

National Credit Union
Administration
Community Development
Revolving Loan Fund

Financial Statements as of and for the Years Ended
December 31, 2017 and 2016, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2017 and 2016, 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. 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 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 on the Financial Statements

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, 2017 and 2016, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



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, 2017, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of 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 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein 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 CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2018

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

BALANCE SHEETS

As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	\$ 9,680,592	\$ 7,424,530
Loans Receivable (Notes 5, 7, and 8)	8,114,999	10,214,722
Interest Receivable (Note 8)	<u>10,995</u>	<u>10,212</u>
TOTAL ASSETS	<u>\$ 17,806,586</u>	<u>\$ 17,649,464</u>
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	\$ 2,461,556	\$ 2,288,071
Fund Balance		
Fund Capital (Note 4)	13,572,440	13,625,820
Accumulated Earnings	<u>1,772,590</u>	<u>1,735,573</u>
Total Fund Balance	<u>15,345,030</u>	<u>15,361,393</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 17,806,586</u>	<u>\$ 17,649,464</u>

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUES		
Interest on Cash Equivalents	\$ 34,865	\$ 12,738
Interest on Loans	<u>47,152</u>	<u>41,443</u>
Total Interest Income	<u>82,017</u>	<u>54,181</u>
Appropriation Revenue		
Appropriations Expended (Note 4)	2,389,085	2,499,187
Cancelled Technical Assistance Grants (Note 6)	<u>(362,020)</u>	<u>(379,691)</u>
Total Appropriation Revenue	<u>2,027,065</u>	<u>2,119,496</u>
Total Support and Revenues	<u>2,109,082</u>	<u>2,173,677</u>
EXPENSES		
Technical Assistance Grants	2,434,085	2,574,153
Cancelled Technical Assistance Grants (Note 6)	<u>(362,020)</u>	<u>(387,351)</u>
Total Expenses	<u>2,072,065</u>	<u>2,186,802</u>
NET INCOME/(LOSS)	<u>\$ 37,017</u>	<u>\$ (13,125)</u>

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, 2017 and 2016**

	Fund Capital			Accumulated Earnings	Total Fund Balance
	For Loans	For Technical Assistance	Total Fund Capital		
December 31, 2015	\$ 13,387,777	\$ 566,931	\$ 13,954,708	\$ 1,748,698	\$ 15,703,406
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,499,187)	(2,499,187)	-	(2,499,187)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(209,392)	(209,392)	-	(209,392)
Cancelled Technical Assistance Grants (Note 6)	-	379,691	379,691	-	379,691
Net Income/(Loss)	-	-	-	(13,125)	(13,125)
December 31, 2016	\$ 13,387,777	\$ 238,043	\$ 13,625,820	\$ 1,735,573	\$ 15,361,393
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,389,085)	(2,389,085)	-	(2,389,085)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(26,315)	(26,315)	-	(26,315)
Cancelled Technical Assistance Grants (Note 6)	-	362,020	362,020	-	362,020
Net Income/(Loss)	-	-	-	37,017	37,017
December 31, 2017	\$ 13,387,777	\$ 184,663	\$ 13,572,440	\$ 1,772,590	\$ 15,345,030

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(Loss)	\$ 37,017	\$ (13,125)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities		
Appropriations Expended	(2,389,085)	(2,499,187)
Cancelled Technical Assistance	362,020	379,691
Changes in Assets and Liabilities		
Increase in Interest Receivable	(783)	(717)
Increase in Accrued Technical Assistance	173,485	333,623
Net Cash Used in Operating Activities	<u>(1,817,346)</u>	<u>(1,799,715)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	2,599,723	525,182
Loan Disbursements	<u>(500,000)</u>	<u>(1,375,000)</u>
Net Cash Used In Investing Activities	<u>2,099,723</u>	<u>(849,818)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2017/2018	2,000,000	-
Appropriations Received 2016/2017	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2011/2012	(26,315)	-
Cancelled Appropriations Remitted to Treasury 2010/2011	<u>-</u>	<u>(209,392)</u>
Net Cash Provided by Financing Activities	<u>1,973,685</u>	<u>1,790,608</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,256,062	(858,925)
CASH AND CASH EQUIVALENTS — Beginning of Year	<u>7,424,530</u>	<u>8,283,455</u>
CASH AND CASH EQUIVALENTS — End of Year	<u>\$ 9,680,592</u>	<u>\$ 7,424,530</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

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 Association (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – The CDRLF maintains its accounting records in accordance with the accrual basis of accounting. As such, the CDRLF recognizes income when earned and expenses

when incurred. In addition, the CDRLF records investment transactions when they are executed and recognizes interest on investments when it is earned.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the CDRLF to make investments in United States Government Treasury securities. All investments in 2017 and 2016 were cash equivalents and were stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – NCUA Rules and Regulations do not provide a maximum limit on loan applications. Loan amounts of up to \$500,000 are approved based on the financial condition of the credit union. The maximum loan term is five (5) years. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. The CDRLF reviews the interest rate on an annual basis. Effective May 1, 2014, the interest rate was set to 0.60%. In 2017 and 2016, the CDRLF maintained the interest rate at 0.60%.

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

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2017 and 2016. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

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

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

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because not all technical assistance grants are funded by

appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

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

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

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

3. CASH AND CASH EQUIVALENTS

The CDRLF’s cash and cash equivalents as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Deposits with U.S. Treasury	\$ 3,880,592	\$ 3,524,530
U.S. Treasury Overnight Securities	<u>5,800,000</u>	<u>3,900,000</u>
	<u>\$ 9,680,592</u>	<u>\$ 7,424,530</u>

4. GOVERNMENT REGULATIONS

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

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

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

During the year ended December 31, 2016, the CDRLF received an appropriation for technical assistance grants in the amount of \$2.0 million for FY 2016. This was a multiyear appropriation

that was available for obligation through September 30, 2017. Of this amount, \$1.9 million was expended for the year ended December 31, 2016. An additional \$626 thousand was expended from the FY 2015 appropriation.

Appropriated funds in the amount of \$26 thousand from the FY 2011 appropriation were remitted to the U.S. Treasury in 2017 upon cancellation. Appropriated funds in the amount of \$209 thousand from the FY 2010 appropriation were remitted to the U.S. Treasury in 2016 upon cancellation.

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

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Balance as of the Beginning of the Year	\$ 10,214,722	\$ 9,364,904
Loans Disbursed	500,000	1,375,000
Loan Repayments	<u>(2,599,723)</u>	<u>(525,182)</u>
Loans Receivable as of the End of the Year	<u>8,114,999</u>	<u>10,214,722</u>
Changes in the Allowance for Loan Losses Consisted of the Following:		
Balance as of the Beginning of the Year	-	-
Decrease (increase) in the Allowance	<u>-</u>	<u>-</u>
Allowance for Loan Losses as of the End of the Year	<u>-</u>	<u>-</u>
Loans Receivable, Net, as of the End of the Year	<u>\$ 8,114,999</u>	<u>\$ 10,214,722</u>

Loans outstanding as of December 31, 2017, are scheduled to be repaid during the following subsequent years:

	<u>2017</u>
2018	309,999
2019	4,530,000
2020	1,500,000
2021	1,275,000
2022	<u>500,000</u>
Total Loans Receivable	<u>\$ 8,114,999</u>

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

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2017, the CDRLF cancelled \$0 of technical assistance grants awarded from the revolving fund and \$362 thousand of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the \$362 thousand was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2016, the CDRLF cancelled \$8 thousand of technical assistance grants awarded from the revolving fund and \$380 thousand of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2012 through 2016 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

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

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, \$250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled \$2.9 million and \$3.4 million as of December 31, 2017 and 2016, respectively. The decrease in FY 2017 is primarily due to payoffs of \$550 thousand in loan amounts over \$250,000.

8. FAIR VALUE MEASUREMENTS

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

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

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

The following table presents the carrying value amounts and established fair values of the CDRLF’s financial instruments as of December 31, 2017 and 2016.

	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	\$ 9,680,592	\$ 9,680,592	\$ 7,424,530	\$ 7,424,530
Loans Receivable	8,114,999	8,125,520	10,214,722	10,224,809
Interest Receivable	10,995	10,995	10,212	10,212
Liabilities				
Accrued Technical Assistance Grants	2,461,556	2,461,556	2,288,071	2,288,071

9. RELATED PARTY TRANSACTIONS

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

For the years ending December 31, 2017 and 2016, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF:

	2017	2016
Employee	\$ 474,146	\$ 499,287
Other	70,716	83,445
Total	\$ 544,862	\$ 582,732

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2018, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.