



NCUA 2021
FINANCIAL STATEMENT AUDITS
FOR
SHARE INSURANCE FUND
OPERATING FUND
CENTRAL LIQUIDITY FACILITY
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND



For the year ended December 31, 2021

Audited Financial Statements	Audit Report Number
Share Insurance Fund	OIG-22-02
Operating Fund	OIG-22-03
Central Liquidity Facility	OIG-22-04
Community Development Revolving Loan Fund	OIG-22-05

February 15, 2022



Office of Inspector General

February 15, 2022

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 ended December 31, 2021 and 2020. 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, 2021. 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 2021 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.

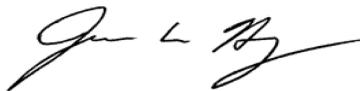
² A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Honorable Todd M. Harper, Chairman
The Honorable Kyle S. Hauptman, Vice Chairman
The Honorable, Rodney E. Hood, Board Member
February 15, 2022
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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 15, 2022, 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.

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 Deputy Director Samuel Schumach
Chief Financial Officer Eugene Schied
Chief Information Officer Rob Foster
CURE Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Kelly Lay
President Central Liquidity Facility Anthony Cappetta

OIG-22-02

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2021 and 2020, 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, 2021, the NCUSIF insures \$1.6 trillion in member shares in 4,953 credit unions, which includes 11 corporate 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 2021 and 2020, 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, 2021. 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.

2021 and 2020 Performance Measures		
	December 31, 2021	December 31, 2020
Equity Ratio	1.26%	1.26%
Insured Shares	\$1.6 trillion	\$1.5 trillion
Number of Credit Union Involuntary Liquidations and Assisted Mergers	7	1
Assets in CAMEL ² 3, 4 and 5 rated Credit Unions	\$51.8 billion	\$50.3 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 16, 2021, the Board set the NOL at 1.33%, which is five basis points lower than 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, 2021, the equity ratio was 1.26%, which is below the NOL. Previously, the equity ratio was 1.26% as of December 31, 2020, 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 2021, there were seven credit union failures compared to one failure in 2020. The cost of these failures, or the estimated cost of resolution at the time of liquidation, for the current year is \$5.6 million compared to \$1.6 million for failures that occurred in 2020.

The NCUA's supervisory actions may result in the conservatorship of federally insured credit unions. As of December 31, 2021, there were five 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 credit union industry remained stable during 2021. The aggregate net worth ratio decreased slightly during the year ending at 10.26% versus 10.32% at December 31, 2020. Assets in CAMEL 3, 4 and 5 rated credit unions increased to \$51.8 billion at the end of 2021 versus \$50.3 billion at the end of 2020.

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 2021 with an increase in Total Assets and Net Position. Net Cost of Operations decreased to \$52.3 million, primarily as a result of a decrease in the Reserve Expense and the AME Receivable Bad Debt Expense within the Provision for Insurance Losses. These changes are explained in further detail below.

Summarized Financial Information				
(Dollars in Thousands)	2021	2020	Increase / (Decrease)	
			\$	%
Net Position				
Assets:				
Investments, Net	20,313,910	18,276,711	2,037,199	11.1%
Receivables from Asset Management Estates (AMEs), Net	222,954	761,816	(538,862)	-70.7%
Other	198,484	90,417	108,067	119.5%
Total Assets	\$20,735,348	\$19,128,944	\$1,606,404	8.4%
Total Liabilities	\$171,491	\$186,103	(\$14,612)	-7.9%
Net Position (Assets minus Liabilities)	\$20,563,857	\$18,942,841	\$1,621,016	8.6%
Net Cost				
Gross Costs:				
Operating Expenses	199,199	181,037	18,162	10.0%
Provision for Insurance Losses	(143,014)	68,688	(211,702)	-308.2%
Other Losses	32	63	(31)	-49.2%
Total Gross Costs	\$56,217	\$249,788	(\$193,571)	-77.5%
Exchange Revenue	\$3,965	\$10,648	(\$6,683)	-62.8%
Total Net Cost of Operations	\$52,252	\$239,140	(\$186,888)	-78.2%
Cumulative Results of Operations				
Beginning Balances	\$5,132,167	\$4,632,574	\$499,593	10.8%
Financing Sources:				
Interest Revenue - Investments	236,781	272,005	(35,224)	-12.9%
Net Unrealized Gain / (Loss) - Investments	(536,496)	466,728	(1,003,224)	-214.9%
Net Cost of Operations	\$52,252	\$239,140	(186,888)	-78.2%
Cumulative Results of Operations	\$4,780,200	\$5,132,167	(\$351,967)	-6.9%
Contributed Capital	\$15,783,657	\$13,810,674	\$1,972,983	14.3%
Net Position	\$20,563,857	\$18,942,841	\$1,621,016	8.6%

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 NCUA, through the NCUSIF, administered 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. The notes were issued as a series of floating and fixed-rate NGNs with final maturities ranging from 2017 to 2021. In June 2021, the last outstanding note matured and there are no NGN Program contingent liabilities for the NCUSIF related to the Corporate AMEs.

As of December 31, 2021 and 2020, the outstanding principal balance of the NGNs was \$0.0 and \$431.3 million, respectively. 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.

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 securities as held-to-maturity investments, which are available to meet urgent liquidity needs of the NCUSIF.

2021 and 2020 Fund Balance with Treasury and Investments		
	December 31, 2021	December 31, 2020
Fund Balance with Treasury	\$ 87.1 million	\$ 4.8 million
U.S. Treasury Securities		
Held to Maturity (Overnights)	316.8 million	1,336.0 million
Available-for-Sale	19,997.1 million	16,940.7 million

During 2021, the NCUSIF's Investments increased primarily due to capital contributions of \$2.0 billion from credit unions.

The NCUSIF has multiple funding sources which 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), the *Improper Payments Elimination and Recovery Improvement Act of 2012*, Public Law 112-248 (IPERIA), and the *Payment Integrity Information Act of 2019*, Public Law 116-117, 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
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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Credit Union Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of net costs, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the NCUSIF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the financial statements and related notes to the financial statements to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04 will always detect a material misstatement when it exists. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NCUSIF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2021, we considered the NCUSIF'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 NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial



statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements as of and for the year ended December 31, 2021 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 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. 21-04.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 15, 2022

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS

As of December 31, 2021 and 2020

(Dollars in thousands)

	2021	2020
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	\$ 87,055	\$ 4,782
Investments, Net - U.S. Treasury Securities (Note 3)	20,313,910	18,276,711
Accrued Interest Receivable - Investments (Note 3)	102,390	84,484
Advances and Prepayments (Note 9)	7,760	-
Total Intragovernmental Assets	20,511,115	18,365,977
WITH THE PUBLIC		
Accounts Receivable - Guarantee Fee on NGNs, Net (Note 4)	-	79
General Property, Plant and Equipment, Net (Note 5)	-	54
Advances and Prepayments	1,279	1,018
Receivables from Asset Management Estates (AMEs), Net (Note 6)	222,954	761,816
Total with the Public Assets	224,233	762,967
TOTAL ASSETS	\$ 20,735,348	\$ 19,128,944
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the NCUA Operating Fund (Note 9)	4,918	3,262
Total Intragovernmental Liabilities	4,918	3,262
WITH THE PUBLIC		
Accounts Payable	3,400	4,353
Insurance and Guarantee Program Liabilities (Note 7)	161,958	177,300
Other Liabilities (Note 8)	1,215	1,188
Total with the Public Liabilities	166,573	182,841
TOTAL LIABILITIES	171,491	186,103
Commitments and Contingencies (Note 7)		
NET POSITION		
Cumulative Result of Operations	4,780,200	5,132,167
Contributed Capital (Note 12)	15,783,657	13,810,674
Total Net Position	20,563,857	18,942,841
TOTAL LIABILITIES AND NET POSITION	\$ 20,735,348	\$ 19,128,944

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, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
GROSS COSTS		
Operating Expenses	\$ 199,199	\$ 181,037
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 7)	2,422	50,097
AME Receivable Bad Debt Expense (Reduction) (Note 6)	<u>(145,436)</u>	<u>18,591</u>
Total Provision for Insurance Losses	(143,014)	68,688
Other Losses	<u>32</u>	<u>63</u>
Total Gross Costs	<u>56,217</u>	<u>249,788</u>
LESS EXCHANGE REVENUES		
Interest Revenue on Note Receivable from the NCUA Operating Fund (Note 9)	-	(71)
Guarantee Fee Revenue - NGNs	(625)	(7,917)
Other Revenue	<u>(3,340)</u>	<u>(2,660)</u>
Total Exchange Revenues	<u>(3,965)</u>	<u>(10,648)</u>
TOTAL NET COST OF OPERATIONS	<u>\$ 52,252</u>	<u>\$ 239,140</u>

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, 2021 and 2020****(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 5,132,167	\$ 4,632,574
Non-Exchange Revenue		
Interest Revenue - Investments	236,781	272,005
Net Unrealized Gain / (Loss) - Investments (Note 3)	(536,496)	466,728
Net Cost of Operations	<u>(52,252)</u>	<u>(239,140)</u>
Change in Cumulative Results of Operations	<u>(351,967)</u>	<u>499,593</u>
CUMULATIVE RESULTS OF OPERATIONS	<u>4,780,200</u>	<u>5,132,167</u>
CONTRIBUTED CAPITAL (Note 12)		
Beginning Balances	13,810,674	11,967,387
Change in Contributed Capital	<u>1,972,983</u>	<u>1,843,287</u>
CONTRIBUTED CAPITAL	<u>15,783,657</u>	<u>13,810,674</u>
NET POSITION	<u>\$ 20,563,857</u>	<u>\$ 18,942,841</u>

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, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
BUDGETARY RESOURCES (Notes 10, 11 and 14)		
Unobligated balance from prior year budget authority, net (mandatory)	\$ 17,305,571	\$ 15,874,237
Spending authority from offsetting collections (mandatory)	<u>4,303,939</u>	<u>3,412,495</u>
TOTAL BUDGETARY RESOURCES	<u>\$ 21,609,510</u>	<u>\$ 19,286,732</u>
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	\$ 1,932,446	\$ 1,981,161
Unobligated balance, end of year:		
Exempt from apportionment	<u>19,677,064</u>	<u>17,305,571</u>
Unobligated balance, end of year (total)	<u>19,677,064</u>	<u>17,305,571</u>
TOTAL BUDGETARY RESOURCES	<u>\$ 21,609,510</u>	<u>\$ 19,286,732</u>
OUTLAYS, NET		
Outlays, net (total) (mandatory)	<u>\$ (2,368,322)</u>	<u>\$ (1,443,704)</u>
AGENCY OUTLAYS, NET (MANDATORY)	<u>\$ (2,368,322)</u>	<u>\$ (1,443,704)</u>

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2021 and 2020

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 10, 2021.

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.

Transactions are recorded on both an accrual accounting basis and a budgetary accounting basis. Under 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 accrual and budgetary accounting, which is accomplished in part by presenting a Reconciliation of Net Cost of Operations to Net Outlays in Note 14. 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 accrual 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 maturities 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. Accounts receivable with the public 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 2021 and 2020.

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 10. The total amount of insurance coverage provided through the end of the reporting period is outlined in Note 12. The remaining information required to be disclosed is discussed further in Note 7.

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 7.

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 13.

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. As of December 31, 2021, the NCUA has placed five credit unions under conservatorship. The NCUA lists credit unions currently under conservatorship on its website.

Reclassification

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

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2021 and 2020 consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	\$ 19,677,064	\$ 17,305,571
Obligated Balance Not Yet Disbursed	40,748	26,012
Non-Budgetary Investment Accounts	(19,528,367)	(17,242,317)
Non-Budgetary FBWT Accounts	<u>(102,390)</u>	<u>(84,484)</u>
Total	<u>\$ 87,055</u>	<u>\$ 4,782</u>

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021:						
U.S. Treasury Securities						
Available-for-Sale	\$ 20,222,975	\$ (200,424)	\$ 102,390	\$ 19,249,684	\$ (25,418)	\$ 19,997,133
Held to Maturity	316,777	-	-	316,777	-	316,777
Total	<u>\$ 20,539,752</u>	<u>\$ (200,424)</u>	<u>\$ 102,390</u>	<u>\$ 19,566,461</u>	<u>\$ (25,418)</u>	<u>\$ 20,313,910</u>
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	<u>\$ 17,881,101</u>	<u>\$ (115,467)</u>	<u>\$ 84,484</u>	<u>\$ 17,285,724</u>	<u>\$ 511,077</u>	<u>\$ 18,276,711</u>

Maturities of U.S. Treasury securities as of December 31, 2021 and 2020 were as follows (in thousands):

	2021 Fair Value	2020 Fair Value
Held to Maturity (Overnights)	\$ 316,777	\$ 1,336,040
Available-for-Sale:		
Due in one year or less	2,466,653	1,870,156
Due after one year through five years	11,524,479	9,952,398
Due after five years through ten years	6,006,001	5,118,117
Total	<u>\$ 20,313,910</u>	<u>\$ 18,276,711</u>

For the years ended December 31, 2021 and 2020, 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, 2021 and 2020 (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, 2021: Available-for-Sale: U.S. Treasury Securities	<u>\$ (128,886)</u>	<u>\$ 8,323,726</u>	<u>\$ (68,418)</u>	<u>\$ 1,616,110</u>	<u>\$ (197,304)</u>
As of December 31, 2020: Available-for-Sale: U.S. Treasury Securities	<u>\$ (7,555)</u>	<u>\$ 1,804,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,555)</u>	<u>\$ 1,804,837</u>

4. ACCOUNTS RECEIVABLE, NET

Accounts Receivable with the Public

Guarantee Fee on NGNs, Net

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, 2021 and 2020, accounts receivable from guarantee fee on NGNs, net was \$0.0 and \$78.8 thousand, respectively.

The allowance for doubtful accounts on accounts receivable with the public as of December 31, 2021 and 2020 was \$0.0.

5. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment, Net as of December 31, 2021 and 2020 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
As of December 31, 2021:			
Assets under Capital Lease	\$ -	\$ -	\$ -
Internal-Use Software	<u>2,017</u>	<u>(2,017)</u>	<u>-</u>
Total General Property, Plant and Equipment, Net	<u>\$ 2,017</u>	<u>\$ (2,017)</u>	<u>\$ -</u>
As of December 31, 2020:			
Assets under Capital Lease	\$ 176	\$ (122)	\$ 54
Internal-Use Software	<u>2,017</u>	<u>(2,017)</u>	<u>-</u>
Total General Property, Plant and Equipment, Net	<u>\$ 2,193</u>	<u>\$ (2,139)</u>	<u>\$ 54</u>

6. 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, 2021 and 2020 were as follows (in thousands):

	2021			2020		
	NPCU AMEs	Corporate	Total	NPCU AMEs	Corporate	Total
		AMEs			AMEs	
Gross Receivables from AMEs	\$ 1,400,946	\$ 2,659,917	\$ 4,060,863	\$ 1,399,721	\$ 3,329,220	\$ 4,728,941
Allowance for Loss, beginning balance	1,393,663	2,573,462	3,967,125	1,457,205	2,536,706	3,993,911
AME Receivable Bad Debt						
Expense (Reduction)	(10,326)	(135,110)	(145,436)	(18,165)	36,756	18,591
Increase / (Decrease) in Allowance	16,220	-	16,220	(10,225)	-	(10,225)
Write-off of Canceled Charters	-	-	-	(35,152)	-	(35,152)
Allowance for Loss, ending balance	<u>1,399,557</u>	<u>2,438,352</u>	<u>3,837,909</u>	<u>1,393,663</u>	<u>2,573,462</u>	<u>3,967,125</u>
Receivables from AMEs, Net	<u>\$ 1,389</u>	<u>\$ 221,565</u>	<u>\$ 222,954</u>	<u>\$ 6,058</u>	<u>\$ 755,758</u>	<u>\$ 761,816</u>

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 expected recovery value of the Corporate AMEs' assets, as further discussed in Note 13.

7. 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: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/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 \$162.0 million and \$177.3 million as of December 31, 2021 and 2020, respectively. The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 177,300	\$ 116,978
Reserve expense (reduction)	2,422	50,097
Payments to settle claims	(17,447)	(25,173)
Recoveries and other adjustments	(317)	35,398
Ending balance	<u>\$ 161,958</u>	<u>\$ 177,300</u>

The Insurance and Guarantee Program Liabilities at December 31, 2021 and 2020 were comprised of the following:

- Specific reserves were \$6.6 million and \$18.1 million, respectively.
- General reserves were \$155.4 million and \$159.2 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 2021 or as of December 31, 2021. There were no guarantees outstanding during 2020 or as of December 31, 2020.

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, 2021 and December 31, 2020 were approximately \$0.0 and \$4.2 million, respectively. There were no borrowings by insured credit unions from the

third-party lenders under these line-of-credit guarantees as of December 31, 2021 and 2020. As of December 31, 2021 and 2020, the NCUSIF reserved \$0.0 and \$77.6 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, 2021 and 2020.

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, administered 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. The notes were issued as a series of floating and fixed-rate NGNs with final maturities ranging from 2017 to 2021. In June 2021, the last outstanding note matured and there are no NGN Program contingent liabilities for the NCUSIF related to the Corporate AMEs. As of December 31, 2021 and 2020, the outstanding principal balance of the NGNs was \$0.0 and \$431.3 million, respectively.

8. 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, 2021 and 2020 was \$0.0 and \$60.0 thousand, respectively.

The capital lease liability is covered by budgetary resources. The remaining balance in Other Liabilities includes payroll and other accrued liabilities, totaling \$1.2 million and \$1.1 million at December 31, 2021 and 2020, respectively.

9. TRANSACTIONS WITH THE NCUA OPERATING FUND

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 2021 and 2020, the allocation to the NCUSIF was 62.3% and 61.3% of the NCUA Operating Fund's expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled \$194.2 million and \$183.6 million for the years ended December 31, 2021 and 2020, respectively, is reflected as an expense in the Statements of Net Cost. 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	2021	2020
Employee Salaries	\$ 103,432	\$ 101,308
Employee Benefits	43,302	39,703
Employee Travel	685	2,968
Rent, Communications, and Utilities	3,684	3,336
Contracted Services	33,676	27,718
Depreciation and Amortization	5,962	5,229
Administrative Costs	<u>3,494</u>	<u>3,367</u>
 Total Services Provided by the NCUA Operating Fund	 <u>\$ 194,235</u>	 <u>\$ 183,629</u>

As of December 31, 2021 and 2020, amounts due to the NCUA Operating Fund for allocated expenses were \$4.9 million and \$3.3 million, respectively.

As of December 31, 2021 and 2020, advances and prepayments with the NCUA Operating Fund for overhead were \$7.8 million and \$0.0, respectively.

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. Interest income recognized was \$0.0 and \$71.3 thousand for the years ended December 31, 2021 and 2020, respectively.

10. 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, 2021 and 2020, 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. Under the CARES Act, the CLF had statutory borrowing authority of \$35.7 billion and \$33.0 billion as of December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of \$30.0 billion and \$25.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2022. The NCUSIF did not exercise its borrowing authority in 2021 or 2020.

11. 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, 2021 and 2020. 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, 2021 and 2020, the NCUSIF's resources in budgetary accounts were \$21.6 billion and \$19.3 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 \$31.4 million and \$17.3 million in unpaid undelivered orders, and \$9.0 million and \$1.0 million in paid undelivered orders, as of December 31, 2021 and 2020, respectively. Refer to Note 9 for more information on transactions with the NCUA Operating Fund. The breakdown of unpaid and paid undelivered orders from federal and non-federal sources as of December 31, 2021 and 2020 are as follows (in thousands):

<u>Undelivered Orders</u>	2021		2020	
	Paid	Unpaid	Paid	Unpaid
Federal	\$ 7,760	\$ 29,803	\$ -	\$ 15,947
Nonfederal	1,279	1,548	1,018	1,395
Total Undelivered Orders	<u>\$ 9,039</u>	<u>\$ 31,351</u>	<u>\$ 1,018</u>	<u>\$ 17,342</u>

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.

12. CONTRIBUTED CAPITAL

As of December 31, 2021 and 2020, contributed capital owed to the NCUSIF totaled \$0.0. Contributed capital due to insured credit unions was \$0.0 as of December 31, 2021 and 2020.

On December 16, 2021, the Board set the NOL at 1.33%, which is five basis points lower than the previous NOL of 1.38% set on December 17, 2020.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio is 1.26% as of December 31, 2021. This equity ratio is based on insured shares of \$1.6 trillion as of December 31, 2021, and is below the normal operating level of 1.33%.

As of December 31, 2020, the NCUSIF equity ratio of 1.26% was below the normal operating level of 1.38%. Therefore, the NCUSIF did not estimate or record a distribution in 2021. Total contributed capital as of December 31, 2021 and 2020 was \$15.8 billion and \$13.8 billion, respectively.

The NCUSIF's available assets ratio as of December 31, 2021 and 2020 was 1.24% and 1.23%, based on total insured shares as of December 31, 2021 and 2020 of \$1.6 trillion and \$1.5 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.

13. FIDUCIARY ACTIVITIES

(a) Natural Person Credit Unions AMEs

Following is the Schedule of Fiduciary Activity as of December 31, 2021 and 2020 (in thousands):

<u>Schedule of Fiduciary Activity</u>	<u>2021</u>	<u>2020</u>
Fiduciary Net Liabilities, beginning of year	\$ (1,415,663)	\$ (1,463,387)
Net Realized Losses upon Liquidation	(4,781)	(1,614)
Revenues		
Interest on Loans	209	8,818
Other Fiduciary Revenues	2,425	91
Expenses		
Professional & Outside Services Expenses	(2,069)	(10,941)
Compensation and Benefits	(345)	(361)
Other Expenses	(626)	(303)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain on Loans	391	44,784
Net Gain / (Loss) on Real Estate Owned	(13)	1,445
Other, Net Gain / (Loss)	12,148	(29,347)
(Increase) / Decrease in Fiduciary Net Liabilities	<u>7,339</u>	<u>12,572</u>
Write-off of Fiduciary Liabilities for		
Canceled Charters	-	35,152
Fiduciary Net Liabilities, end of year	<u>\$ (1,408,324)</u>	<u>\$ (1,415,663)</u>

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, 2021 and 2020 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities

	2021	2020
Fiduciary Assets		
Loans	\$ 6,015	\$ 7,620
Real Estate Owned	-	897
Other Fiduciary Assets	<u>1,907</u>	<u>(432)</u>
Total Fiduciary Assets	<u>7,922</u>	<u>8,085</u>
Fiduciary Liabilities		
Insured Shares	1,732	223
Accrued Liquidation Expenses	9,887	14,807
Unsecured Claims	3,188	7,403
Uninsured Shares	493	1,594
Due to the NCUSIF (Note 6)	<u>1,400,946</u>	<u>1,399,721</u>
Total Fiduciary Liabilities	<u>1,416,246</u>	<u>1,423,748</u>
Total Fiduciary Net Assets / (Liabilities)	<u>\$ (1,408,324)</u>	<u>\$ (1,415,663)</u>

Loans also includes amounts related to criminal restitution owed to the U.S. government. As of December 31, 2021 and 2020, gross receivables related to criminal restitution orders were \$251.4 million and \$251.9 million, of which we determined \$17.6 thousand and \$6.1 thousand were collectible, respectively.

(b) Corporate AMEs

Following are the Schedules of Fiduciary Activity for the periods ended December 31, 2021 and 2020 (in thousands):

<u>Schedule of Fiduciary Activity</u>	<u>For the Year Ended December 31, 2021</u>			
	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Net Liabilities, December 31, 2020	<u>\$ 247,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,934</u>
Revenues				
Income from AMEs on Re-Securitized Assets	-	(6,511)	6,511	-
Income from Investment Securities	(22,655)	-	-	(22,655)
Settlements and Legal Claims	(80,707)	-	-	(80,707)
Other Fiduciary Revenues	(6,414)	-	-	(6,414)
Expenses				
Professional and Outside Services Expenses	18,573	-	-	18,573
Interest Expense on Borrowings and NGNs	3,037	5,886	-	8,923
Payments to NGN Trusts	6,511	-	(6,511)	-
Guarantee Fees	-	625	-	625
Other Expenses	550	-	-	550
Net Change in Recovery Value of Assets and Liabilities	1,056,685	-	-	1,056,685
Increase / (Decrease) in Fiduciary Net Liabilities	<u>975,580</u>	<u>-</u>	<u>-</u>	<u>975,580</u>
Fiduciary Net Liabilities, December 31, 2021	<u>\$ 1,223,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,223,514</u>

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
(Decrease) in Fiduciary Net Liabilities	180,313	-	-	180,313
Fiduciary Net Liabilities, December 31, 2020	<u>\$ 247,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,934</u>

For the year ended December 31, 2021, the Corporate AMEs' Fiduciary Net Liabilities increased by \$975.6 million mainly due to interim capital distributions to capital account holders, partially offset by gains on security sales and legal settlements. This increase represents a loss to the AME claimants.

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, 2021 and 2020 (in thousands):

Schedule of Fiduciary Net Assets / Liabilities

As of December 31, 2021

	AMEs	NGN Trusts	Eliminations	Total
Fiduciary Assets				
Cash and Cash Equivalents	\$ 608,416	\$ -	\$ -	\$ 608,416
Legacy Assets	861,823	-	-	861,823
Legacy Assets/Investments Collateralizing the NGNs	-	-	-	-
Loans	-	-	-	-
Receivables from AMEs	-	-	-	-
Other Fiduciary Assets	19	-	-	19
Total Fiduciary Assets	<u>1,470,258</u>	<u>-</u>	<u>-</u>	<u>1,470,258</u>
Fiduciary Liabilities				
Accrued Expenses	33,812	-	-	33,812
NGNs	-	-	-	-
Due to NGN Trusts	-	-	-	-
Unsecured Claims and Payables	43	-	-	43
Due to the NCUSIF (Note 6)	2,659,917	-	-	2,659,917
Total Fiduciary Liabilities	<u>2,693,772</u>	<u>-</u>	<u>-</u>	<u>2,693,772</u>
Total Fiduciary Net Assets / (Liabilities)	<u>\$ (1,223,514)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,223,514)</u>

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	-	-	-	-
Receivables from AMEs	4	114,236	(114,236)	4
Other Fiduciary Assets	-	-	-	-
Total Fiduciary Assets	<u>3,224,095</u>	<u>432,025</u>	<u>(114,236)</u>	<u>3,541,884</u>
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 6)	3,329,220	-	-	3,329,220
Total Fiduciary Liabilities	<u>3,472,029</u>	<u>432,025</u>	<u>(114,236)</u>	<u>3,789,818</u>
Total Fiduciary Net Assets / (Liabilities)	<u>\$ (247,934)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (247,934)</u>

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, 2021 and 2020. Certain claims against the Corporate AMEs and the NGNs are guaranteed by the NCUA as previously discussed herein. During 2021, the remaining two NGN Trusts matured. During 2020, seven NGN Trusts matured on their legal matured dates.

14. 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 2021 and 2020 is shown below (in thousands):

Reconciliation of Net Cost of Operations to Net Outlays	2021		
	Intra- governmental	With the public	Total
Net Cost of / (Income from) Operations	\$ 194,235	\$ (141,983)	\$ 52,252
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Provision for Insurance Losses			
Reserve Expense (Reduction)	-	(2,422)	(2,422)
AME Receivable Bad Debt Expense (Reduction)	-	145,436	145,436
Depreciation Expense	-	(54)	(54)
Increase / (decrease) in assets:			
Accounts Receivable	-	(79)	(79)
Other Assets	7,760	261	8,021
(Increase) / decrease in liabilities:			
Accounts Payable	(1,656)	952	(704)
Other Liabilities	-	(27)	(27)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	6,104	144,067	150,171
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Change in Receivables from AMEs	-	(668,078)	(668,078)
Interest Revenue - Investments	(218,875)	-	(218,875)
Change in Contributed Capital	-	(1,972,983)	(1,972,983)
Other Adjustments that do not affect Net Cost of Operations	287,645	1,546	289,191
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	68,770	(2,639,515)	(2,570,745)
Net Outlays	\$ 269,109	\$ (2,637,431)	\$ (2,368,322)

	2020		
Reconciliation of Net Cost of Operations to Net Outlays	Intra-	With the public	Total
Net Cost of / (Income from) Operations	governmental	\$	\$
	\$	183,558	\$ 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 Receivables from AMEs	-	159,955	159,955
Interest Revenue - Investments	(264,153)	-	(264,153)
Change in Contributed Capital	-	(1,843,287)	(1,843,287)
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	\$ (1,443,704)

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 15, 2022, 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, 2021.

OIG-22-03

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2021 and 2020, and
Independent Auditors' Report

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

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KPMG LLP
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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Credit Union Administration Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statement of revenues, expenses, and other changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2021 and 2020, and its revenues, expenses, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2021, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements as of and for the year ended December 31, 2021 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 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. 21-04.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 15, 2022

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**BALANCE SHEETS
As of December 31, 2021 and 2020
(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents (Note 3)	\$ 129,615	\$ 111,387
Due from National Credit Union Share Insurance Fund (Note 7)	4,918	3,262
Employee advances	5	16
Other accounts receivable, Net (Note 7)	299	315
Prepaid expenses and other assets (Note 4)	3,891	4,034
Fixed assets — Net of accumulated depreciation of \$40,154 and \$38,720 as of December 31, 2021 and 2020, respectively (Note 5)	29,767	28,344
Intangible assets — Net of accumulated amortization of \$29,782 and \$24,059 as of December 31, 2021 and 2020, respectively (Note 6)	31,160	34,658
TOTAL ASSETS	<u>\$ 199,655</u>	<u>\$ 182,016</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	\$ 17,300	\$ 8,089
Obligations under capital leases (Note 8)	26	89
Accrued wages and benefits	12,344	10,589
Accrued FECA and unemployment benefits	175	154
Accrued actuarial FECA benefits	3,999	4,381
Accrued annual leave	22,149	22,338
Accrued employee travel	93	82
TOTAL LIABILITIES	<u>56,086</u>	<u>45,722</u>
 COMMITMENTS AND CONTINGENCIES (Notes 8, 11, 12, and 13)		
 FUND BALANCE	 <u>143,569</u>	 <u>136,294</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 199,655</u>	 <u>\$ 182,016</u>

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, 2021 and 2020
(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
REVENUES		
Operating fees	\$ 124,252	\$ 145,589
Interest	57	354
Other	<u>480</u>	<u>517</u>
Total Revenues	<u>124,789</u>	<u>146,460</u>
EXPENSES, NET (Notes 7 and 8)		
Employee wages and benefits	88,578	89,023
Travel	421	1,874
Rent, communications, and utilities	2,249	2,106
Contracted services	20,643	17,499
Depreciation and amortization	3,641	3,081
Administrative	<u>1,982</u>	<u>2,534</u>
Total Expenses, Net	<u>117,514</u>	<u>116,117</u>
EXCESS OF REVENUES OVER / (UNDER) EXPENSES	7,275	30,343
FUND BALANCE—Beginning of year	<u>136,294</u>	<u>105,951</u>
FUND BALANCE—End of year	<u>\$ 143,569</u>	<u>\$ 136,294</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over / (under) expenses	\$ 7,275	\$ 30,343
Adjustments to reconcile excess of revenues over / (under) expenses to net cash provided by operating activities:		
Depreciation and amortization	9,602	8,311
Provision for (gain) loss on disposal of assets held for sale	-	(11)
(Gain) loss on fixed and intangible asset retirements	-	220
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(1,656)	(953)
Employee advances	11	(9)
Other accounts receivable, net	16	46
Prepaid expenses and other assets	143	(20)
(Decrease) increase in liabilities:		
Accounts payable	9,211	(1,213)
Accrued wages and benefits	1,755	563
Accrued FECA and unemployment benefits	21	(15)
Accrued actuarial FECA benefits	(382)	105
Accrued annual leave	(189)	3,393
Accrued employee travel	11	(626)
Net Cash Provided by Operating Activities	<u>25,818</u>	<u>40,134</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(7,527)	(17,458)
Proceeds from sale of assets held for sale	-	434
Net Cash Used in Investing Activities	<u>(7,527)</u>	<u>(17,024)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	-	(5,028)
Principal payments under capital lease obligations	(63)	(1,187)
Net Cash Used in Financing Activities	<u>(63)</u>	<u>(6,215)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	18,228	16,895
CASH AND CASH EQUIVALENTS—Beginning of year	<u>111,387</u>	<u>94,492</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 129,615</u>	<u>\$ 111,387</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	<u>\$ -</u>	<u>\$ 83</u>
CASH PAYMENTS FOR INTEREST	<u>\$ -</u>	<u>\$ 71</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

NOTES TO FINANCIAL STATEMENTS For the Years Ended December 31, 2021 and 2020

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 on the Operating Fee Schedule approved by the NCUA Board.

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 2021 and 2020. 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 2021 and 2020 are cash equivalents and are stated at cost, which approximates fair value.

Prepaid Expenses and Other Assets – Prepaid expenses and other assets include advanced payments for goods and services to be received in the future and prepaid implementation costs incurred in service contracts. A service contract is a hosting arrangement that does not include a software license. Implementation costs incurred in the service contract during application development are recorded as prepaid expenses and amortized on a straight-line basis over the term of the hosting arrangement.

Additional information for prepaid expenses and other assets is in Note 4.

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
Hosting Arrangement with Software License	\$15,000	3 years

Additional information on fixed and intangible assets is in Note 5 and Note 6, respectively.

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.

Service contracts are measured for impairment when events or changes in circumstances occur and there are indications that the carrying amount of the related implementation costs may not be recoverable. If the implementation costs are not recoverable, a write-off of prepaid expenses is recorded.

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 made 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 is 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 four-quarter average of total assets 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 program. 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, and obligations under capital leases 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.

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.

Recently Adopted Accounting Standards – In August 2018, the FASB issued ASU 2018-15—Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 was issued to clarify the requirements of ASC 350-40—Intangibles—Goodwill and Other—Internal-Use Software. The ASU is effective for annual reporting periods beginning after December 15, 2020 with early adoption permitted and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

The NCUA adopted ASU 2018-15 as of January 1, 2021 on a prospective basis. In connection with the adoption of the standard, the NCUA made necessary changes to relevant policies and processes. Refer to Note 4 for disclosures associated with the adoption.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Deposits with U.S. Treasury	\$ 19,137	\$ 10,001
U.S. Treasury Overnight Investments	<u>110,478</u>	<u>101,386</u>
Total	<u>\$ 129,615</u>	<u>\$ 111,387</u>

4. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets of \$3.9 million include \$3.2 million of advanced payments for goods and services and \$695.6 thousand of prepaid implementation costs incurred in service contracts.

Prepaid implementation costs are comprised of the following as of December 31, 2021 (in thousands):

	<u>2021</u>
Prepaid implementation costs	\$ 1,298
Less accumulated amortization	<u>(602)</u>
Net Total	<u>\$ 696</u>

The majority of these service contracts are part of the NCUA's IT modernization efforts. These prepaid implementation costs are project costs for migration and configuration of the software application to be compatible with the NCUA's technical platform and security requirements. Amortization begins when the software is ready for its intended use. Amortization expenses for the year ended December 31, 2021 totaled \$602.3 thousand.

5. FIXED ASSETS

Fixed assets are comprised of the following as of December 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Office building and land	\$ 59,100	\$ 58,704
Furniture and equipment	6,589	5,210
Leasehold improvements	107	513
Equipment under capital leases	<u>319</u>	<u>1,972</u>
Total assets in-use	66,115	66,399
Less accumulated depreciation	<u>(40,154)</u>	<u>(38,720)</u>
Assets in-use, net	25,961	27,679
Construction in progress	<u>3,806</u>	<u>665</u>
Fixed assets, net	<u>\$ 29,767</u>	<u>\$ 28,344</u>

Depreciation expense for the years ended December 31, 2021 and 2020 totaled \$3.9 million and \$4.3 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.

6. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Internal-use software	\$ 60,072	\$ 56,443
Less accumulated amortization	<u>(29,782)</u>	<u>(24,059)</u>
Total internal-use software, net	<u>30,290</u>	<u>32,384</u>
Internal-use software under development	<u>870</u>	<u>2,274</u>
Intangible assets, net	<u>\$ 31,160</u>	<u>\$ 34,658</u>

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 2021, approximately \$3.6 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, 2021 and 2020 totaled \$5.7 million and \$4.0 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.

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 upon an annual Board approved allocation factor derived from a study of actual usage. In 2021 and 2020, the allocation to the NCUSIF was 62.3% and 61.3% of all expenses, respectively. The cost of the services allocated to the NCUSIF totaled \$194.2 million and \$183.6 million for 2021 and 2020, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. As of December 31, 2021 and 2020, amounts due from the NCUSIF totaled \$4.9 million and \$3.3 million, respectively. As of December 31, 2021 and 2020, the liability for advances and prepayments from the NCUSIF for overhead was \$7.8 million and \$0.0, 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 \$918.9 thousand and \$857.5 thousand for the years ended December 31, 2021 and 2020, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. Other accounts receivable, net includes \$243.4 thousand and \$242.6 thousand due from the CLF as of December 31, 2021 and 2020, 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, 2021 and 2020, unreimbursed administrative support to the CDRLF is \$899.4 thousand and \$816.7 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, 2021 and 2020, FFIEC assessments totaled \$1.2 million and \$1.0 million, respectively. In addition, the NCUA received refunds of \$20.1 thousand and \$146.7 thousand in 2021 and 2020, respectively, due to lower than anticipated costs related to prior year payments. The NCUA’s 2022 budgeted assessments from FFIEC total \$1.5 million.

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 \$414.9 thousand and \$896.0 thousand for 2021 and 2020, respectively.

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

The future minimum lease payments over the next three years as of December 31, 2021, before reimbursements, are as follows (in thousands):

Years Ended December 31	Operating Leases	Capital Leases
2022	427	15
2023	326	9
2024	-	4
Total Future Lease Payments	753	28
Less: Imputed Interest	-	(2)
Net Lease Liability	<u>\$ 753</u>	<u>\$ 26</u>

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 2021, the contribution limits remained unchanged from 2020. In addition, the Fund matches up to 5% of the employee’s gross pay.

As of December 31, 2021 and 2020, the Fund’s contributions to the plans were approximately \$35.2 million and \$32.3 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 2021 and 2020. The Fund’s match of 2.0% remains in effect for the duration of the CBA. The NCUA’s contributions as of December 31, 2021 and 2020 were \$7.6 million and \$7.3 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2021 and 2020 were \$68.4 thousand and \$82.9 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.

The following table presents the carrying values and established fair values of the Fund’s financial instruments as of December 31, 2021 and 2020 (in thousands):

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 129,615	\$ 129,615	\$ 111,387	\$ 111,387
Due from NCUSIF	4,918	4,918	3,262	3,262
Employee advances	5	5	16	16
Other accounts receivable, net	299	299	315	315
Obligations under capital leases	26	26	89	89

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 2022.

Employee advances – The carrying amount for receivables from employees approximates fair value as the amount is scheduled to be paid in 2022.

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, 2021 and 2020, the Fund's other accounts receivable, net includes an allowance in the amount of \$8.9 thousand and \$15.8 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.

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, 2021, the NCUA has one asserted and pending legal claim with a reasonably possible likelihood of loss and estimated range of loss from \$100.0 thousand to \$250.0 thousand. Additionally, there is one pending legal claim that has not yet specified an amount of monetary damages, but has a reasonably possible likelihood of loss. In 2021, the NCUA finalized the settlement of one legal claim. As of December 31, 2021, the NCUA has an estimated contingent liability of \$46.5 thousand related to that claim.

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 recorded an estimated contingent liability of \$200.0 thousand.

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 completed by 2022.

In accordance with FASB ASC 420, Exit or Disposal Cost Obligations, the NCUA estimates total restructuring costs to be \$13.9 million. This estimate includes employee termination benefits of \$855.0 thousand, relocation costs of \$1.8 million, and other administrative costs of \$11.3 million. To date, \$11.5 million in costs have been incurred for this plan including employee termination benefits of \$882.5 thousand, relocation costs of \$1.8 million, and other administrative costs of \$8.8 million.

In 2021 and 2020, the NCUA did not incur any costs associated with employee termination benefits and did not pay any prior year liability. As of December 31, 2021 and 2020, the NCUA did not have any liability associated with employee termination benefits.

In 2021, the NCUA did not incur any costs associated with relocation and paid \$20.6 thousand of the 2020 liability. In 2020, the NCUA reduced the estimated costs associated with relocation by \$9.3 thousand and paid \$105.0 thousand of the 2019 liability. As of December 31, 2021 and 2020, the NCUA had \$0.1 thousand and \$20.7 thousand liability associated with relocation costs, respectively.

In 2021, the NCUA did not incur any costs associated with other administrative costs and did not pay any prior year liability. In 2020, the NCUA incurred \$762.0 thousand associated with other administrative costs and paid \$424.9 thousand of the 2019 liability. As of December 31, 2021 and 2020, the NCUA did not have any liability associated with 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 15, 2022, 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, 2021.

OIG-22-04

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2021 and 2020, 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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2021 and 2020, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CLF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CLF's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CLF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2021, 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 or significant deficiencies may exist that were not identified.

Report on 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, 2021 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 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. 21-04.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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 15, 2022

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

BALANCE SHEETS

As of December 31, 2021 and 2020

(Dollars in thousands, except share data)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 5)	\$ 424,423	\$ 438,138
Investments Held to Maturity (Net of \$337 and \$684 unamortized discount as of 2021 and 2020, respectively, fair value of \$726,338 and \$623,709 as of 2021 and 2020, respectively) (Notes 4 and 5)	723,876	615,706
Accrued Interest Receivable (Note 5)	<u>781</u>	<u>1,015</u>
TOTAL ASSETS	<u>\$ 1,149,080</u>	<u>\$ 1,054,859</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable (Notes 5 and 9)	\$ 361	\$ 346
Dividends and Interest Payable (Note 5)	419	382
Stock Redemption Payable (Note 5)	10,087	-
Member Deposits (Notes 5 and 7)	<u>2,518</u>	<u>4,009</u>
Total Liabilities	<u>13,385</u>	<u>4,737</u>
MEMBERS' EQUITY		
Capital Stock – Required (\$50 per share par value authorized: 43,852,246 and 40,508,340 shares; issued and outstanding: 21,926,123 and 20,254,170 shares as of 2021 and 2020, respectively) (Note 6)	1,096,306	1,012,708
Retained Earnings	<u>39,389</u>	<u>37,414</u>
Total Members' Equity	<u>1,135,695</u>	<u>1,050,122</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 1,149,080</u>	<u>\$ 1,054,859</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2021 and 2020
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
REVENUE		
Investment Income	\$ 4,542	\$ 5,614
Total Revenue	<u>4,542</u>	<u>5,614</u>
EXPENSES (Note 9)		
Personnel Services	533	507
Personnel Benefits	248	226
Other General and Administrative Expenses	<u>159</u>	<u>149</u>
Total Operating Expenses	940	882
Interest – Member Deposits (Note 7)	<u>4</u>	<u>21</u>
Total Expenses	<u>944</u>	<u>903</u>
NET INCOME	<u>\$ 3,598</u>	<u>\$ 4,711</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2021 and 2020
(Dollars in thousands, except share data)**

	<u>Capital Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		
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
Issuance of Required Capital Stock	2,348,715	117,436		117,436
Redemption of Required Capital Stock	(676,762)	(33,838)		(33,838)
Dividends Declared (Notes 6 and 7)			(1,623)	(1,623)
Net Income			3,598	3,598
BALANCE – December 31, 2021	<u>21,926,123</u>	<u>\$1,096,306</u>	<u>\$ 39,389</u>	<u>\$1,135,695</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY**

**STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 3,598	\$ 4,711
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	(387)	(512)
Interest - Member Deposits	4	21
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accrued Interest Receivable	234	312
Increase/(Decrease) in Accounts Payable	15	76
Net Cash Provided by Operating Activities	<u>3,464</u>	<u>4,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(236,960)	(783,942)
Proceeds from Maturing Investments	<u>129,177</u>	<u>487,275</u>
Net Cash Used in Investing Activities	<u>(107,783)</u>	<u>(296,667)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	111,679	726,313
Redemption of Capital Stock	(20,927)	(10,134)
Withdrawal of Member Deposits	<u>(148)</u>	<u>(53)</u>
Net Cash Provided by Financing Activities	<u>90,604</u>	<u>716,126</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(13,715)	424,067
CASH AND CASH EQUIVALENTS—Beginning of Year	<u>438,138</u>	<u>14,071</u>
CASH AND CASH EQUIVALENTS—End of Year	<u>\$ 424,423</u>	<u>\$ 438,138</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2021 and 2020

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 Coronavirus Disease of 2019 (COVID-19 pandemic), several temporary changes to the FCU Act and 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 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 flexibilities.

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 their members. Also, the CARES Act temporarily increased the 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 Government entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for

those federal entities, such as the CLF, that have issued financial statements based upon FASB standards in the past.

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

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

Investments – By statute, the CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of 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 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 are 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. The Consolidated Appropriations Act was signed on December 27, 2020 and it extended these provisions of the CARES Act through December 31, 2021. In addition, the Board has permanently changed the Regulation §725 allowing CLF to use the collateral table to calculate a security interest in the assets of the member.

The CLF does not currently charge additional fees for its lending activities. There was no lending activity in 2021 or 2020. As of December 31, 2021 and 2020, 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 and, accordingly, no provision for income taxes is recorded for the CLF.

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

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, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
U.S. Treasury Overnight Investments	\$ 413,270	\$ 437,138
Deposits with U.S. Treasury	<u>11,153</u>	<u>1,000</u>
Total	<u>\$ 424,423</u>	<u>\$ 438,138</u>

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, 2021 and 2020 were as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Carrying Amount as of December 31	\$ 723,876	\$ 615,706
Gross Unrealized Holding Gains	3,307	8,212
Gross Unrealized Holding Losses	(845)	(209)
Fair Value	<u>\$ 726,338</u>	<u>\$ 623,709</u>

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

(Dollars in thousands)	<u>2021</u>		<u>2020</u>	
	Net Carrying		Net Carrying	
	Amount	Fair Value	Amount	Fair Value
Due in one year or less	\$ 416,392	\$ 417,197	\$ 129,195	\$ 129,906
Due after one year through five years	258,910	259,916	443,439	447,454
Due after five years through ten years	48,574	49,225	43,072	46,349
Total	<u>\$ 723,876</u>	<u>\$ 726,338</u>	<u>\$ 615,706</u>	<u>\$ 623,709</u>

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, 2021 and 2020.

(Dollars in thousands)	Losses Less than 12 Months		Losses More than 12 Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	As of December 31, 2021					
U.S. Treasury Securities	<u>\$ (152)</u>	<u>\$ 7,795</u>	<u>\$ (693)</u>	<u>\$ 11,276</u>	<u>\$ (845)</u>	<u>\$ 19,071</u>
As of December 31, 2020						
U.S. Treasury Securities	<u>\$ (209)</u>	<u>\$ 232,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (209)</u>	<u>\$ 232,773</u>

5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

The following table presents the carrying amounts and established fair values of the CLF’s financial instruments as of December 31, 2021 and 2020. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and Cash Equivalents	\$ 424,423	\$ 424,423	\$ 438,138	\$ 438,138
Investments Held to Maturity	723,876	726,338	615,706	623,709
Accrued Interest Receivable	781	781	1,015	1,015
Accounts Payable	361	361	346	346
Dividends and Interest Payable	419	419	382	382
Stock Redemption Payable	10,087	10,087	-	-
Member Deposits	2,518	2,518	4,009	4,009

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 for a corporate credit union to become an agent member of the CLF to enhance CLF membership and lending. Temporary authorities sunset on December 31, 2021. 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 their respective members; 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 (or “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 notice period for redemption (return of paid-in capital stock) is waived between January 1, 2022 and December 31, 2022.

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, 2021 and 2020 (amounts in thousands, except share data):

	<u>2021</u>		<u>2020</u>	
	<u>Shares</u>	<u>Amounts</u>	<u>Shares</u>	<u>Amounts</u>
Regular members	13,831,763	\$ 691,588	11,897,951	\$ 594,897
Agent members	<u>8,094,360</u>	<u>404,718</u>	<u>8,356,219</u>	<u>417,811</u>
Total	<u>21,926,123</u>	<u>\$ 1,096,306</u>	<u>20,254,170</u>	<u>\$ 1,012,708</u>

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular and agent members change quarterly. For 2021, the dividend rate was \$0.075 per share for all four quarters. 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.

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, 2021 and 2020, the CLF's statutory borrowing authority was \$35.7 billion and \$33.0 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 \$30.0 billion. Under the terms of its agreement, the CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, the CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2022. During 2021 and 2020, the CLF borrowed \$0 from FFB.

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 \$918.9 thousand and \$857.5 thousand, respectively, for December 31, 2021 and 2020. Accounts payable includes approximately \$243.4 thousand and \$242.6 thousand, respectively, for December 31, 2021 and 2020, due to the NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 15, 2022, 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, 2021.

OIG-22-05

National Credit Union
Administration
Community Development
Revolving Loan Fund

Financial Statements as of and for the Years Ended
December 31, 2021 and 2020, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN 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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (the CDRLF), which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2021 and 2020, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CDRLF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDRLF's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04 will always detect a material misstatement when it exists. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin 21-04, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CDRLF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2021, 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 or significant deficiencies may exist that were not identified.

Report on 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, 2021 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. 21-04.

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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 15, 2022

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

BALANCE SHEETS

As of December 31, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 7)	\$ 13,125	\$ 11,834
Loans Receivable, Net (Notes 4 and 7)	4,750	6,025
Interest Receivable (Note 7)	<u>7</u>	<u>7</u>
TOTAL ASSETS	<u>\$ 17,882</u>	<u>\$ 17,866</u>
LIABILITIES AND FUND BALANCE		
Accrued Technical Assistance Grants (Note 7)	\$ 2,549	\$ 2,518
Fund Balance		
Fund Capital	14,183	14,180
Accumulated Earnings	<u>1,150</u>	<u>1,168</u>
Total Fund Balance	<u>15,333</u>	<u>15,348</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 17,882</u>	<u>\$ 17,866</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, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
REVENUES		
Interest on Cash Equivalents	\$ 4	\$ 34
Interest on Loans	25	33
Appropriations Used (Note 5)	1,636	1,561
Canceled Technical Assistance Grants (Note 5)	<u>(247)</u>	<u>(285)</u>
TOTAL REVENUES	<u>1,418</u>	<u>1,343</u>
EXPENSES		
Technical Assistance Grants (Note 5)	1,710	2,529
Canceled Technical Assistance Grants (Note 5)	(274)	(303)
Provision for Loan Losses	<u>-</u>	<u>(125)</u>
TOTAL EXPENSES	<u>1,436</u>	<u>2,101</u>
NET INCOME / (LOSS)	<u>\$ (18)</u>	<u>\$ (758)</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, 2021 and 2020

(Dollars in thousands)

	<u>Fund Capital</u>				
	<u>For Loans</u>	<u>For Technical Assistance</u>	<u>Total Fund Capital</u>	<u>Accumulated Earnings</u>	<u>Total Fund Balance</u>
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 Income / (Loss)	-	-	-	(758)	(758)
December 31, 2020	\$ 13,388	\$ 792	\$ 14,180	\$ 1,168	\$ 15,348
Appropriations Received (Note 5)	-	1,500	1,500	-	1,500
Appropriations Used (Note 5)	-	(1,636)	(1,636)	-	(1,636)
Canceled Appropriations Returned to Treasury (Note 5)	-	(108)	(108)	-	(108)
Canceled Technical Assistance Grants (Note 5)	-	247	247	-	247
Net Income / (Loss)	-	-	-	(18)	(18)
December 31, 2021	<u>\$ 13,388</u>	<u>\$ 795</u>	<u>\$ 14,183</u>	<u>\$ 1,150</u>	<u>\$ 15,333</u>

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, 2021 and 2020
(Dollars in thousands)**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income / (Loss)	\$ (18)	\$ (758)
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Provision for Loan Losses	-	(125)
Appropriations Used	(1,636)	(1,561)
Canceled Technical Assistance Grants	247	285
Changes in Assets and Liabilities		
(Increase) / Decrease in Interest Receivable	-	3
Increase / (Decrease) in Accrued Technical Assistance Grants	31	(1,285)
Net Cash Used in Operating Activities	<u>(1,376)</u>	<u>(3,441)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	1,775	2,380
Loan Disbursements	(500)	(2,250)
Net Cash Provided by Investing Activities	<u>1,275</u>	<u>130</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2021/2022	1,500	-
Canceled Appropriations Returned to Treasury 2015/2016	(108)	-
Appropriations Received 2020/2021	-	1,500
Canceled Appropriations Returned to Treasury 2014/2015	-	(43)
Net Cash Provided by Financing Activities	<u>1,392</u>	<u>1,457</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	1,291	(1,854)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>11,834</u>	<u>13,688</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 13,125</u>	<u>\$ 11,834</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2021 and 2020

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 2021 and 2020 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 2020, 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) as they responded to COVID-19 related hardships and worked 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 are recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. In 2020, under the COVID-19 Emergency Fund Initiative,

credit unions that have incurred expenses related to COVID-19 were allowed to apply for grants up to \$10,000. Additional information is described in Note 5.

Multiyear Funds

The CDRLF grant program is primarily funded through an annual appropriation from Congress. During the two-year period of availability, multiyear funds can be obligated to participating credit unions. At the end of the period of availability, the appropriation expires and the expired appropriation remains available for five more years and can be used for recording, adjusting, and making disbursements to liquidate obligations. At the end of the five-year period, the appropriation account closes and any remaining obligated and unobligated balances are canceled. Canceled appropriations are returned to the U.S. Treasury and credited back to the original appropriated fund from which they were awarded. Canceled technical assistance grants are deobligations of multiyear funds awarded in current or prior years.

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.

Fair Value Measurements – Cash and cash equivalents, loans receivable, net, 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.

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, 2021 and 2020 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Deposits with U.S. Treasury	\$ 4,261	\$ 3,666
U.S. Treasury Overnight Securities	8,864	8,168
Total	<u>\$ 13,125</u>	<u>\$ 11,834</u>

4. LOANS RECEIVABLE, NET

Loans receivable, net as of December 31, 2021 and 2020 consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning Balance	\$ 6,025	\$ 6,155
Loan Disbursements	500	2,250
Loan Repayments	<u>(1,775)</u>	<u>(2,380)</u>
Loans Receivable	<u>4,750</u>	<u>6,025</u>
Allowance for Loan Losses	<u>-</u>	<u>-</u>
Loans Receivable, Net	<u>\$ 4,750</u>	<u>\$ 6,025</u>

Loans outstanding as of December 31, 2021, are scheduled to be repaid as follows (in thousands):

Year	Amount
2022	\$ 500
2023	3,500
2024	<u>750</u>
Loans Outstanding	<u>4,750</u>
Allowance for Loan Losses	<u>-</u>
Total Loans Receivable, Net	<u>\$ 4,750</u>

In 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

In 2021, the CDRLF received a \$1.5 million appropriation from Congress. This multiyear appropriation is available for obligation through September 30, 2022. As of December 31, 2021, the CDRLF obligated \$1.6 million and canceled \$246.6 thousand of technical assistance grants awarded from multiyear funds.

In 2020, the CDRLF received a \$1.5 million appropriation from Congress. This multiyear appropriation was available for obligation through September 30, 2021. As of December 31, 2020, the CDRLF 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 multiyear appropriation and issued \$1.5 million in emergency grants.

Canceled appropriations returned to Treasury were \$107.8 thousand from the FY 2015 appropriation and \$42.5 thousand from the FY 2014 appropriation in 2021 and 2020, respectively.

Revolving Fund

As of December 31, 2021, the CDRLF awarded \$75.0 thousand and canceled \$27.9 thousand of technical assistance grants awarded from the revolving fund. As of December 31, 2020, the CDRLF awarded \$967.6 thousand and canceled \$18.4 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 as of December 31, 2021 and 2020.

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, 2021 and 2020 (in thousands):

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	\$ 13,125	\$ 13,125	\$ 11,834	\$ 11,834
Loans Receivable, Net	4,750	4,789	6,025	6,083
Interest Receivable	7	7	7	7
Liabilities				
Accrued Technical Assistance Grants	2,549	2,549	2,518	2,518

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, 2021 and 2020, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF (in thousands):

	2021	2020
Personnel	\$ 826	\$ 744
Other	73	73
Total	\$ 899	\$ 817

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 15, 2022, 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, 2021.