes income when earned and 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'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. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Debt 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 CARES Act temporarily amended the loan provision with less restrictive language, and the Board temporarily eliminated the six-month waiting period for a new member to obtain Facility advances. In addition, the Board has permanently changed the Regulation §725 allowing the CLF to use a collateral margins table to calculate a security interest in the assets of the member. The CLF collateral margins table provides the advance rates that the CLF applies to the value of pledged assets to determine the amount of credit available to the pledging credit union.

The CLF does not currently charge additional fees for its lending activities. There was no lending activity in 2020 and one lending activity in 2019, which was fully repaid in 2019. As of December 31, 2020 and 2019, there were no allowances and no write-offs.

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.

The CARES Act temporarily increased the borrowing authority from 12 to 16 times the subscribed capital stock and surplus.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

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, 2020 and 2019 are as follows (in thousands):

	2020	2019
U.S. Treasury Overnight Investments	$ 437,138	$ 13,071
Deposits with U.S. Treasury	1,000	1,000
Total	$ 438,138	$ 14,071

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, 2020 and 2019 were as follows (in thousands):

	2020	2019
Carrying Amount as of December 31	$ 615,706	$ 318,528
Gross Unrealized Holding Gains	8,212	3,495
Gross Unrealized Holding Losses	(209)	(331)
Fair Value	$ 623,709	$ 321,692

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

	2020		2019	
(Dollars in thousands)	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	$ 129,195	$ 129,906	$ 76,409	$ 76,309
Due after one year through five years	443,439	447,454	205,253	207,430
Due after five years through ten years	43,072	46,349	36,866	37,953
Total	$ 615,706	$ 623,709	$ 318,528	$ 321,692

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, 2020 and 2019.

	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, 2020						
U.S. Treasury Securities	$ (209)	$ 232,773	$ -	$ -	$ (209)	$ 232,773
As of December 31, 2019						
U.S. Treasury Securities	$ (185)	$ 42,770	$ (146)	$ 75,410	$ (331)	$ 118,180

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 at 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, 2020 and 2019. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 438,138	$ 438,138	$ 14,071	$ 14,071
Investments held-to-maturity	615,706	623,709	318,528	321,692
Accrued interest receivable	1,015	1,015	1,327	1,327
Accounts payable	346	346	270	270
Dividends and Interest payable	382	382	1,310	1,310
Stock redemption payable	-	-	3,196	3,196
Member deposits	4,009	4,009	5,496	5,496

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. Prior to 2020, CLF membership was made up of regular members which are natural person credit unions. During 2020, the CARES Act provided temporary authority until December 31, 2021 for a corporate credit union to become an agent member of the CLF. The NCUA Board eliminated the six-month waiting period for a new member to obtain Facility advances; amended the nature of the requirement for a corporate credit union to subscribe to the capital stock of the Facility by allowing an agent's application to cover only a subset of its respective members (as opposed to all); permitted a corporate credit union to join the CLF as a regular member so it may borrow for its own liquidity needs; and amended the waiting periods ("notice" periods) for a credit union to terminate its membership by shortening the required timeframes. These changes were designed to enhance the ability of credit unions to join the CLF in order to obtain greater amounts of liquidity-need loans if and when the need arises.

The capital stock account represents subscriptions remitted to the CLF by regular and agent member credit unions. 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.

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 comprised of the following as of December 31, 2020 and 2019 (dollars in thousands, except share data):

	2020		**2019**	
	Shares	Amounts	Shares	Amounts
Regular members	11,897,951	$ 594,897	5,773,856	$ 288,693
Agent members	8,356,219	417,811	-	-
Total	20,254,170	$ 1,012,708	5,773,856	$ 288,693

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 quarter-end. The dividend rates paid on capital stock for regular and agent members change quarterly. For 2020, the dividend rate was $0.375 per share for the first quarter, $0.25 per share for the second quarter, $0.125 per share for the third quarter, and $0.075 per share for the fourth quarter. For 2019, the dividend rates were $0.75 per share for the first and second quarters, and $0.875 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 CARES Act temporarily increased borrowing authority from 12 times to 16 times the subscribed capital stock and surplus. The increase only applies during the period when the CARES Act is in effect, from March 27, 2020 through December 31, 2021, after which time the limit reverts to 12 times subscribed capital stock and surplus. As of December 31, 2020 and 2019, the CLF's statutory borrowing authority was $33.0 billion and $7.3 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 $25.0 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 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, 2021. During 2020, the CLF borrowed $0 from FFB. During 2019, the CLF borrowed $1.0 million from FFB under one loan agreement, which the CLF then loaned to a member credit union. In 2019, the member credit union repaid the CLF for the full amount of the loan. The CLF subsequently repaid the loan to FFB in 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 $857.5 thousand and $542.4 thousand, respectively, for December 31, 2020 and 2019. Accounts payable includes approximately $242.6 thousand and $193.1 thousand, respectively, for December 31, 2020 and 2019, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 16, 2021, 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, 2020.

OIG-21-05

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended December 31, 2020 and 2019, 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, 2020 and 2019 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.19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No.19-03 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 Community Development Revolving Loan Fund as of December 31, 2020 and 2019 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, 2020, we considered the CDRLF's internal control over financial reporting (internal control) as a basis for designing 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 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 CDRLF's financial statements as of and for the year ended December 31, 2020 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 financial statements. 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.19-03.

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 16, 2021

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
As of December 31, 2020 and 2019
(Dollars in thousands)

	2020	2019
ASSETS		
Cash and Cash Equivalents (Notes 3 and 7)	$ 11,834	$ 13,688
Loans Receivable, Net (Notes 4 and 7)	6,025	6,030
Interest Receivable (Note 7)	7	10
TOTAL ASSETS	$ 17,866	$ 19,728
LIABILITIES AND FUND BALANCE		
Accrued Technical Assistance Grants (Note 7)	$ 2,518	$ 3,803
Fund Balance		
Fund Capital	14,180	13,999
Accumulated Earnings	1,168	1,926
Total Fund Balance	15,348	15,925
TOTAL LIABILITIES AND FUND BALANCE	$ 17,866	$ 19,728

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
REVENUES		
Interest on Cash Equivalents	$ 34	$ 171
Interest on Loans	33	39
Appropriations Used (Note 5)	1,561	1,983
Canceled Technical Assistance Grants (Note 5)	(285)	(340)
TOTAL REVENUES	1,343	1,853
EXPENSES		
Technical Assistance Grants (Note 5)	2,529	2,000
Canceled Technical Assistance Grants (Note 5)	(303)	(340)
Provision for Loan Losses	(125)	125
TOTAL EXPENSES	2,101	1,785
NET INCOME / (LOSS)	$ (758)	$ 68

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, 2020 and 2019
(Dollars in thousands)

	Fund Capital				
	For Loans	**For Technical Assistance**	**Total Fund Capital**	**Accumulated Earnings**	**Total Fund Balance**
December 31, 2018	$ 13,388	$ 287	$ 13,675	$ 1,858	$ 15,533
Appropriations Received (Note 5)	-	2,000	2,000	-	2,000
Appropriations Used (Note 5)	-	(1,983)	(1,983)	-	(1,983)
Canceled Appropriations Returned to Treasury (Note 5)	-	(33)	(33)	-	(33)
Canceled Technical Assistance Grants (Note 5)	-	340	340	-	340
Net Income	-	-	-	68	68
December 31, 2019	$ 13,388	$ 611	$ 13,999	$ 1,926	$ 15,925
Appropriations Received (Note 5)	-	1,500	1,500	-	1,500
Appropriations Used (Note 5)	-	(1,561)	(1,561)	-	(1,561)
Canceled Appropriations Returned to Treasury (Note 5)	-	(43)	(43)	-	(43)
Canceled Technical Assistance Grants (Note 5)	-	285	285	-	285
Net Loss	-	-	-	(758)	(758)
December 31, 2020	$ 13,388	$ 792	$ 14,180	$ 1,168	$ 15,348

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, 2020 and 2019
(Dollars in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income / (Loss)	$ (758)	$ 68
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Provision for Loan Losses	(125)	125
Appropriations Used (Note 5)	(1,561)	(1,983)
Canceled Technical Assistance Grants (Note 5)	285	340
Changes in Assets and Liabilities		
Decrease in Interest Receivable	3	4
Increase / (Decrease) in Accrued Technical Assistance Grants	(1,285)	773
Net Cash Used in Operating Activities	(3,441)	(673)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Repayments	2,380	4,550
Loan Disbursements	(2,250)	(1,000)
Net Cash Provided by Investing Activities	130	3,550
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2020/2021	1,500	-
Appropriations Received 2019/2020	-	2,000
Canceled Appropriations Returned to Treasury 2014/2015	(43)	-
Canceled Appropriations Returned to Treasury 2013/2014	-	(33)
Net Cash Provided by Financing Activities	1,457	1,967
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,854)	4,844
CASH AND CASH EQUIVALENTS — Beginning of year	13,688	8,844
CASH AND CASH EQUIVALENTS — End of year	$ 11,834	$ 13,688

See accompanying notes to the financial statements.

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 CDRLF stimulates economic activities in the communities served by low-income designated federally-chartered and state-chartered credit unions through its loan and technical assistance grant program. These financial awards are appropriated by Congress and are intended to support credit unions in their efforts to provide basic financial services to residents in their communities, enhance their capacity to better serve their members and respond to emergencies. The policy of the NCUA is to revolve loans to eligible credit unions as often as practical to maximize the economic benefits achieved by participating credit unions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CDRLF 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 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 and 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.

Use of Estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- 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.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act (Public Law 73-467, as amended) permits the CDRLF to make investments in United States Treasury securities. All investments in 2020 and 2019 are cash equivalents and are stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – Since inception, Congress has appropriated a total of $13.4 million for the CDRLF revolving loan program. The CDRLF awards loan amounts of up to $500,000 to participating credit unions based on financial condition. These loans have a maximum term of five years and are subject to the interest rate provided by the CDRLF Loan Interest Rate policy, which is reviewed annually. Effective March 29, 2019, the CDRLF set the interest rate to 1.50%, an increase from the previous rate of 0.60% set on May 1, 2014. Interest is to be paid on a semiannual 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.

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 Statement of Operations 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. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

In response to the coronavirus outbreak in the U.S., the NCUA, through the CDRLF, developed the COVID-19 Emergency Fund Initiative to provide grants and interest-free loans to assist low-income designated credit unions (LICUs). The NCUA earmarked approximately $4.0 million in loans to aid LICUs as they respond to COVID-19 related hardships and work to alleviate the impact of the crisis in their communities. Through this initiative, eligible credit unions received a three-year interest-free loan of up to $250,000. Principal is to be repaid on the maturity date of the loan. Additional information is described in Note 4.

Technical Assistance Grants – The CDRLF issues technical assistance grants to LICUs using multiyear appropriated funds and income generated from the revolving fund. Grant income and expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. The CDRLF reviews long-term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and takes formal steps to cancel expired grants.

The NCUA earmarked $0.8 million of multiyear appropriated funds to support the efforts of credit unions responding to COVID-19. Under the COVID-19 Emergency Fund Initiative, credit unions that have incurred expenses related to COVID-19 are allowed to apply for grants up to $10,000. Additional information is described in Note 5.

Fair Value Measurements – Cash and cash equivalents, loans receivable, interest receivable, and accrued technical assistance grants are recorded at book value, which approximates estimated fair value.

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 both appropriations and income generated from the revolving fund. Interest on cash equivalents and interest on loans is recognized when earned.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

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, 2020 and 2019 are as follows (in thousands):

	2020	2019
Deposits with U.S. Treasury	$ 3,666	$ 4,868
U.S. Treasury Overnight Securities	8,168	8,820
Total	$ 11,834	$ 13,688

4. LOANS RECEIVABLE

Loans receivable as of December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Balance as of the Beginning of the Year	$ 6,155	$ 9,705
Loan Disbursements	2,250	1,000
Loan Repayments	(2,380)	(4,550)
Loans Receivable as of the End of the Year	6,025	6,155
Allowance for Loan Losses as of the End of the Year	-	(125)
Loans Receivable, Net, as of the End of the Year	$ 6,025	$ 6,030

Loans outstanding as of December 31, 2020, are scheduled to be repaid as follows (in thousands):

Year	Amount
2021	$ 775
2022	500
2023	4,000
2024	750
Loans Outstanding	6,025
Allowance for Loan Losses	-
Total Loans Receivable, Net	$ 6,025

As of December 31, 2020, the CDRLF disbursed $2.3 million in emergency loans through the COVID-19 Emergency Fund Initiative. These loans are three year interest-free notes made to credit unions to alleviate the impact of COVID-19. The CDRLF has the intent and ability to hold its loans to maturity, and expects to realize the carrying amount in full.

5. TECHNICAL ASSISTANCE GRANTS

The CDRLF administers a technical grant assistance program to fulfill its mission to stimulate economic growth in low-income communities. These grants are typically provided on a reimbursement basis to ensure that grant awards are appropriately used.

Multiyear Funds
The CDRLF grant program is primarily funded through an annual appropriation from Congress. Multiyear funds can be obligated to participating credit unions for up to two years. Canceled

technical assistance grants from previously used multiyear funds are returned to the U.S. Treasury and credited back to the original appropriated fund from which they were awarded.

In 2020, the CDRLF received a $1.5 million appropriation from Congress. This multiyear appropriation is available for obligation through September 30, 2021. As of December 31, 2020, the CDRLF has obligated $1.6 million and canceled $284.8 thousand of technical assistance grants awarded from multiyear funds. In response to COVID-19, the CDRLF repurposed a portion of the existing multiyear appropriation and issued $1.5 million in emergency grants.

In 2019, the CDRLF received a $2.0 million appropriation from Congress. This multiyear appropriation was available for obligation through September 30, 2020. As of December 31, 2019, the CDRLF obligated $2.0 million of the multiyear funds. For the year ended December 31, 2019, the CDRLF canceled $339.6 thousand of technical assistance grants awarded from multiyear funds.

Upon cancelation, $42.5 thousand from the FY 2014 appropriation and $33.0 thousand from the FY 2013 appropriation was returned to the U.S. Treasury in 2020 and 2019, respectively.

Revolving Fund
The CDRLF can also award technical assistance grants from the revolving fund. These grants are recognized as Technical Assistance Grants expense when the funds are obligated to participating credit unions. If a grant awarded from the revolving fund is canceled, the funds are recognized as Canceled Technical Assistance Grants.

As of December 31, 2020, the CDRLF awarded $967.6 thousand in technical assistance grants from the revolving fund. In 2020, the CDRLF canceled $18.4 thousand of technical assistance grants awarded from the revolving fund.

As of December 31, 2019, the CDRLF awarded in $18.1 thousand in technical assistance grants from the revolving fund. In 2019, the CDRLF canceled $0.8 thousand of technical assistance grants awarded from the revolving fund.

6. CONCENTRATION OF CREDIT RISK

The CDRLF has the authority to provide loans to low-income designated credit unions. At the discretion of the NCUA, participating credit unions can record an awarded loan as a nonmember deposit, which qualifies up to $250,000 of the loan proceeds to be insured by the National Credit Union Share Insurance Fund. Loan balances that exceed $250,000 are uninsured and pose a potential credit risk to the CDRLF. The aggregate total of uninsured loans was $1.0 million and $1.6 million as of December 31, 2020 and 2019, respectively. The decrease in FY 2020 is primarily due to loan maturities of $0.6 million.

7. FAIR VALUE MEASUREMENTS

The fair value of an instrument 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 following table presents the carrying values and established fair values of the CDRLF's financial instruments as of December 31, 2020 and 2019 (in thousands):

	2020		2019	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and Cash Equivalents	$ 11,834	$ 11,834	$ 13,688	$ 13,688
Loans Receivable, Net	6,025	6,083	6,030	6,119
Interest Receivable	7	7	10	10
Liabilities				
Accrued Technical Assistance Grants	2,518	2,518	3,803	3,803

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Loans Receivable, Net – Fair value is estimated using an income approach by separately discounting each individual loan’s projected future cash flow. 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.

8. 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 ended December 31, 2020 and 2019, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF (in thousands):

	2020	2019
Employee	$ 744	$ 571
Other	73	59
Total	$ 817	$ 630

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 16, 2021, which is the date the financial statements were available to be issued. Management determined there were no significant items to be disclosed as of December 31, 2020.