National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors’ Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (the Fund), which comprise the balance sheets as of December 31, 2019 and 2018, 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 is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2019 and 2018, 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.

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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, 2019, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
February 14, 2020

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
As of December 31, 2019 and 2018
(Dollars in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents (Note 3)	$ 94,492	$ 92,122
Due from National Credit Union Share Insurance Fund (Note 7)	2,309	4,023
Employee advances	7	343
Other accounts receivable, Net (Note 7)	361	430
Prepaid expenses and other assets	4,014	2,678
Assets held for sale (Note 6)	423	-
Fixed assets — Net of accumulated depreciation of $34,651 and $38,530 as of December 31, 2019 and 2018, respectively (Note 4)	31,758	27,341
Intangible assets — Net of accumulated amortization of $20,422 and $17,569 as of December 31, 2019 and 2018, respectively (Note 5)	22,234	9,658
TOTAL ASSETS	$ 155,598	$ 136,595
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 9,302	$ 10,274
Obligations under capital leases (Note 8)	1,193	1,713
Accrued wages and benefits	14,471	14,777
Accrued annual leave	18,945	18,779
Accrued employee travel	708	619
Note payable to National Credit Union Share Insurance Fund (Note 7)	5,028	6,369
TOTAL LIABILITIES	49,647	52,531
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11, 12, and 13)		
FUND BALANCE	105,951	84,064
TOTAL LIABILITIES AND FUND BALANCE	$ 155,598	$ 136,595

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, 2019 and 2018
(Dollars in thousands)

	2019	2018
REVENUES		
Operating fees	$ 137,731	$ 130,163
Interest	2,485	2,134
Other	1,008	1,227
Total Revenues	141,224	133,524
EXPENSES, NET (Notes 7 and 8)		
Employee wages and benefits	84,827	81,341
Travel	9,105	9,227
Rent, communications, and utilities	2,587	2,325
Contracted services	17,208	14,070
Depreciation and amortization	2,543	2,103
Administrative	3,067	3,740
Total Expenses, Net	119,337	112,806
EXCESS OF REVENUES OVER EXPENSES	21,887	20,718
FUND BALANCE—Beginning of year	84,064	63,346
FUND BALANCE—End of year	$ 105,951	$ 84,064

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 21,887	$ 20,718
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Notes 4 and 5)	6,483	5,744
Provision for loss on disposal of assets held for sale	96	-
Loss on fixed and intangible asset retirements	30	176
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,714	1,130
Employee advances	336	(332)
Other accounts receivable, net	69	(86)
Prepaid expenses and other assets	(1,336)	(292)
(Decrease) increase in liabilities:		
Accounts payable	(972)	2,763
Accrued wages and benefits	(306)	2,497
Accrued annual leave	166	387
Accrued employee travel	89	12
Net Cash Provided by Operating Activities	28,256	32,717
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed and intangible assets	(23,445)	(8,946)
Purchases of assets held for sale	(919)	-
Proceeds from sale of assets held for sale	400	-
Net Cash Used in Investing Activities	(23,964)	(8,946)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable to National Credit Union Share Insurance Fund	(1,341)	(1,341)
Principal payments under capital lease obligations	(581)	(72)
Net Cash Used in Financing Activities	(1,922)	(1,413)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,370	22,358
CASH AND CASH EQUIVALENTS—Beginning of year	92,122	69,764
CASH AND CASH EQUIVALENTS—End of year	$ 94,492	$ 92,122
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ 61	$ 1,574
CASH PAYMENTS FOR INTEREST	$ 112	$ 123

See accompanying notes to the financial statements.

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 is a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board providing administration and service to the federal credit union system.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- reported amounts of assets and liabilities;
- disclosure of contingent liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses incurred during the reporting period.

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

Related Party Transactions – The Fund exists within the NCUA and is one of four funds managed by the NCUA Board during 2019 and 2018. 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 2019 and 2018 are cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, software, and leasehold improvements are recorded at cost. Software includes the cost of labor incurred by both external and internal software developers and other personnel involved in the development of the software. Capital leases are recorded at the lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. The schedule below shows a summary of the capitalization thresholds and useful lives used by the NCUA.

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

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

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

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

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

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are 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, 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 in accrued wages and benefits 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.

Additional information for retirement plans are described in Note 9.

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

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

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering the NCUA's 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), obligations under capital leases, and note payable to NCUSIF are recorded at book value, which approximates estimated fair value.

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

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

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Deposits with U.S. Treasury	$ 10,920	$ 12,270
U.S. Treasury Overnight Investments	83,572	79,852
Total	$ 94,492	$ 92,122

4. FIXED ASSETS

Fixed assets are comprised of the following as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Office building and land	$ 56,213	$ 52,736
Furniture and equipment	4,830	9,781
Leasehold improvements	513	513
Equipment under capital leases	1,889	1,933
Total assets in-use	63,445	64,963
Less accumulated depreciation	(34,651)	(38,530)
Assets in-use, net	28,794	26,433
Construction in progress	2,964	1,076
Less impairment loss	-	(168)
Fixed assets, net	$ 31,758	$ 27,341

Depreciation expense for the years ended December 31, 2019 and 2018 totaled $3.6 million and $3.2 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. A net impairment loss of $168 thousand for improvements to the NCUA headquarters was recognized for the year ended December 31, 2018. The construction in progress related to this project was fully impaired with a fair value of $0. The amount of the loss is reported in administrative expenses on the Statements of Revenues, Expenses, and Changes in Fund Balance.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Internal-use software	$ 24,901	$ 23,539
Less accumulated amortization	(20,422)	(17,569)
Total internal-use software, net	4,479	5,970
Internal-use software under development	17,755	3,688
Intangible assets, net	$ 22,234	$ 9,658

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. Amortization begins on the date the software is placed in service. Amortization expense for the years ended December 31, 2019 and 2018 totaled $2.9 million and $2.5 million, respectively, before allocation to the NCUSIF as described in Note 7. Internal-use software under development represents software not ready for its intended use.

6. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is 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. Impairment charges for 2019 and 2018 were $96.4 thousand and $0 thousand, respectively and are recorded as an Administrative expense within the Statements of Revenues, Expenses and Changes in Fund Balance. The balance of real estate available for sale as of December 31, 2019 was $423.0 thousand net of impairment and costs to sell of $49.6 thousand. The Fund did not have any real estate available for sale as of December 31, 2018.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with the NCUSIF

Certain administrative services are provided by the Fund to the NCUSIF. These services include paying personnel costs such as pay and benefits and other associated costs which include, but are not limited to, telecommunications, supplies, printing, and postage. The Fund charges the NCUSIF for these services based on an annual Board approved allocation factor derived from a study of actual usage. In 2019 and 2018, the allocation to the NCUSIF was 60.5% and 61.5% of all expenses, respectively. The cost of the services allocated to the NCUSIF totaled $182.9 million and $180.2 million for 2019 and 2018, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. As of December 31, 2019 and 2018, amounts due from the NCUSIF totaled $2.3 million and $4.0 million, respectively.

In 1992, the Fund entered into a commitment to borrow up to $42.0 million in a 30-year secured term note with the NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $112.4 thousand and $123.1 thousand for 2019 and 2018, respectively. The note payable balance as of December 31, 2019 and 2018 was $5.0 million and $6.4 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2019. The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate during 2019 and 2018 was 1.98% and 1.80%, respectively. The interest rate as of December 31, 2019 and 2018 was 1.88% and 2.01%.

The secured-term note requires principal repayments as follows (in thousands):

Years ended December 31	Secured Term Note
2020	1,341
2021	1,341
2022	1,341
2023	1,005
Total	$ 5,028

(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 $542.4 thousand and $544.8 thousand for the years ended December 31, 2019 and 2018, respectively. The Fund's expenses in the accompanying financial statements are presented net of these amounts. Other accounts receivable include $193.1 thousand and $102.9 thousand of amounts due from the CLF as of December 31, 2019 and 2018, 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, 2019 and 2018, unreimbursed administrative support to the CDRLF is $630.5 thousand and $559.6 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 FFIEC 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 (HMDA). For the years ended December 31, 2019 and 2018, FFIEC assessments totaled $1.4 million and $2.0 million, respectively. In addition, in 2019 NCUA received a refund of $1.1 million due to lower than anticipated costs related to prior year payments. The NCUA's 2020 budgeted assessments from FFIEC total $1.3 million.

(e) Real Estate Available for Sale

The Fund may purchase homes from employees enrolled in the agency's home purchase program who are unable to sell their homes 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 conditions. Ongoing costs to maintain properties are expensed as incurred.

8. LEASE COMMITMENTS

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

Operating Leases – The Fund leases a portion of the NCUA's regional office space under lease agreements that will continue through 2023. Office rental charges amounted to approximately $1.4 million and $1.3 million for 2019 and 2018, respectively.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2024. Amounts presented in the table below include $43.2 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2019, before reimbursements, are as follows (in thousands):

Years Ending December 31	Operating Leases	Capital Leases
2020	896	625
2021	415	582
2022	426	15
2023	326	9
2024	-	5
Total	$ 2,063	$ 1,236

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 $19,000 ($25,000 for age 50 and above) in 2019, an increase of $500 from 2018. In addition, the Fund matches up to 5% of the employee's gross pay.

As of December 31, 2019 and 2018, the Fund's contributions to the plans were approximately $27.8 million and $26.5 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% 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 2019 and 2018. The Fund's match of 2.0% remains in effect for the duration of the CBA. The NCUA's contributions as of December 31, 2019 and 2018 were $7.0 million and $6.8 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2019 and 2018 were $95.7 thousand and $96.2 thousand, respectively.

10. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund has no financial instruments that are subject to fair value measurement on a recurring basis.

(a) Non-recurring Fair Value Measures

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

The carrying amounts and established fair values of the Fund's assets held for sale as of December 31, 2019 and 2018 are as follows (in thousands):

Assets held for sale	Cost Basis		Fair Value		Impairment at Year-end	
2019	$	423	$	423	$	50
2018	$	-	$	-	$	-

(b) Summary Financial Instrument Fair Values

The following table presents the carrying values and established fair values of the Fund's financial instruments as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 94,492	$ 94,492	$ 92,122	$ 92,122
Due from NCUSIF	2,309	2,309	4,023	4,023
Employee advances	7	7	343	343
Other accounts receivable, net	361	361	430	430
Obligations under capital lease	1,193	1,193	1,713	1,713
Note payable to NCUSIF	5,028	5,028	6,369	6,369

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 the due from NCUSIF approximates fair value as the amount is scheduled to be paid within the first quarter of 2020.

Employee advances – The carrying amount for receivables from employees approximates fair value as the amount is scheduled to be paid in 2020.

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, 2019 and 2018, the Fund's other accounts receivable includes an allowance in the amount of $14.7 thousand and $6.7 thousand, respectively.

Obligation under capital lease – The carrying amount for the remaining obligations owed under capital lease approximates fair value because the underlying interest rate approximates rates currently available to the Fund.

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

11. CONTINGENCIES

The NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is estimable. The NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which have or may ultimately result in settlements or decisions against the agency. As of December 31, 2019, the NCUA had one asserted and pending legal claim with a reasonably possible likelihood of loss and estimated range of loss from $222.0 thousand to $1,400.0 thousand. The NCUA did not have any probable losses from asserted and pending legal claims as of December 31, 2019 and 2018.

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 employees.

13. RESTRUCTURING PLAN

In 2017, the NCUA Board approved a restructuring plan with the goals of greater efficiency, responsiveness, and cost-effectiveness. The plan eliminated agency offices with overlapping functions and improved functions such as examination reporting, records management and procurement. The agency completed the headquarters reorganization in 2018, while the consolidation from five to three regional offices became effective on January 7, 2019. The facilities improvements associated with the restructuring plan will be complete by 2020.

In accordance with FASB ASC 420, *Exit or Disposal Cost Obligations*, the NCUA estimates total restructuring costs to be $13.0 million. This estimate includes employee termination benefits of $855.0 thousand, relocation costs of $2.4 million, and other administrative costs of $9.8 million. To date, $10.7 million in costs have been incurred for this plan including approximately $6.5 million and $3.1 million in 2019 and 2018, respectively.

In 2018, the NCUA incurred $120.0 thousand in employee termination benefits. As of December 31, 2018, the NCUA had a $240.0 thousand liability associated with employee termination benefits. In 2019, the NCUA did not incur any additional costs associated with employee termination benefits and paid $240.0 thousand of the liability. As of December 31, 2019, the NCUA does not have a liability associated with employee termination benefits. To date, the NCUA has incurred $882.5 thousand in costs for employee termination benefits.

In 2018, the NCUA incurred $1.5 million for relocation expenses, of which $797.5 thousand was a liability. In 2019, the NCUA incurred an additional $117.4 thousand in relocation expenses and paid $779.9 thousand of the liability. As of December 31, 2019, the NCUA has a $135.0 thousand liability associated with relocation. To date, the NCUA has incurred $1.8 million in costs for relocation expenses.

In 2018, the NCUA incurred $1.5 million in other administrative costs, of which $657.8 thousand was a liability as of December 31, 2018. In 2019, the NCUA incurred an additional $6.4 million in other administrative costs and paid $657.8 thousand of the liability. As of December 31, 2019, the NCUA has a $424.9 thousand liability associated with other administrative costs. To date, the NCUA has incurred $8.1 million in other administrative costs.

Incurred costs are included in the Statement of Revenues, Expenses, and Changes in Fund Balance on the following line items: Employee wages and benefits; Contracted services; and Administrative. Incurred costs associated with facilities improvements are included in the Balance Sheet as a part of Fixed assets.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued. On February 3, 2020, the NCUA sold the only property that was classified as available for sale for $434.2 thousand. Management determined that there were no additional significant items to be disclosed as of December 31, 2019.