

National Credit Union Administration Operating Fund

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

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016	
Balance Sheets	3
Statements of Revenues, Expenses, and Changes in Fund Balance	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-18



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (OF), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2017 and 2016, 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.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2017, we considered the OF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 14, 2018

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**BALANCE SHEETS
As of December 31, 2017 and 2016
(Dollars in thousands)**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents (Note 3)	\$ 69,764	\$ 49,349
Due from National Credit Union Share Insurance Fund (Note 6)	5,153	4,059
Employee advances	11	5
Other accounts receivable, Net (Notes 6 and 9)	344	437
Prepaid expenses and other assets	2,386	1,844
Fixed assets — Net of accumulated depreciation of \$37,845 and \$34,963 as of December 31, 2017 and December 31, 2016, respectively (Note 4)	27,087	29,362
Intangible assets — Net of accumulated amortization of \$18,653 and \$17,219 as of December 31, 2017 and December 31, 2016, respectively (Note 5)	<u>5,312</u>	<u>4,855</u>
TOTAL ASSETS	<u>\$ 110,057</u>	<u>\$ 89,911</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	\$ 7,511	\$ 5,609
Obligations under capital leases (Note 7)	211	957
Accrued wages and benefits	12,280	10,270
Accrued annual leave	18,392	18,169
Accrued employee travel	607	601
Notes payable to National Credit Union Share Insurance Fund (Note 6)	<u>7,710</u>	<u>9,051</u>
Total liabilities	46,711	44,657
 COMMITMENTS AND CONTINGENCIES (Notes 6, 7, 10 & 11)		
FUND BALANCE	<u>63,346</u>	<u>45,254</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 110,057</u>	<u>\$ 89,911</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, 2017 and 2016
(Dollars in thousands)**

	<u>2017</u>	<u>2016</u>
REVENUES		
Operating fees	\$ 106,455	\$ 80,934
Interest	796	181
Other	<u>1,118</u>	<u>1,071</u>
Total Revenues	108,369	82,186
EXPENSES, NET (Note 6)		
Employee wages and benefits	67,348	55,713
Travel	7,451	7,099
Rent, communications, and utilities	2,063	1,539
Contracted services	9,074	6,800
Depreciation and amortization	1,720	1,313
Administrative	<u>2,621</u>	<u>2,263</u>
Total Expenses, Net	<u>90,277</u>	<u>74,727</u>
EXCESS OF REVENUES OVER EXPENSES	18,092	7,459
FUND BALANCE—Beginning of year	<u>45,254</u>	<u>37,795</u>
FUND BALANCE—End of year	<u>\$ 63,346</u>	<u>\$ 45,254</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND**

**STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(Dollars in thousands)**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 18,092	\$ 7,459
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	5,376	4,905
Provision for loss on disposal of employee residences held for sale	-	27
Loss on fixed asset and intangible asset retirements	24	9
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(1,094)	(115)
Employee advances	(6)	33
Other accounts receivable, net	93	(105)
Prepaid expenses and other assets	(542)	(112)
(Decrease) increase in liabilities:		
Accounts payable	1,902	(35)
Accrued wages and benefits	2,010	3,094
Accrued annual leave	223	926
Accrued employee travel	6	(45)
Net Cash Provided by Operating Activities	<u>26,084</u>	<u>16,041</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and intangible assets	(3,582)	(5,473)
Proceeds from sale of employee residences held for sale	-	350
Net Cash Used in Investing Activities	<u>(3,582)</u>	<u>(5,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(746)	(756)
Net Cash Used in Financing Activities	<u>(2,087)</u>	<u>(2,097)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,415	8,821
CASH AND CASH EQUIVALENTS—Beginning of year	<u>49,349</u>	<u>40,528</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 69,764</u>	<u>\$ 49,349</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	<u>\$ -</u>	<u>\$ 198</u>
CASH PAYMENTS FOR INTEREST	<u>\$ 128</u>	<u>\$ 179</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

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

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the “Fund”) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Related Parties – The Fund exists within the NCUA and is one of five funds managed by the NCUA Board during 2017 and 2016. 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 Temporary Corporate Credit Union Stabilization Fund (TCCUSF),
- c) The National Credit Union Administration Central Liquidity Facility (CLF), and
- d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021 as described in Note 6.

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF, and CLF, while support of the CDRLF is not reimbursed. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties.

Additional related parties are described in Note 6.

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

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

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

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustments to individual asset values are made to correspond with any identified changes in useful lives.

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

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

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

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

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

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

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

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

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

office space for which the NCUA is a lessee is subject to escalations in rent, as described in Note 7.

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

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

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

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

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2017 and 2016 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Deposits with U.S. Treasury	\$ 7,072	\$ 5,803
U.S. Treasury Overnight Investments	<u>62,692</u>	<u>43,546</u>
Total	<u>\$ 69,764</u>	<u>\$ 49,349</u>

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

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Office building and land	\$ 52,381	\$ 51,148
Furniture and equipment	9,288	9,851
Leasehold improvements	406	406
Equipment under capital leases	<u>2,498</u>	<u>2,499</u>
Total assets in-use	64,573	63,904
Less accumulated depreciation	<u>(37,845)</u>	<u>(34,963)</u>
Assets in-use, net	26,728	28,941
Construction in progress	<u>359</u>	<u>421</u>
Fixed assets, net	<u>\$ 27,087</u>	<u>\$ 29,362</u>

Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$3.8 and \$3.9 million, respectively, before allocation to the NCUSIF as described in Note 6.

Construction in progress includes costs associated with improvements for NCUA headquarters that increase the future service potential of the capital asset (building) and does more than maintain the existing level of service.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2017 and 2016 (in thousands):

	<u>2017</u>	<u>2016</u>
Internal-use software	\$ 23,664	\$ 18,220
Less accumulated amortization	<u>(18,653)</u>	<u>(17,219)</u>
Total internal-use software, net	<u>5,011</u>	<u>1,001</u>
Internal-use software under development	<u>301</u>	<u>3,854</u>
Intangible assets, net	<u>\$ 5,312</u>	<u>\$ 4,855</u>

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2017 and 2016 totaled \$1,533.6 and \$940.6 thousand, respectively, before allocation to the NCUSIF as described in Note 6.

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

6. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor derived from a study of actual usage. In 2017 and 2016, the allocation to NCUSIF was 67.7% and 73.1% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled \$189.2 and \$203.0 million for 2017 and 2016, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute (12 U.S.C. 1790e(h)), the TCCUSF's remaining funds, property, and other assets were transferred to the NCUSIF. Through the transfer, the NCUSIF assumed the obligations of the TCCUSF, including the NCUA Guaranteed Note Program. Accordingly, support received for the administration of the programs under TCCUSF became obligations of the NCUSIF. Effective October 1, 2017, the Fund provides related program support by paying personnel costs such as pay and benefits and other associated costs which include but are not limited to telecommunications, supplies, printing, and postage.

In addition to the allocation described above, the Fund also charges NCUSIF for certain developmental costs related to development of internal-use intangible assets requiring the use of Operating Fund labor. For the years ended December 31, 2017 and 2016, no such costs were allocated to the NCUSIF.

As of December 31, 2017 and 2016, amounts due from NCUSIF totaled \$5.2 and \$4.1 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to \$42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were \$127.6 and \$179.0 thousand for 2017 and 2016, respectively. The notes payable balances as of December 31, 2017 and 2016 were \$7.7 and \$9.1 million, respectively. The current portion of the long-term debt is \$1.3 million as of December 31, 2017. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2017 and 2016 were 1.51% and 1.84%, respectively. The interest rates as of December 31, 2017 and 2016 were 1.59% and 1.83%, respectively.

The secured term note requires principal repayments as of December 31, 2017, as follows (in thousands):

Years ending December 31	Secured Term Note
2018	\$ 1,341
2019	1,341
2020	1,341
2021	1,341
2022	1,341
Thereafter	1,005
Total	<u>\$ 7,710</u>

(b) Transactions with CLF

Certain administrative services are provided by the Fund to CLF. The Fund pays CLF’s employee salaries and related benefits, as well as CLF’s portion of building and operating costs. Reimbursements of these expenses are determined by applying a ratio of CLF full-time equivalent employees to the NCUA total, with settlement and payment occurring quarterly. All other CLF reimbursement expenses are paid annually. The costs of the services provided to CLF were \$658.0 and \$540.0 thousand for the years ending December 31, 2017 and 2016, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include \$175.6 and \$144.6 thousand of amounts due from the CLF as of December 31, 2017 and 2016, respectively.

(c) Support of CDRLF

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

For the years ending December 31, 2017 and 2016, unreimbursed administrative support to CDRLF is estimated at (in thousands):

	<u>2017</u>	<u>2016</u>
Personnel	\$ 474	\$ 499
Other	71	84
Total	<u>\$ 545</u>	<u>\$ 583</u>

(d) Support of TCCUSF

The Fund supports the administration of programs under TCCUSF 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.

On September 28, 2017, the NCUA Board voted unanimously to close the TCCUSF effective October 1, 2017, ahead of its sunset date of June 30, 2021. As required by statute, the TCCUSF's remaining funds, property, and other assets were transferred to the NCUSIF. Through the transfer, the NCUSIF assumed the obligations of the TCCUSF. Accordingly, support received for the administration of the programs under TCCUSF became obligations of the NCUSIF.

For the nine months ended September 30, 2017 and year ended December 31, 2016, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

	<u>2017</u>	<u>2016</u>
Personnel	\$ 973	\$ 945
Other	<u>24</u>	<u>26</u>
Total	<u>\$ 997</u>	<u>\$ 971</u>

In addition, the Fund initially paid for and was reimbursed \$902.7 thousand and \$990.9 thousand for the salaries and related benefits of TCCUSF employees for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include \$1.2 and \$123.3 thousand of amounts due from the TCCUSF as of September 30, 2017 and December 31, 2016, respectively.

(e) Federal Financial Institutions Examination Council (FFIEC)

The NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member. FFIEC was established on March 10, 1979, as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by the NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2017 and 2016, FFIEC assessments totaled \$803.8 and \$817.5 thousand, respectively. NCUA's 2018 budgeted assessments from FFIEC total \$1,390.8 thousand.

The NCUA also contributes to the costs associated with certain cross-agency data collection applications, including applications related to the Home Mortgage Disclosure Act. For the year

ended December 31, 2017, FFIEC assessments to support these systems totaled \$750.0 thousand. NCUA's 2018 budgeted assessments from FFIEC to support these systems total \$750.0 thousand.

(f) Real Estate Available for Sale

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

7. LEASE COMMITMENTS

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

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately \$1.2 and \$1.0 million, of which approximately \$792.0 and \$738.7 thousand were reimbursed by NCUSIF for 2017 and 2016, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2021. Amounts presented in the table below include \$41.9 thousand of imputed interest.

The future minimum lease payments to be paid over the next four years as of December 31, 2017, before reimbursements, are as follows (in thousands):

Years ending December 31	Operating Leases	Capital Leases
2018	\$ 1,195	\$ 96
2019	1,222	68
2020	1,103	66
2021	-	22
Thereafter	-	-
Total	\$ 3,520	\$ 252

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 61.5% of the 2018 operating lease payments.

The Fund, as a lessor, currently holds operating lease agreements with one tenant, who rents a portion of the Fund's building for retail space. The lease carries a five year term with escalating rent payments. The lease is set to expire in 2020.

The future minimum lease payments to be received from this non-cancelable operating lease at December 31, 2017 are as follows (in thousands):

Years ending December 31	Scheduled Rent Payments
2018	\$ 318
2019	324
2020	81
Thereafter	-
Total	<u>\$ 723</u>

8. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee’s gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions, the total of which were not to exceed \$18.0 thousand (\$24.0 thousand for age 50 and above) in 2017 and 2016. In addition, the Fund matched up to 5% of the employee’s gross pay.

In 2017 and 2016, the Fund’s contributions to the plans were approximately \$26.0 and \$25.2 million, respectively, of which approximately \$17.6 and \$18.4 million, respectively, was allocated to NCUSIF.

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

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund, and the current agreement that became effective on July 7, 2015 is in effect for five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties. The Fund will maintain a voluntary 401(k) plan and will contribute, with no employee matching contribution, 3% of the employee’s compensation as defined in *Article 9 Compensation and Benefits* of the CBA. The Fund matched an employee’s voluntary contribution up to a maximum of 2.0% of the employee’s total pay for 2017 and 2016. The Fund’s match of 2.0% remains in effect for the duration of the CBA. NCUA’s contributions for 2017 and 2016 were \$6.7 and \$6.6 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2017 and 2016 were \$94.0 and \$64.3 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 67.7% and

73.1% to the NCUSIF in 2017 and 2016, respectively. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

9. FAIR VALUE MEASUREMENTS

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

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

The related impairment charges for 2017 and 2016 were \$0 and \$27.2 thousand, respectively. Impairment charges are recorded within the Statement of Revenues, Expenses, and Changes in Fund Balance and represent non-recurring fair value measures.

(a) Non-recurring Fair Value Measures

The Fund had assets held for sale during 2016, which consisted of residences from relocating employees, and the amount was presented at aggregate fair value less cost to sell. The fair value measurement recorded includes pending purchase contracts, the lower of list prices or appraisals if less than six months old (if no pending purchase contracts exist), or recent market analyses (if no recent list prices or appraisals are readily available). Additionally, the fair value incorporates estimated reductions in the fair value to recognize costs to sell the properties. The Fund believes that these measurements fairly reflect the most current valuation of the assets.

(b) Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2017 and 2016, were as follows (in thousands):

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 69,764	\$ 69,764	\$ 49,349	\$ 49,349
Due from NCUSIF	5,153	5,153	4,059	4,059
Employee advances	11	11	5	5
Other accounts receivable, net	344	344	437	437
Obligations under capital lease	211	211	957	957
Notes payable to NCUSIF	7,710	7,710	9,051	9,051

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

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid within the first quarter of fiscal year 2018.

Employee Advances – The carrying amounts for receivables from employees’ financial instruments approximates fair value, as the amount is scheduled to be paid in fiscal year 2018.

Other Accounts Receivable, Net – The carrying amounts 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, 2017 and 2016, the Fund’s Other Accounts Receivable includes an allowance in the amount of \$9.2 and \$8.9 thousand, respectively.

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

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximate fair value due to its variable rate nature.

10. CONTINGENCIES

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

11. COLLECTIVE BARGAINING AGREEMENT

The NCUA has a CBA with the National Treasury Employees Union (NTEU) that became effective on July 7, 2015. NTEU is the exclusive representative of approximately 77% of NCUA employees. This agreement will remain in effect for a period of five years from its effective date and shall renew automatically for additional one year terms unless otherwise renegotiated by the parties.

12. RESTRUCTURING PLAN

The NCUA Board on July 21, 2017 approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan will:

- Consolidate the agency’s five regional offices into three by closing the Albany, New York, and Atlanta, Georgia offices and eliminate four of the agency’s five leased facilities;

- Create an Office of Credit Union Resources and Expansion by redefining and realigning chartering and field-of-membership, credit union development, grants and loans, and minority depository institutions programs;
- Restructure the Office of Examination and Insurance into specialized working groups; and
- Realign the Asset Management and Assistance Center to include changes to the servicing business model and moving to a financial supervisory structure.

The plan also eliminates agency offices with overlapping functions and improves functions such as examination reporting, records management and procurement. The plan anticipates a reduction in the agency's workforce by attrition. The NCUA anticipates that the restructuring will be completed by January 1, 2019.

In accordance with FASB ASC Statement No. 420, *Accounting for Costs Associated with Exit and Disposal Activities*, the NCUA estimates the costs to be incurred for the plan will be up to \$9.5 million. This includes employee termination benefits of \$1.1 million, relocation costs of \$2.9 million and other administrative costs of \$5.5 million. Approximately \$1.1 million of these costs were incurred during 2017, which included \$762.5 thousand for employee termination benefits, \$185.5 thousand for relocation costs, and \$122.3 thousand for other administrative costs. Based on the overhead transfer rate allocation, the allocation in total to the Fund and NCUSIF was approximately \$345.7 and \$724.6 thousand, respectively. Incurred costs, after the overhead transfer rate allocation, are included in the Statement of Revenues, Expenses, and Changes in Fund Balance in Employee wages and benefits, Contracted services and Administrative line items.

13. SUBSEQUENT EVENTS

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