



**AUDIT OF THE NCUA'S CLOSING PACKAGE  
SCHEDULE OF OTHER ASSETS AND CONTRIBUTED  
CAPITAL AS OF SEPTEMBER 30, 2017**

**Report #OIG-17-11**

**November 15, 2017**



A handwritten signature in black ink, appearing to read "James W. Hagen".

*James W. Hagen*  
*Inspector General*



Office of Inspector General

November 15, 2017

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

Dear Chairman McWatters and Board Member Metsger:

I am pleased to transmit KPMG LLP's (KPMG) report on its audit of the NCUA's closing package schedule, which includes other assets and contributed capital of the NCUA as of September 30, 2017 and the related notes. NCUA prepared the closing package schedule 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 NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's closing package schedule as of September 30, 2017. KPMG conducted the audit 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. 17-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 17-03 require that KPMG plan and perform the audit to obtain reasonable assurance about whether the closing package schedule is free from material misstatement.

KPMG's audit report for the FY 2017 Consolidated Financial Statements of the U. S. Government includes: (1) an opinion on the closing package schedule, (2) internal control over financial reporting specific to the closing package financial statements, and (3) compliance and other matters specific to the closing package schedule. In its audit, KPMG found:

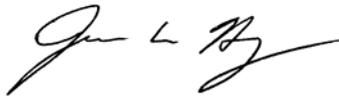
- The closing package schedule presents fairly, in all material respects, the other assets and contributed capital of the National Credit Union Administration as of September 30, 2017, in conformity with U.S. generally accepted accounting principles;
- There were no significant deficiencies related to internal control for the closing package schedule considered to be material weaknesses; and
- There were no instances of noncompliance with other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 17-03.

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 report 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 NCUA's closing package schedule or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations, as it relates to the closing package schedule. KPMG is responsible for the attached auditor report dated November 14, 2017, and the conclusions expressed in the report. 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 closing package schedule within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG and the OIG throughout the audit and our oversight of the audit process.

Respectfully,



James W. Hagen  
Inspector General

cc: Executive Director Mark Treichel  
Deputy Executive Director (Audit Follow-up Official) John Kutchev  
Chief Financial Officer Rendell Jones  
General Counsel Michael McKenna  
E&I Director Larry Fazio  
Regional Director and AMAC President Keith Morton  
PACA Acting Director Al Garesché

OIG-17-11

# National Credit Union Administration

Closing Package Schedule of Other Assets and Contributed Capital  
As of September 30, 2017, and  
Independent Auditors' Report

# NATIONAL CREDIT UNION ADMINISTRATION

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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 Closing Package Financial Statements**

We have audited the accompanying closing package schedule of other assets and contributed capital of the National Credit Union Administration (NCUA) as of September 30, 2017, and the related notes (hereinafter referred to as the "closing package schedule").

#### ***Management's Responsibility for the Closing Package Schedule***

Management is responsible for the preparation and fair presentation of this closing package schedule 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 the closing package schedule that is free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the closing package schedule based on our audit. We conducted our audit 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the closing package schedule, 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 closing package schedule 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 closing package schedule.

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

#### ***Opinion on the Closing Package Schedule***

In our opinion, the closing package schedule referred to above presents fairly, in all material respects, the other assets and contributed capital of the National Credit Union Administration as of September 30, 2017, in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matter***

We draw attention to Note 1 to the closing package schedule, which describes that the accompanying closing package schedule was prepared for the purpose of providing financial information to the U.S. Department of Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and is not intended to be a complete presentation of the assets, liabilities, revenues, or expenses of the National Credit Union Administration as of September 30, 2017. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the closing package schedule as a whole. The information other than the closing package schedule is presented in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume 1, Part 2, Chapter 4700 (TFM Chapter 4700) and the U.S. Department of the Treasury's *Supplemental Guidance to TFM Chapter 4700* dated October 17, 2016 and is not a required part of the closing package schedule. Such information has not been subjected to the auditing procedures applied in the audit of the closing package schedule as of September 30, 2017, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Restriction on Use of the Report on the Closing Package Schedule***

This report is intended solely for the information and use of the NCUA Board, management of the NCUA, NCUA's Office of the Inspector General, U.S. Department of the Treasury, OMB, and GAO in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

### ***Other Reporting Required by Government Auditing Standards***

#### ***Internal Control over Financial Reporting Specific to the Closing Package Financial Statements***

In planning and performing our audit of the closing package schedule, we also considered the NCUA's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package schedule, but not for the purpose of expressing an opinion on the effectiveness of the NCUA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUA'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 specific to the closing package schedule 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 Specific to the Closing Package Schedule***

As part of obtaining reasonable assurance about whether the NCUA's closing package schedule is free from material misstatement, we also 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 the closing package schedule amounts. However, providing an opinion on compliance with those provisions was



not an objective of our audit of the closing package schedule, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

***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 result of that testing, and not to provide an opinion on the effectiveness of the NCUA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 14, 2017

**NATIONAL CREDIT UNION ADMINISTRATION**

**CLOSING PACKAGE SCHEDULE OF OTHER ASSETS AND CONTRIBUTED CAPITAL**

**As of September 30, 2017**

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	<u>2017</u>
Other Assets (Note 2)	\$ 685,171,639
Contributed Capital (Note 3)	10,762,727,393

The accompanying notes are an integral part of this statement.

# NATIONAL CREDIT UNION ADMINISTRATION

## NOTES TO CLOSING PACKAGE SCHEDULE AS OF SEPTEMBER 30, 2017

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The National Credit Union Administration (NCUA) is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. Government, the NCUA operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of over 109 million account holders in all federal credit unions and the majority of state-chartered credit unions. The reporting entity for the NCUA's annual submission into the Government-wide Financial Report System (GFRS) is the combined statement of the NCUSIF, the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), the Central Liquidity Facility, the Community Development Revolving Loan Fund, and the Operating Fund.

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute (12 U.S.C. §1790e(h)), the TCCUSF's remaining funds, property, and other assets were distributed to the NCUSIF. Through the distribution, the NCUSIF assumed the activities and obligations of the TCCUSF, including the NCUA Guaranteed Notes (NGN) Program, and will report on such going forward.

#### **Basis of Presentation**

The Closing Package Schedule (Schedule) has been prepared as part of the NCUA's annual submission into the Government-wide Financial Report System (GFRS). The GFRS is used by the U.S. Department of the Treasury, Bureau of the Fiscal Service, to collect closing package information from Federal Program Agencies. The primary purpose of GFRS is to present a comprehensive report on the government's financial position, the Financial Report of the United States. The Schedule and related notes herein are not intended to represent the NCUA's entire GFRS submission, nor be a complete presentation of the NCUA's assets, liabilities, revenues, or expenses.

The Schedule has been prepared from the NCUA's accounting records in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the Schedule and notes 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 15, 2017.

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

**Basis of Accounting**

The NCUA records its accounting transactions following the accrual method of accounting to record other assets and contributed capital presented on the Schedule.

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

**Use of Estimates**

Generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the reported amounts of Other Assets at the date of the Schedule.

These estimates are based on current conditions that may change in the future. Actual results could differ from estimates. Significant items subject to those estimates and assumptions include the allowance amounts for losses on the receivables from Asset Management Estates (AMEs). The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

**Other Assets***Receivables from Asset Management Estates, Net*

Other assets primarily represents receivables from Asset Management Estates, Net. The NCUA records the receivables from AMEs when claims are paid by the NCUSIF and TCCUSF on behalf of the AME to satisfy guarantee obligations including to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss 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). Assets held by the AMEs are the main source of repayment of the receivables from the AMEs. The recoveries from these AME assets are paid as AME assets are monetized and to the extent a receivable is due for share payout obligations and administrative expenses.

The NCUA records an allowance amount for loss on receivables from AMEs based on expected asset recovery rates, which 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;
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME; and
- recoveries from the AMEs related to legal claims.

Expected asset recovery rates are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

## Contributed Capital

### *Capitalization Deposits*

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital when received.

## 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.

## 2. OTHER ASSETS

Other Assets consists primarily of Receivables from Asset Management Estates, Net, for the NCUSIF and the TCCUSF. Additionally, Other Assets includes Advances and Prepayments, and Other Assets.

### As of September 30, 2017

Fund	Description	Gross Balance	Allowance	Net Balance
TCCUSF	Receivables from AMEs	\$ 3,352,874,897	\$ 2,681,036,348	\$ 671,838,549
NCUSIF	Receivables from AMEs	851,687,688	841,255,732	10,431,956
TCCUSF	Advances and Prepayments	1,035,582	-	1,035,582
Operating Fund	Advances and Prepayments	1,834,515	-	1,834,515
Operating Fund	Other Assets	31,037	-	31,037
		<u>4,207,463,719</u>	<u>3,522,292,080</u>	<u>685,171,639</u>

### *Receivables from Asset Management Estates*

The Receivables from Asset Management Estates, Net, represent the expected reimbursements from the AMEs for amounts paid by the respective fund on behalf of the AMEs. The related allowance for losses takes into account the NCUA's assessment of expected recovery from the AMEs that reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets.

TCCUSF and NCUSIF – Receivables from AMEs include claims to recover payments made by the NCUSIF and TCCUSF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss 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). Assets held by the AMEs are the main source of repayment of the related receivables from the AMEs. The recoveries from these AME assets are paid to the respective funds as AME assets are monetized, and to the extent a receivable is due, for share payout obligations, guarantee payments and administrative expenses. The allowance for losses on receivables from AMEs are based on asset recovery rates that are evaluated during the year, but remain subject to uncertainties because of potential changes in economic and market conditions.

TCCUSF – Advances and Prepayments are for cash paid in advance for contracted goods and services.

Operating Fund – Advances are to NCUA Employees for Travel and Relocation. Prepayments are for software licenses and system maintenance agreements.

### 3. CONTRIBUTED CAPITAL (DEPOSIT INSURANCE)

The NCUSIF contributed capital consists of the 1.00% capitalization deposit of insured shares collected from federally insured credit unions.

Fund	Description	September 30, 2017
NCUSIF	Contributed Capital	<u>\$10,762,727,393</u>

The *Credit Union Membership Access Act of 1998* (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. Under Section 202(c) of the FCU Act, 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 not more than \$50.0 million; and (ii) semiannually, 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.

NCUSIF – As of September 30, 2017, the aggregate outstanding insured shares of all federally insured credit unions were estimated at \$1.1 trillion. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries.

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