NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

NCUA 2016
FINANCIAL STATEMENT AUDITS
FOR

SHARE INSURANCE FUND

OPERATING FUND

CENTRAL LIQUIDITY FACILITY

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

For the year ended December 31, 2016

Audited Financial Statements	Audit Report Number
Share Insurance Fund	OIG-17-01
Operating Fund	OIG-17-02
Central Liquidity Facility	OIG-17-03
Community Development Revolving Loan Fund	OIG-17-04

February 15, 2017

James W. Hagen
Inspector General

Office of Inspector General

February 15, 2017

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

Dear Acting Chairman McWatters and Board Member Metsger:

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 ending December 31, 2016 and 2015. 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 NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2016. 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, Office of Management and Budget audit guidance, and the *Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual*.

KPMG's audit report for 2016 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 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.

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 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 14, 2017, 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.

Management and Performance Challenges

The Inspector General is required by law to provide a summary statement on management and performance challenges facing the Agency. Below we provide a brief overview of NCUA's organizational structure, its mission, and vision, as well as what we believe are the key challenges to agency management in the coming year.

<u>Organizational Structure</u>
Created by Congress, NCUA is an independent federal agency with the unique role of insuring deposits at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member politically appointed Board oversees NCUA's operations by setting policy, approving budgets, and adopting rules. As of December 31, 2016, over 106 million members have $1.0 trillion in insured deposits at 5,785 federally insured credit unions. These credit unions have $1.3 trillion in assets.

<u>Agency Mission and Vision</u>
Throughout 2017, NCUA will implement initiatives to continue meeting its mission to "provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit," and its vision to ensure that "NCUA will protect consumer rights and member deposits."

Agency Challenges

In 2017, NCUA will face several risks that continue to threaten the safety and soundness of the credit union system, as well as several emerging risks that the agency must confront. As I noted last year, cybersecurity, interest rate risk (IRR), and the growing performance disparities between large and small credit unions remain significant agency challenges where NCUA must continue to build on the positive steps already taken in its supervisory efforts. Similarly, four emerging risks – continuing pressure on the Share Insurance Fund equity ratio, managing concentration risk, changing demographics, and increasing competition and continuing consolidation – will also provide unique challenges to the agency that could potentially affect the safety and soundness of the credit union system and the Share Insurance Fund if not adequately managed.

Cybersecurity — As I noted last year, cyber threats continue to pose significant dangers to the stability and soundness of the credit union industry and are expected to increase in frequency and severity as worldwide interconnectedness grows and as criminals, hackers, and terrorists become more sophisticated. Further, because consumers continue to interact with financial institutions through online and mobile transactions, the risk of hacking and fraud will continue to grow. Cybersecurity, therefore, remains a pressing concern for all financial institutions, including credit unions. With credit unions and other small financial institutions increasingly targeted, credit unions must continue to enhance the security of their systems and NCUA must continue to strengthen the resiliency of the entire credit union system and the agency.

Interest Rate Risk — As I also noted last year, a rising interest rate environment may prove challenging for those credit unions that hold either high concentrations of long-term assets funded with short-term liabilities, or have rate-sensitive deposits and fixed-rate assets. With rates now rising, NCUA and credit unions will need to continue to work to manage this risk in 2017 and beyond. Efforts undertaken by NCUA in 2016 to mitigate interest rate risk were to update its guidance, develop a new interest rate risk workbook for field examiners, as well as the development of a new test to evaluate a credit union's interest rate risk profile. Despite these positive steps taken by NCUA, the management and boards of credit unions of all sizes must be prepared for the challenges posed by a rising interest rate environment,

Managing Concentration Risk — It is no secret that credit unions having a diversified loan portfolio can avoid concentration risk whereas credit unions that specialize in a particular loan product are prone to a greater risk of loss. Over time, a number of credit unions have made the business decision to focus on a certain type of loan product. Although some specialized products are stable and profitable, recent changes in technology and consumer preferences have led to market disruption in others, causing the underlying assets supporting these types of loans to decrease in value. As a result, some of these credit unions have experienced financial stress, which NCUA is carefully monitoring through the examination process.

The credit union system's billion-dollar exposure to specialized loan products, while manageable, could still result in some individual credit unions that offer specialized loan products to fail. NCUA will continue to closely monitor and supervise these credit unions and the members' accounts at these credit unions remain protected and insured by the Share Insurance Fund up to the limits provided in law.

Growing Performance Disparities between Large and Small Credit Unions — Although credit unions overall performed well in 2016, a trend I noted last year – the lack of asset growth in credit unions with assets less than $10 million and the overall decline in membership, continued. Much of the system's growth in 2016 continued to be attributed mainly to the largest institutions. Credit unions with assets of less than $10 million have seen less loan and net worth growth than credit unions with more assets. In addition, membership continued to decline in 2016 at credit unions with less than $10 million in assets, and membership growth at credit unions with less than $500 million in assets continued to lag behind credit unions with more than $500 million in assets. To try and stop this trend, NCUA must continue to provide these credit unions with technical assistance and training, new opportunities for growth through reduced regulatory burdens, a flexible examination program for well-run, low-risk credit unions, and enhanced chartering and field-of-membership options.

Changing Demographics — I noted last year that NCUA and credit unions face the challenge of an aging demographic where the average age of adult credit union members is 46.7, yet the peak borrowing age is 25 to 44 years old according to the Credit Union National Association's 2015–2016 National Member and Nonmember Survey. By this measure, the average credit union member is already past his or her prime borrowing years. As the U.S. population ages and more Americans retire, credit unions may see shifts in growth trends and changing demand for certain products and services. New and diverse populations may also want different products and services.

NCUA should continue to help credit unions take action to attract younger members to address these concerns. NCUA has taken or plans to take actions that will allow for continued growth, including for example, recent updates to the agency's field-of-membership rule to increase consumer access to credit unions, which will provide new opportunities for credit union financial and membership growth. In addition, NCUA can continue to strengthen and support the agency's Minority Depository Institutions Preservation Program, as well as continuing to provide technical assistance and grants through the Community Development Revolving Loan Fund to help low-income credit unions expand the products and services they offer and respond to the needs of more diverse populations.

Increasing Competition and Continuing Consolidation — The number of banks and credit unions has fallen at a steady rate for nearly three decades. Contributing to this decline is consumer demand for more services, which has led to mergers, reducing the number of depository institutions. In addition, new marketplace competitors providing prepaid cards and alternative lending products, such peer-to-peer lending or small business financing, encroaches into areas that credit unions have traditionally operated. Finally, consumers are increasingly using electronic and mobile devices for their financial needs, meaning that credit unions that lack the resources to acquire new technology and develop new products and services to meet these needs face enormous challenges.

These trends mean that credit unions could face increased competition. In recent years, consolidation has primarily occurred among credit unions with $50 million or less in assets.

However, in the future it is possible that increased competition could result in more mergers of larger credit unions merging for strategic reasons, as opposed to the current trend of smaller credit unions merging into larger ones to provide greater access to financial services for their membership.

To ensure their viability, NCUA can continue to provide consulting services to credit unions with less than $100 million in assets, minority depository institutions, low-income credit unions, and new credit unions through the Office of Small Credit Union Initiatives. Such consulting services would assist credit unions in marketing, new product development, budgeting and strategic planning. As consolidation leads to larger credit unions, NCUA should also consider whether to make further adjustments to its examination and supervision program to protect the Share Insurance Fund.

Respectfully,

James W. Hagen
Inspector General

cc: Executive Director Mark Treichel
Deputy Executive Director (Audit Follow-up Official) John Kutchey
General Counsel Michael McKenna
PACA Director Todd Harper
Chief Financial Officer Rendell Jones
Chief Information Officer Ed Dorris
OSCUI Director Martha Ninichuk
Regional Director and AMAC President Keith Morton
E&I Director Larry Fazio
E&I, Division of Capital and Credit Markets, Director J. Owen Cole, Jr.

OIG-17-01

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report

NATIONAL CREDIT UNION SHARE INSURANCE FUND

TABLE OF CONTENTS

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 is backed by the full faith and credit of the United States. As of December 2016, the NCUSIF insures an estimated $1.0 trillion in member shares in over 5,785 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' account, dollar-for-dollar, up to 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.

The NCUSIF also provides funding when the NCUA Board determines that some form of assistance to troubled credit unions will result in the long-term least resolution cost. Examples of assistance include but are not limited to the following:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit, cash assistance, including subordinated notes or other forms; and
- cash assistance to arrange a merger or purchase and assumption.

When a credit union is no longer able to continue operating and assistance alternatives, including an assisted merger, are not practical, the credit union will be liquidated and the NCUSIF will pay members' shares up to the standard maximum insurance amount.

Organizational Structure

NCUA's Executive Director is responsible for overseeing the agency's examination and supervision program. The Director of the Office of Examination and Insurance (E&I) is responsible for formulating standards and procedures for examination and supervision of federally insured credit unions. The E&I Director is also the President of the NCUSIF and is responsible for managing the risks to the NCUSIF. Regional offices and the Office of National Examinations and Supervision are responsible for conducting examinations in 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. AMAC establishes an Asset Management Estate (AME) to collect the

[1] The NCUSIF is one of five funds established in the U.S. Treasury and administered by the NCUA Board. The four permanent funds include the NCUSIF, the Operating Fund, the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund. In addition, the NCUA Board administers the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) that was established in 2009 to accrue the losses of corporate credit unions during the credit crisis and to recover such losses over time. All five funds report under separate financial statements.

obligations due to the liquidated credit union, monetizes assets and distributes amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities.

II. Performance Goals, Objectives and Results

Consistent with the *NCUA Strategic Plan 2014 through 2017*, which emphasizes ensuring a "sustainable credit union system," the agency prepared the *NCUA 2016-2017 Annual Performance Plan*. Performance goals include maintaining strong levels of credit union system-wide net worth and corporate credit union leverage ratios, maintaining yearly NCUSIF losses for current year failures as a percentage of insured shares at less than 0.03%, and minimizing total assets in CAMEL[2] Code 4 or 5 rated credit unions. For 2016, the NCUSIF losses for the current year failures ratio was 0.001%, as compared to 0.002% for 2015. Total assets in CAMEL Code 4/5 credit unions increased to $9.7 billion at the 2016 year-end, as compared to $8.6 billion at the 2015 year-end.

In measuring the performance of the NCUSIF for 2016 and 2015, the following additional measures should be considered.

2016 and 2015 Performance Measures		
	December 31, 2016	December 31, 2015
Equity Ratio	1.24%	1.26%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$196.6 million	$164.9 million
Net Position	$12.7 billion	$12.2 billion
Insured Shares	$1.0 trillion	$961.3 billion
Credit Union Involuntary Liquidations and Assisted Mergers	14	16
Assets in CAMEL 3, 4 and 5 rated Credit Unions	$98.2 billion	$98.3 billion

The equity ratio and contingent liability are significant financial performance measures in assessing the ongoing operations of the NCUSIF. The equity ratio serves as a mechanism to balance funding from capitalization deposits and premium assessments in response to changes in insured share growth, insurance losses, interest income from U.S. Treasury security investments, as well as other revenues and expenses.

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 contributed one percent (1.00%) deposit 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. The NOL is the desired equity level for the NCUSIF. The NCUA Board sets the NOL between 1.20% and 1.50%. The NCUA Board set the current NOL at 1.30%.

By statute, when the equity ratio falls below 1.20%, the NCUA Board must assess a premium to restore the equity ratio. 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 to rebuild the equity ratio, which may include a premium assessment to each insured credit union.

[2] CAMEL is the acronym for **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the asset **L**iability management.

The NCUSIF pays a distribution when the equity ratio exceeds the NOL and available assets ratio at year-end. When the NCUSIF or the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) does not have an outstanding borrowing from the U.S. Treasury, the distribution is paid to insured credit unions.

As of December 31, 2016, the equity ratio was 1.24%, which is below the NOL. As a result, no distribution was payable to insured credit unions for 2016. For 2015, the NCUSIF ended the year with an equity ratio of 1.26%, which resulted in no distribution to the TCCUSF. In 2016 and 2015, the NCUA Board did not assess a premium charge to insured credit unions for the NCUSIF. We expect that the NCUSIF will receive additional capitalization deposits of approximately $300.1 million from insured credit unions in early 2017 when NCUA invoices for its biannual contributed capital adjustment. The additional capitalization deposits will result in a projected equity ratio of approximately 1.27%.

Insurance Losses (Contingent Liabilities)

Through its supervision process, NCUA applies a supervisory rating system to assess each insured credit union's relative health in the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, and the asset **L**iability management (CAMEL), applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes.

The NCUSIF's year-end contingent liability is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. In addition, specific analysis is performed on those insured credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. The NCUSIF ended 2016 with Insurance and Guarantee Program Liabilities of $196.6 million to cover potential losses as compared with $164.9 million for the previous year-end, an increase of $31.7 million.

NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall credit union economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies.

Due to uncertain economic risks and the possibility of variances from historical data, actual losses could differ materially from the contingent liabilities recorded by the NCUSIF.

NCUA's recent supervisory actions resulted in the conservatorship of a federally insured credit union on February 10, 2017. Estimated losses related to this conserved credit union are determined as part of the general reserve methodology and are contained within the Insurance and Guarantee Program Liabilities in the Balance Sheets. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2016.

The credit union industry remained stable overall during 2016 as reflected by the slight reduction of assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2015. Assets in CAMEL 3, 4 and 5 rated credit unions decreased to $98.2 billion at the end of 2016, versus $98.3 billion at the end of 2015. The aggregate net worth ratio remained stable during the year, ending at 10.9%, versus 10.9% at December 31, 2015. This ratio has increased since 2011.

Performance measures are designed to enable management and our stakeholders to assess programs and financial performance and to use this information to make improvements. Performance measures have inherent limitations including the change over time in the correlation of cause and effect. A strong correlation between cause and effect in one period may not continue into the next. In addition, performance measures may not address systemic risks, which can have a significant effect on future results.

III. Financial Statement Analysis

The NCUSIF ended 2016 with an increase in Total Assets and its Total Net Position, and with an increase in Insurance and Guarantee Program Liabilities from the prior year. Net Cost of Operations increased to $214.7 million, primarily as a result in increases in the Reserve Expense within the Provision for Insurance Losses. These changes are explained in further detail below.

Summarized Financial Information (in thousands)		
	December 31, 2016	December 31, 2015
Total Assets	$12,869,748	$12,328,652
Investments, Net	12,724,719	12,079,490
Notes Receivable, Net	-	108,568
Receivables from Asset Management Estates, Net	58,351	65,779
Insurance and Guarantee Program Liabilities	196,617	164,857
Contributed Capital	9,987,363	9,353,113
Net Position	12,666,793	12,156,161
Operating Expenses	209,260	197,752
Provision for Insurance Losses, Reserve Expense (Reduction)	44,432	(250)
Provision for Insurance Losses, AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Total Net Cost of Operations	214,667	157,154
Cumulative Results of Operations	2,679,430	2,803,048
Interest Revenue – Investments	227,172	218,526

Balance Sheet Highlights
Total Assets increased by $541.1 million in 2016. The increase came primarily from net collections of capital deposits of $634.3 million and Interest Revenue – Investments of $227.2 million, partially offset by Total Net Cost of Operations of $214.7 million and net unrealized losses on Investments of $136.1 million.

Balances of Investments increased by $645.2 million during 2016, primarily driven by investing net additions to Contributed Capital. During 2016, U.S. Treasury yields increased, especially in the last quarter of 2016. The increase in market interest rate yields resulted in an overall decrease in the market value of U.S. Treasury securities.

Notes Receivable, Net declined $108.6 million and Receivables from Asset Management Estates, Net declined $7.4 million. All outstanding Public Notes Receivable were repaid in full during

2016. Receivables from Asset Management Estates, Net include the collection of principal on outstanding loans, mortgages and other debt instruments. Also, Receivables from Asset Management Estates, Net include various transactions that are explained in Note 7 to the financial statements.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $196.6 million and $164.9 million as of December 31, 2016 and 2015, respectively. The increase is due to the increase in the general reserve of $38.8 million, partially off-set by a decrease in the specific reserve of $7.1 million. Specific reserves are identified for those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. The general reserve reflects overall risk of loss due to potential credit union failures for the credit union industry.

Contributed Capital increased by $634.3 million during 2016 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent (1.00%) of its insured shares as Contributed Capital. In 2016, credit union insured shares grew by 7.0%.

Net Position increased $510.6 million during 2016. Increases include interest revenue on Investments of $227.2 million and net additions of Contributed Capital of $634.3 million. Decreases include Net Cost of Operations of $214.7 million and net unrealized losses on Investments of $136.1 million.

Statements of Net Cost Highlights
Total Net Cost of Operations was $214.7 million for 2016, as compared to $157.2 million for 2015. The increase in Net Cost of Operations is attributable to the increase in Operating Expenses of $11.5 million, and an increase in the overall Provision for Insurance Losses of $43.3 million. As explained in Note 10, Operating Expenses include expenses from the NCUA Operating Fund based on an allocation factor (Overhead Transfer Rate) that increased from 71.8% to 73.1% for 2016. Also, the Provision for Insurance Losses is an expense of $7.9 million for 2016 and an expense reduction of $35.4 million for 2015, respectively; the net change between years is an increase of $43.3 million. Within the Provision for Insurance Loss for 2016, the Reserve Expense increased $44.4 million, reflecting the overall risk of losses due to potential credit union failures for the credit union industry, while the AME Receivable Bad Debt Expense was a $36.5 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed.

Statements of Changes in Net Position Highlights
Cumulative results of operations decreased by $123.6 million in 2016. This decrease was primarily driven by net unrealized losses on Investments of $136.1 million and Net Cost of Operations of $214.7 million, primarily offset by Interest Revenue of $227.2 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

Statements of Budgetary Resources Highlights
Activity impacting budget totals of the overall Federal Government is recorded in the NCUSIF's Statements of Budgetary Resources. The NCUSIF's net outlays were negative, meaning that the NCUSIF had net cash inflows of $799.9 million and $579.4 million for 2016 and 2015, respectively. This increase is primarily the result of the growth of credit union insured shares and the corresponding 1.00% contributed capital deposit adjustment received.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NCUSIF. While the statements have been prepared from the books and records of the NCUSIF in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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 investments, which are available to meet urgent liquidity needs of the NCUSIF.

2016 and 2015 Fund Balance with Treasury and Investments		
	December 31, 2016	December 31, 2015
Fund Balance with Treasury	$ 4.4 million	$ 2.4 million
U.S. Treasury Securities		
Overnight	152.0 million	141.2 million
Available-for-Sale	12,572.8 million	11,938.3 million

During 2016, the FBWT account was primarily increased by maturing investments in U.S. Treasury securities and Interest Revenue collected. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program.

The NCUSIF has multiple other sources of funding including:

- capitalization deposits contributed by insured credit unions, as provided by the *Federal Credit Union Act*, Public Law 73-467, as amended (FCU Act);
- 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.

Contributed Capital
Each insured credit union must deposit and maintain in the NCUSIF 1.00% of its insured shares. For the years ended December 31, 2016 and 2015, the NCUSIF's contributed capital from insured credit unions increased by $634.3 million and $409.0 million, respectively. Total insured shares were estimated at $1.0 trillion and $961.3 billion as of December 31, 2016 and 2015, respectively.

As noted above, NCUA estimated the total insured shares to be approximately $1.0 trillion as of December 31, 2016, subject to certified reporting of insured share amounts. We expect that the

NCUSIF will receive additional capitalization deposits of approximately $300.1 million from insured credit unions in early 2017 when NCUA invoices for its biannual contributed capital adjustment. The additional capitalization deposits will result in a projected equity ratio of approximately 1.27%.

Cumulative Results of Operations
The NCUSIF ended 2016 and 2015 with a total of $2.7 billion and $2.8 billion in cumulative results of operations, respectively. Interest Revenue from Investments is currently the primary source of funds for operations.

Assessments
The NCUA Board may also assess premium charges to all insured credit unions, as provided by the FCU Act. During the years ended December 31, 2016 and 2015, the NCUA Board did not assess any premium charges to insured credit unions for the NCUSIF.

Borrowing Authority from the U.S. Treasury
The NCUSIF has $6.0 billion in maximum statutory borrowing authority, shared with the TCCUSF, from the U.S. Treasury. As of December 31, 2016 and 2015, the TCCUSF had $0 and $1.7 billion in borrowings outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had $6.0 billion and $4.3 billion, respectively, in available borrowing authority shared with the TCCUSF. The estimated losses and liquidity needs of the TCCUSF are based on NCUA's expectations and assumptions about the resolution of failed corporate credit unions, including the disposition and recovery value of their assets. Actual losses of the TCCUSF, including the TCCUSF's funding needs, could differ from those estimates. Any additional borrowing for the TCCUSF reduces funds available for the NCUSIF from this source.

Borrowing Authority from the CLF
The NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2016 and 2015, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF had statutory borrowing authority of $6.1 billion as of December 31, 2016. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF with a maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances under the current promissory note can be made no later than March 31, 2017.

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 FCU Act in part by amending the definitions of “equity ratio” and “net worth.” 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 managers monitor and assess their relevant internal controls and report on their assessment. This allows NCUA management to provide reasonable assurance that internal controls are operating effectively. 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. As required by the *Improper Payments Elimination and Recovery Act*, Public Law 111-204, as amended, 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), 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.

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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 Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of net cost, changes in net position, and statements of budgetary resources 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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 Share Insurance Fund as of December 31, 2016 and 2015, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

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, 2016, we considered the NCUSIF'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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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 NCUSIF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2017

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 4,410	$ 2,411
Investments, Net - U.S. Treasury Securities (Note 3)	12,724,719	12,079,490
Accounts Receivable - Other	-	106
Accrued Interest Receivable (Note 3)	71,525	59,867
Note Receivable - Note due from the National Credit Union Administration Operating Fund (Note 5)	9,051	10,392
Total Intragovernmental Assets	12,809,705	12,152,266
PUBLIC		
Notes Receivable, Net (Note 5)	-	108,568
Accounts Receivable - Due from Insured Credit Unions, Net (Note 4)	-	2
Accrued Interest Receivable - Notes (Note 5)	-	253
General Property, Plant and Equipment, Net (Note 6)	1,192	1,784
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	58,351	65,779
Other Assets	500	-
Total Public Assets	60,043	176,386
TOTAL ASSETS	$ 12,869,748	$ 12,328,652
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	$ 4,059	$ 3,944
Total Intragovernmental Liabilities	4,059	3,944
PUBLIC		
Accounts Payable	2,118	3,372
Other - Insurance and Guarantee Program Liabilities (Note 8)	196,617	164,857
Other Liabilities	161	318
Total Public Liabilities	198,896	168,547
TOTAL LIABILITIES	202,955	172,491
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	9,987,363	9,353,113
Cumulative Result of Operations	2,679,430	2,803,048
Total Net Position	12,666,793	12,156,161
TOTAL LIABILITIES AND NET POSITION	$ 12,869,748	$ 12,328,652

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, 2016 and 2015
(Dollars in thousands)

	2016	2015
GROSS COSTS		
Operating Expenses	$ 209,260	$ 197,752
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	44,432	(250)
AME Receivable Bad Debt Expense (Reduction) (Note 7)	(36,562)	(35,161)
Total Gross Costs	217,130	162,341
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 5)	(179)	(206)
Interest Revenue on Notes (Note 5)	(2,070)	(3,527)
Insurance and Guarantee Premium Revenue and Other Revenue	(214)	(1,454)
Total Earned Revenues	(2,463)	(5,187)
TOTAL NET COST OF OPERATIONS	$ 214,667	$ 157,154

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, 2016 and 2015
(Dollars in thousands)

	2016	2015
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,803,048	$ 2,831,256
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	227,172	218,526
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	(136,123)	(89,580)
Total Financing Sources	91,049	128,946
Net Cost of Operations	(214,667)	(157,154)
Net Change	(123,618)	(28,208)
CUMULATIVE RESULTS OF OPERATIONS	2,679,430	2,803,048
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	9,353,113	8,944,099
Change in Contributed Capital	634,250	409,014
CONTRIBUTED CAPITAL	9,987,363	9,353,113
NET POSITION	$ 12,666,793	$ 12,156,161

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, 2016 and 2015
(Dollars in thousands)

	2016	2015
BUDGETARY RESOURCES (Notes 12 and 15)		
Unobligated balance, brought forward, January 1	$ 11,910,709	$ 11,333,233
Spending authority from offsetting collections (mandatory)		
Collected	1,075,138	882,031
Change in receivables from federal sources	11,552	273
TOTAL BUDGETARY RESOURCES	$ 12,997,399	$ 12,215,537
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total)	$ 274,249	$ 304,828
Unobligated balance, end of year:		
Exempt from apportionment	12,723,150	11,910,709
Total unobligated balance, end of year	12,723,150	11,910,709
TOTAL STATUS OF BUDGETARY RESOURCES	$ 12,997,399	$ 12,215,537
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, January 1	$ 10,266	$ 8,054
New obligations and upward adjustments	274,249	304,828
Outlays (gross)	(275,254)	(302,616)
Unpaid obligations, end of year	$ 9,261	$ 10,266
Uncollected payments:		
Uncollected customer payments from federal sources, brought forward, January 1	$ (59,973)	$ (59,700)
Change in uncollected customer payments from Federal sources	(11,552)	(273)
Uncollected customer payments from Federal sources, end of year	$ (71,525)	$ (59,973)
Obligated balance, start of year (net)	$ (49,707)	$ (51,646)
Obligated balance, end of year (net)	$ (62,264)	$ (49,707)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	$ 1,086,690	$ 882,304
Actual offsetting collections (mandatory)	(1,075,138)	(882,031)
Change in uncollected customer payments from Federal sources (mandatory)	(11,552)	(273)
BUDGET AUTHORITY, NET (MANDATORY)	$ -	$ -
Outlays, gross (mandatory)	$ 275,254	$ 302,616
Actual offsetting collections (mandatory)	(1,075,138)	(882,031)
Outlays, net (discretionary and mandatory)	(799,884)	(579,415)
AGENCY OUTLAYS, NET (MANDATORY)	$ (799,884)	$ (579,415)

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

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015

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 qualifying state-chartered credit unions requesting insurance.

The NCUA exercises direct supervisory authority over FCUs and coordinates required 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 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 may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit pursuant to Section 208 of the FCU Act, cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act, 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
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. 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). These assets and liabilities are held in part, for the primary benefit of non-federal parties and therefore are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting*

for Fiduciary Activities. Fiduciary assets are not assets of the Federal Government and therefore are not recognized on the Balance Sheet. Additionally, NCUA entity assets are non-fiduciary.

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 in the NCUSIF 1.00% of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

In addition, the NCUSIF has borrowing authority, shared with the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), from the U.S. Treasury and the ability to borrow from NCUA's Central Liquidity Facility (CLF).

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB's SFFAS. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* revised October 7, 2016.

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

Basis of Accounting

In its accounting structure, the NCUSIF records both proprietary and budgetary accounting transactions. Following the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the actual collection or payment of cash.

Federal budgetary accounting recognizes the obligation, 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.

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 generally accepted accounting principles (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.

Actual results could differ from estimates. Significant items subject to those estimates and assumptions include (i) reserves for probable losses and contingencies related to Insurance and Guarantee Program Liabilities; (ii) the amount and timing of recoveries, if any, related to any claims paid and settlement of the guarantee liabilities; (iii) allowance amounts established for loan loss related to cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is the aggregate amount of the NCUSIF's accounts with the Federal Government's central accounts, from which the NCUSIF is authorized to make expenditures and pay liabilities. The entire FBWT is a revolving fund type.

Investments

Investment securities primarily consist of marketable U.S. Treasury securities of varying maturities (debt securities). The NCUSIF also holds non-marketable U.S. Treasury overnight securities purchased and reported at par value, which are classified as held to maturity. All marketable securities are carried as available-for-sale, in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*.

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 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 or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method.

Accounts Receivable

Accounts receivable represent 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. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

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.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority according to the FCU Act Section 202, *Administration of the Insurance Fund*, to assess insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.30%. When the equity ratio falls below 1.20%, the Board must assess a premium to restore the equity ratio. 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 8-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 2016 and 2015.

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 public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all principal and interest contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

Accrued Interest Receivable

The NCUSIF recognizes accrued interest receivable for amounts of interest contractually earned but not yet received.

Public – Notes Receivable, Net

Notes Receivable, Net represent loans to insured credit unions as authorized by the NCUA Board, including assistance under Section 208 of the FCU Act. Any related allowance for loss represents the difference between the funds disbursed and the expected repayment from the insured credit unions.

General Property, Plant and Equipment, Net

General Property, Plant and Equipment 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,* as amended by SFFAS Nos. 10, 23, 44 and 50.

Incurred costs 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 recognized over the useful life of the asset.

Other - Receivables from Asset Management Estates, Net

Receivables from AMEs, Net include claims to recover payments made by the NCUSIF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. A related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment, when recognized, from the AMEs pursuant to the liquidation payment priorities set forth in 12 C.F.R. § 709.5(b). Assets held by the AMEs are the main source of repayment of the NCUSIF's receivables from the AMEs. The recoveries from these AME assets are paid to the NCUSIF as AME assets are monetized and to the extent a receivable is due for share payout obligations and administrative expenses.

The allowance for loss on receivables from AMEs is based on expected asset recovery rates, and come from 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.

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

Distribution Payable

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the NCUSIF records a non-exchange liability, per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, for unpaid amounts due as of the reporting date, as discussed herein.

Per Section 202(c)(3) of the FCU Act, *Distributions from Fund Required*, the NCUA Board shall effect a pro rata distribution to insured credit unions after each calendar year, if:

(i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid;

(ii) the NCUSIF's equity ratio exceeds the normal operating level; and

(iii) the NCUSIF's available assets ratio exceeds 1.00%.

The amount of share distribution should equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the Board set normal operating level of 1.30%, and does not reduce the NCUSIF's available assets ratio below 1.00%.

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described under Section 202 of the FCU Act. Where the TCCUSF has an outstanding advance from the U.S. Treasury, Section 217(e) of the FCU Act requires the NCUSIF to make a distribution to the TCCUSF of the maximum amount possible that does not reduce the NCUSIF's equity ratio below the Board set normal operating level of 1.30% and does not reduce the NCUSIF's available assets ratio below 1.00%.

Capital Leases

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, 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.

Insurance and Guarantee Program Liabilities

In accordance with SFFAS No. 5, all federal insurance and guarantee programs, except social insurance and loan guarantee programs, should recognize a liability for:

- unpaid claims incurred, resulting from insured events that have occurred as of the reporting date;
- a contingent liability when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists, and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur; and
- a future outflow or other sacrifice of resources that is probable.

The NCUSIF records a contingent liability for probable losses relating to insured credit unions. Through NCUA's supervision process, NCUA applies a supervisory rating system to assess each credit union's relative health in the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, and the asset Liability management (CAMEL), applying a rating ranging from "1" (strongest) to "5" (weakest). The year-end contingent liability is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. In addition, credit union specific analysis is performed on those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses. In such cases, specific reserves are established.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, 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 for any contingencies.

Net Position and Contributed Capital

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00% of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

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 primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

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 (more likely than not) 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 upon receipt. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, 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

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 NCUSIF.

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, 2016 and 2015, consisted of the following (in thousands):

	2016	2015
Total Fund Balance with Treasury: Revolving Funds	$ 4,410	$ 2,411
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 12,723,150	$ 11,910,709
Obligated Balances Not Yet Disbursed	9,261	10,266
Non-Budgetary Investment Accounts	(12,656,476)	(11,858,591)
Non-FBWT Budgetary Accounts	(71,525)	(59,973)
Total	$ 4,410	$ 2,411

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits, which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT 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-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2016 and 2015, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (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, 2016 and 2015, the carrying amount, gross unrealized holding gains, gross unrealized holding 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, 2016:						
U.S. Treasury Securities						
Available-for-Sale	$ 12,789,828	$ (141,673)	$ 71,525	$ 12,600,000	$ (75,389)	$ 12,572,766
Held to Maturity	151,953	-	-	151,953	-	151,953
Total	$ 12,941,781	$ (141,673)	$ 71,525	$ 12,751,953	$ (75,389)	$ 12,724,719
As of December 31, 2015:						
U.S. Treasury Securities						
Available-for-Sale	$ 12,040,813	$ (163,233)	$ 59,867	$ 11,800,000	$ 60,733	$ 11,938,313
Held to Maturity	141,177	-	-	141,177	-	141,177
Total	$ 12,181,990	$ (163,233)	$ 59,867	$ 11,941,177	$ 60,733	$ 12,079,490

Maturities of U.S. Treasury securities as of December 31, 2016 and 2015 were as follows (in thousands):

	2016 Fair Value	2015 Fair Value
Held to Maturity (Overnights)	$ 151,953	$ 141,177
Available-for-Sale:		
Due in one year or less	1,407,547	2,070,703
Due after one year through five years	4,991,625	4,087,657
Due after five years through ten years	6,173,594	5,779,953
	$ 12,724,719	$ 12,079,490

There were no realized gains or losses for the years ended December 31, 2016 and 2015.

The following table includes gross unrealized losses on investment securities, for which an other-than-temporary impairment 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, 2016 and 2015 (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, 2016:						
Available-for-Sale:						
U.S. Treasury Securities	$ (168,270)	$ 7,633,360	$ -	$ -	$ (168,270)	$ 7,633,360
As of December 31, 2015:						
Available-for-Sale:						
U.S. Treasury Securities	$ (58,077)	$ 4,484,500	$ (15,025)	$ 959,781	$ (73,102)	$ 5,444,281

4. ACCOUNTS RECEIVABLE

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2016 and 2015, accounts receivable due from insured credit unions were $0 and $2.0 thousand, respectively. As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2016 and 2015 was $0.

5. NOTES RECEIVABLE

Intragovernmental – Notes Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF lent $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $179.0 thousand and $206.0 thousand for the years ended December 31, 2016 and 2015, respectively. The note receivable balance as of December 31, 2016 and 2015 was approximately $9.1 million and $10.4 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate for the years ended December 31, 2016 and 2015 was 1.84% and 1.87%, respectively. The interest rate as of December 31, 2016 and 2015 was 1.83% and 1.90%, respectively.

As of December 31, 2016, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	Secured Term Note
2017	$ 1,341
2018	1,341
2019	1,341
2020	1,341
2021	1,341
Thereafter	2,346
Total	$ 9,051

Public – Notes Receivable

As of December 31, 2016 and 2015, the NCUSIF did not have any outstanding capital notes due from insured credit unions.

The NCUSIF had an outstanding collateralized senior note due from an insured credit union for $0 and $108.6 million as of December 31, 2016 and 2015, respectively. The outstanding senior collateralized note was repaid in full during 2016. There was no related allowance for loss as of December 31, 2016 and 2015. Accrued interest on the note was due on a monthly basis. Interest on this note was fixed over the remaining life of the senior note.

As of December 31, 2016 and 2015, the accrued interest receivable for the note totaled $0 and $252.8 thousand, respectively.

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of General Property, Plant and Equipment as of December 31, 2016 and 2015 were as follows (in thousands):

	Cost	Accumulated Depreciation	Net Book Value
As of December 31, 2016:			
Assets under Capital Lease	$ 471	$ (290)	$ 181
Internal-Use Software	2,017	(1,006)	1,011
Total General Property, Plant and Equipment	$ 2,488	$ (1,296)	$ 1,192
As of December 31, 2015:			
Assets under Capital Lease	$ 473	$ (145)	$ 328
Internal-Use Software	561	(561)	-
Internal-Use Software under Development	1,456	-	1,456
Total General Property, Plant and Equipment	$ 2,490	$ (706)	$ 1,784

Assets under capital lease are depreciable over 39 months, which corresponds with the life of the underlying capital lease. Internal use software has a useful life of 3 years per NCUA capitalization policy.

As of December 31, 2016 and 2015, the NCUSIF included $0 and $97.9 thousand, respectively, in internal labor costs attributable to internal use software during its software development stage. NCUSIF reimburses the Operating Fund for these internal labor costs since these costs are incurred by the Operating Fund.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2016 and 2015, the receivable from AMEs was $926.2 million and $988.0 million, and the related allowance for loss was $867.8 million and $922.2 million, for a net receivable from AMEs of $58.4 million and $65.8 million, respectively (in thousands).

	2016	**2015**
Gross Receivable from AME	$ 926,171	$ 987,963
Allowance for Loss, beginning balance	922,184	952,979
AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Increase in Allowance	10,708	11,776
Write-off of Cancelled Charters	(27,939)	(7,410)
Other	(571)	-
Allowance for Loss, ending balance	867,820	922,184
Receivable from AME, Net	$ 58,351	$ 65,779

AME Receivable Bad Debt Reduction represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. The amounts for Write-off of Cancelled Charters total the final loss or recovery recognized upon closing AMEs.

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies insured credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The general reserve at year-end is derived by using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for both identified and anticipated losses resulting from insured credit union failures were $196.6 million and $164.9 million as of December 31, 2016 and 2015, 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 2016 or as of December 31, 2016. There were no guarantees outstanding during 2015 or as of December 31, 2015.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2016 and 2015 were approximately $1.7 million and $35.0 million, respectively. The insured credit unions borrowed $0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the NCUSIF reserved $40.0 thousand and $707.5 thousand, respectively, for these guaranteed lines-of-credit. The guarantees expire in April 2017 and March 2016, respectively.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance or purchase and assumption agreement to 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, 2016 and 2015, respectively.

The activity in the Insurance and Guarantee Program Liabilities from insured credit unions and AMEs was as follows (in thousands):

	2016	2015
Beginning balance	$ 164,857	$ 178,318
Reserve Expense (Reduction)	44,432	(250)
Insurance losses claims paid	(27,882)	(39,990)
Net Estimated Recovery/Claim on AMEs	15,210	26,779
Ending balance	$ 196,617	$ 164,857

The Insurance and Guarantee Program Liabilities at December 31, 2016 and December 31, 2015 were comprised of the following:

- Specific reserves were $2.9 million and $10.0 million, respectively. Specific reserves are identified for those credit unions where failure is imminent and where additional information is available to make a reasonable estimate of losses.
- General reserves were $193.7 million and $154.9 million, respectively.

In addition to these recorded contingent liabilities, additional 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, accordingly, could differ significantly from these estimates.

9. OTHER LIABILITIES

(a) Capital Lease Liability

NCUSIF leases laptops for state credit union examiners under a capital lease agreement that will run through 2018. Amounts presented in the table below include $1.9 thousand in imputed interest.

The future minimum lease payments to be paid over the remaining life as of December 31, 2016, are as follows (in thousands):

Years Ending December 31	Minimum Lease Payments
2017	$ 163
2018	-
Total	$ 163

(b) Distribution Payable

As of December 31, 2016 and 2015, the NCUSIF-calculated equity ratio of 1.24% and 1.26%, respectively, was below its normal operating level of 1.30%; therefore, the NCUSIF did not record or make a distribution. As of December 31, 2016 and 2015, the NCUSIF’s available assets ratio was 1.22% and 1.24%, respectively. The equity ratio and available assets ratio calculations are discussed in Note 13.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and costs arise from transactions with other federal entities. Public revenue and costs arise from transactions with domestic and foreign persons and organizations outside of the Federal Government. Intragovernmental costs and exchange revenue as of December 31, 2016 and 2015 were as follows (in thousands):

Intragovernmental Costs and Exchange Revenue	**2016**	**2015**
Intragovernmental Costs	$ 203,026	$ 192,301
Public Costs/(Cost Reduction)	14,104	(29,961)
Total	217,130	162,340
Intragovernmental Exchange Revenue	(179)	(206)
Public Exchange Revenue	(2,284)	(4,980)
Total	(2,463)	(5,186)
Net Cost	$ 214,667	$ 157,154

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 2016 and 2015, the allocation to the NCUSIF was 73.1% and 71.8% of NCUA Operating Fund expenses, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $203.0 million and $192.3 million for the years ended December 31, 2016 and 2015, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2016 and 2015, amounts due to the NCUA Operating Fund for allocated administrative expenses were $4.1 million and $3.9 million, respectively. 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	**2016**	**2015**
Employee Salaries	$ 109,225	$ 103,348
Employee Benefits	42,174	38,917
Employee Travel	19,252	19,567
Contracted Services	18,479	17,484
Administrative Costs	6,122	5,120
Depreciation and Amortization	3,591	4,611
Rent, Communications, and Utilities	4,183	3,254
Total Services Provided by the NCUA Operating Fund	$ 203,026	$ 192,301

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2016 and 2015, the TCCUSF had $0 and $1.7 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2016 and 2015, the NCUSIF had $6.0 billion and $4.3 billion, respectively, in available borrowing authority shared with the TCCUSF.

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. As of December 31, 2016 and 2015, the CLF had statutory borrowing authority of $6.1 billion and $5.6 billion, respectively. As of December 31, 2016 and 2015, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $2.0 billion and $2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2017.

At December 31, 2016 and 2015, the NCUSIF had $8.0 billion and $6.3 billion, respectively, in total available borrowing capacity.

12. 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, 2016 and 2015. 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, 2016 and 2015, the NCUSIF's resources in budgetary accounts were $13.0 billion and $12.2 billion, and undelivered orders were $2.9 million and $2.6 million, 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.

Budgetary resources listed on the NCUSIF's statements and the budgetary resources found in the budget of the Federal Government differ because the NCUSIF's statements are prepared as of December 31, calendar year, rather than as of September 30, the Federal Government's fiscal year end.

13. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998*, Public Law 105–219 (CUMAA), mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Under Section 202(c) of the FCU Act, each insured credit union must pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00% of the credit union's insured shares. The CUMAA added provisions mandating 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 not more 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. As of December 31, 2016 and 2015, contributed capital owed to the NCUSIF totaled $0 thousand and $2.0 thousand, respectively. As of December 31, 2016 and 2015, contributed capital due to insured credit unions was $1.9 million and $490.4 thousand, respectively.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the *Helping Families Save Their Homes Act of 2009*, Public Law 111-22, which states that at the end of any calendar year in which the TCCUSF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions as described above. In lieu of the distribution, the NCUSIF shall make a distribution to the TCCUSF for the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level and does not reduce the current available assets ratio below 1.00%.

Pursuant to the FCU Act, the NCUSIF-calculated equity ratio of 1.24% and 1.26% as of December 31, 2016 and 2015, respectively, was below the normal operating level of 1.30%; therefore, the NCUSIF did not estimate or record a distribution as of December 31, 2016 and 2015. Total contributed capital as of December 31, 2016 and 2015 was $10.0 billion and $9.4 billion, respectively.

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.

The NCUSIF's available assets ratio as of December 31, 2016 and 2015 was 1.22% and 1.24%, based on total estimated insured shares as of December 31, 2016 and 2015 of $1.0 trillion and $961.3 billion, 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 (including the distribution payable to the TCCUSF) 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.

14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, 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. Following is the Schedule of Fiduciary Activity as of December 31, 2016 and 2015 (in thousands):

Schedule of Fiduciary Activity	2016	2015
Fiduciary Net Liabilities, beginning of year	$ (929,060)	$ (958,508)
Net Realized Losses upon Liquidation	(6,346)	(13,391)
Revenues		
Interest on Loans	6,411	9,104
Other Fiduciary Revenues	424	895
Expenses		
Professional & Outside Services Expenses	(4,650)	(4,840)
Compensation and Benefits	(1,409)	(1,611)
Other Expenses	(1,295)	(1,385)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	32,891	28,734
Net Gain/(Loss) on Real Estate Owned	(1,349)	(1,770)
Other, Net Gain/(Loss)	5,173	6,304
Decrease in Fiduciary Net Liabilities	29,850	22,040
Write off of Fiduciary Liabilities for Cancelled Charters	27,939	7,408
Fiduciary Net Liabilities, end of year	**$ (871,271)**	**$ (929,060)**

Comparing 2016 activity in the schedule of fiduciary activity with 2015, fiduciary net liabilities improved by $57.8 million overall, including a decrease in fiduciary net liabilities of $29.9 million and cancelled charters write-offs of $27.9 million. For 2016, the primary drivers were an improvement in net realized losses upon liquidation, improvement in the recovery value of assets and liabilities, and cancelled charters. The net realized losses upon liquidation decreased by $6.3 million due, in part, to lower average cost of failure per credit union for liquidations in 2016. The net change in recovery value of assets and liabilities line-items decreased by $29.9 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by $27.9 million, corresponding with more credit union charter cancellations in 2016 than the previous year.

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, as well as 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, 2016 and 2015 (in thousands):

Schedule of Fiduciary Net Assets/Liabilities	**2016**	**2015**
Fiduciary Assets		
Loans	$ 61,392	$ 72,383
Real Estate Owned	10,231	9,155
Other Fiduciary Assets	4,061	10,134
Total Fiduciary Assets	75,684	91,672
Fiduciary Liabilities		
Insured Shares	1,373	8,411
Accrued Liquidation Expenses	15,220	17,660
Unsecured Claims	409	3,111
Uninsured Shares	3,782	3,587
Due to NCUSIF (Note 7)	926,171	987,963
Total Fiduciary Liabilities	946,955	1,020,732
Total Fiduciary Net Assets/(Liabilities)	**$ (871,271)**	**$ (929,060)**

15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. The Reconciliation of Net Cost of Operations to Budget consisted of the following (in thousands):

Reconciliation of Net Cost of Operations to Budget	**2016**	**2015**
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 274,249	$ 304,828
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(1,086,690)	(882,304)
Net Obligations	(812,441)	(577,476)
Other Resources:		
Net Unrealized (Gain)/Loss	136,123	89,580
Total Resources Provided to Finance Activities	(676,318)	(487,896)
Resources Provided to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(790)	1,522
Costs Capitalized on the Balance Sheet	822,486	558,549
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	60,483	120,102
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	882,179	680,173
Resources Generated to Finance the Net Cost of Operations	205,861	192,277
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	44,432	(250)
AME Receivable Bad Debt Expense (Reduction)	(36,562)	(35,161)
Increase in Exchange Revenue	253	143
Components not Requiring or Generating Resources		
Depreciation Expense	590	145
Other Expenses	93	-
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	8,806	(35,123)
Net Cost of Operations	$ 214,667	$ 157,154

Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations consists largely of unrealized losses on investments net of investment revenue and increases to the receivable from AME Allowance due to transfers, net of AME receivable bad debt expense.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued. The following event, subsequent to the finalization of the December 31, 2016 financial statements, warrants identification.

NCUA’s recent supervisory actions resulted in the conservatorship of a federally insured credit union on February 10, 2017. Estimated losses related to this conserved credit union are contained within the NCUSIF reserve of insurance losses, referred to as the Other - Insurance and Guarantee Program Liabilities in the Balance Sheets, and are estimated as part of the year-end general reserve methodology. The conservatorship is a distinct and subsequent action from the determination of year-end general reserves. Actual losses could vary and may be materially different from the estimated losses recognized as of December 31, 2016.

Management determined that there were no other significant items to be disclosed as of December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2016 and 2015, the aggregate outstanding insured shares of the insured credit unions were estimated at $1.0 trillion and $961.3 billion, respectively. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, to the extent the TCCUSF’s obligations exceed the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no direct relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions’ financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union’s financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was $196.6 million and $164.9 million as of December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the general reserves were $193.7 million and $154.9 million, respectively. At December 31, 2016 and 2015, the specific reserves resulting from insured credit unions' expected failures were $2.9 million and $10.0 million, respectively.

The NCUSIF's contingent liability increased by $31.7 million from 2015 to 2016, reflecting the overall risk of losses due to potential credit unions failures for the credit union industry, and decreased by $13.4 million from 2014 to 2015. The credit union industry remained stable during 2016 as reflected by the reduction in the assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2015. Assets in CAMEL 3, 4 and 5 rated credit unions dropped slightly to $98.2 billion at the end of 2016, versus $98.3 billion at the end of 2015. The aggregate net worth ratio remained stable during the year, ending at 10.9%, versus 10.9% at December 31, 2015. The ratio has shown overall improvement since 2011.

Fees and Premiums

During 2016 and 2015, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

Sensitivity, Risks and Uncertainties of the Assumptions

During 2013, NCUA implemented the use of the econometric reserve model to improve the precision of the loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating imminent failures and using an internal econometric model that applies estimated probability of failure and loss rates that take into account the historical loss history, CAMEL ratings, credit union level financial ratios, and other conditions. The effectiveness of the reserving methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses and adjustments are made accordingly. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2016.

The development of assumptions for certain key input variables of our estimation model is a highly subjective process that involves significant judgment and will change over time. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include probability of failure and loss rates. The probability of failure is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates macroeconomic data such as the consumer price index and geographic housing prices, as well as individual credit union factors such as delinquencies and charge-offs. The loss rate is partly subjective and is developed based on historical loss experience from actual failures, and incorporates the NCUA's expectations and assumptions about anticipated recoveries. The assumptions developed for the estimation model are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

The internal model provides a range of losses. Per current policy, the minimum in the range of losses is the 75 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. The NCUSIF general reserve is sensitive to assumptions made about the loss rates under various scenarios. For example, changing the assumptions to exclude statistical outliers for calculating loss rates results in a change in the range of losses. Additionally, management’s judgment is used to select a point in the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5, which was $193.7 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2016. In selecting the point in the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

Consistent with accounting standards, the assumptions and method used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.

OIG-17-02

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

TABLE OF CONTENTS

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 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, 2016 and 2015, 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

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, 2016, 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, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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, 2017

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

BALANCE SHEETS
As of December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
ASSETS		
Cash and cash equivalents (Note 3)	$ 49,349	$ 40,528
Due from National Credit Union Share Insurance Fund (Note 7)	4,059	3,944
Employee advances	5	38
Other accounts receivable, Net (Notes 7 and 10)	437	332
Prepaid expenses and other assets	1,844	1,732
Assets held for sale (Note 6)	-	377
Fixed assets — Net of accumulated depreciation of $34,963 and $31,083 as of December 31, 2016 and December 31, 2015, respectively (Note 4)	29,362	31,106
Intangible assets — Net of accumulated amortization of $17,219 and $16,279 as of December 31, 2016 and December 31, 2015, respectively (Note 5)	4,855	2,354
TOTAL ASSETS	$ 89,911	$ 80,411
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued other liabilities	$ 5,609	$ 5,644
Obligations under capital leases (Note 8)	957	1,515
Accrued wages and benefits	10,270	7,176
Accrued annual leave	18,169	17,243
Accrued employee travel	601	646
Notes payable to National Credit Union Share Insurance Fund (Note 7)	9,051	10,392
Total liabilities	44,657	42,616
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12)		
FUND BALANCE	45,254	37,795
TOTAL LIABILITIES AND FUND BALANCE	$ 89,911	$ 80,411

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, 2016 and 2015
(Dollars in thousands)

	2016	2015
REVENUES		
Operating fees	$ 80,934	$ 78,773
Interest	181	22
Other	1,071	1,100
Total Revenues	82,186	79,895
EXPENSES, NET (Note 7)		
Employee wages and benefits	55,713	55,876
Travel	7,099	7,685
Rent, communications, and utilities	1,539	1,278
Contracted services	6,800	6,867
Depreciation and amortization	1,313	1,811
Administrative	2,263	2,011
Total Expenses, Net	74,727	75,528
EXCESS OF REVENUES OVER EXPENSES	7,459	4,367
FUND BALANCE—Beginning of year	37,795	33,428
FUND BALANCE—End of year	$ 45,254	$ 37,795

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 7,459	$ 4,367
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization (Note 4 and 5)	4,905	5,533
Provision for loss on disposal of employee residences held for sale	27	114
Loss on fixed asset and intangible asset retirements	9	1,184
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(115)	(435)
Employee advances	33	24
Other accounts receivable, net	(105)	(10)
Prepaid expenses and other assets	(112)	413
(Decrease) increase in liabilities:		
Accounts payable	(35)	(216)
Accrued wages and benefits	3,094	(5,697)
Accrued annual leave	926	1,774
Accrued employee travel	(45)	155
Net Cash Provided by Operating Activities	16,041	7,206
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets and intangible assets	(5,473)	(5,702)
Proceeds from sale of employee residences held for sale	350	596
Purchases of employee residences held for sale	-	(443)
Net Cash Used in Investing Activities	(5,123)	(5,549)
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	(756)	(728)
Net Cash Used in Financing Activities	(2,097)	(2,069)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,821	(412)
CASH AND CASH EQUIVALENTS—Beginning of year	40,528	40,940
CASH AND CASH EQUIVALENTS—End of year	$ 49,349	$ 40,528
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Acquisition of equipment under capital lease	$ 198	$ 2,030
CASH PAYMENTS FOR INTEREST	$ 179	$ 206

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 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 NCUA and is one of five funds managed by the NCUA Board. 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).

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. This may result in credit balances if expense activity for the Operating Fund is less than the 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 Government securities or securities with both principal and interest guaranteed by the United States Government. All investments in 2016 and 2015 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 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 NCUA for these paid claims. NCUA accrues a liability to recognize those payments, and 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 – 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 NCUA is a lessee is subject to escalations in rent, as described in Note 8.

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.

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

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deposits with U.S. Treasury	$ 5,803	$ 67
U.S. Treasury Overnight Investments	43,546	40,461
Total	$ 49,349	$ 40,528

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, 2016 and 2015 (in thousands):

	2016	2015
Office building and land	$ 51,148	$ 50,512
Furniture and equipment	9,851	8,898
Leasehold improvements	406	407
Equipment under capital leases	2,499	2,309
Total assets in-use	63,904	62,126
Less accumulated depreciation	(34,963)	(31,083)
Assets in-use, net	28,941	31,043
Construction in progress	421	63
Fixed assets, net	$ 29,362	$ 31,106

Depreciation expense for the years ended December 31, 2016 and 2015 totaled $3.9 and $4.1 million, respectively, before allocation to the NCUSIF as described in Note 7.

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, 2016 and 2015 (in thousands):

	2016	2015
Internal-use software	$ 18,220	$ 17,888
Less accumulated amortization	(17,219)	(16,279)
Total internal-use software, net	1,001	1,609
Internal-use software under development	3,854	1,751
Less impairment loss	-	(1,006)
Total software under development, net	3,854	745
Intangible assets, net	$ 4,855	$ 2,354

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2016 and 2015 totaled

$940.6 thousand and $1.4 million, respectively, before allocation to the NCUSIF as described in Note 7.

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.

A net impairment loss of $1.0 million was recognized for the year ended December 31, 2015, on internal-use software under development. Management determined that the internal-use software under development would not be completed and placed in service because it did not meet the required use specifications. Therefore, the software 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.

6. ASSETS HELD FOR SALE

The net balance of real estate available for sale as of December 31, 2016 and 2015 was $0 and $377.0 thousand, respectively, and includes impairment charges and costs to sell of $0 and $66.5 thousand as of December 31, 2016 and 2015, respectively. 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.

7. 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 2016 and 2015, the allocation to NCUSIF was 73.1% and 71.8% of all expenses, respectively. The cost of the services allocated to NCUSIF, which totaled $203.0 and $192.3 million for 2016 and 2015, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly.

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. As of December 31, 2016 and 2015, these amounts were $0 and $97.9 thousand, respectively.

As of December 31, 2016 and 2015, amounts due from NCUSIF totaled $4.1 and $3.9 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 $179.0 and $206.0 thousand for 2016 and 2015, respectively. The notes payable balances as of December 31, 2016 and 2015 were $9.1 and $10.4 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2016. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2016 and 2015 were 1.84% and 1.87%, respectively. The interest rates as of December 31, 2016 and 2015 were 1.83% and 1.90%, respectively.

The secured term note requires principal repayments as of December 31, 2016, as follows (in thousands):

Years ending December 31	Secured Term Note
2017	$ 1,341
2018	1,341
2019	1,341
2020	1,341
2021	1,341
Thereafter	2,346
Total	$ 9,051

(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 $540.0 and $521.3 thousand for the years ending December 31, 2016 and 2015, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $144.6 and $127.2 thousand of amounts due from the CLF as of December 31, 2016 and 2015, 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, 2016 and 2015, unreimbursed administrative support to CDRLF is estimated at (in thousands):

	2016	2015
Personnel	$ 499	$ 321
Other	84	53
Total	$ 583	$ 374

(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.

For the years ending December 31, 2016 and 2015, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

	2016	2015
Personnel	$ 945	$ 1,204
Other	26	39
Total	$ 971	$ 1,243

In addition, the Fund initially paid for and was reimbursed $990.9 thousand and $1.1 million for the salaries and related benefits of TCCUSF employees for the years ending December 31, 2016 and 2015, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include $123.3 and $0 thousand of amounts due from the TCCUSF as of December 31, 2016 and 2015, respectively.

(e) Federal Financial Institutions Examination Council (FFIEC)

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 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, 2016 and 2015, FFIEC assessments totaled $817.5 thousand and $1.2 million, respectively. NCUA's 2017 budgeted assessments from FFIEC total $982.9 thousand.

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, 2016, FFIEC assessments to support these systems totaled $750.0 thousand. NCUA's 2017 budgeted assessments from FFIEC to support these systems total $850.0 thousand.

(f) Real Estate Available for Sale

The Fund purchases homes from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period, as mentioned in Note 6.

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 NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately $1.0 million and $971.9 thousand, of which approximately $738.7 and $697.8 thousand were reimbursed by NCUSIF for 2016 and 2015, 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 $135.7 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2016, before reimbursements, are as follows (in thousands):

Years ending December 31	Operating Leases	Capital Leases
2017	$ 1,170	$ 839
2018	1,195	96
2019	1,222	68
2020	1,103	66
2021	-	22
Total	$ 4,690	$ 1,091

Based on the NCUA Board-approved allocation methodology, NCUSIF is expected to reimburse the Fund for approximately 67.7% of the 2017 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, 2016 are as follows (in thousands):

Years ending December 31	Scheduled Rent Payments
2017	$ 312
2018	318
2019	324
2020	81
2021	-
Thereafter	-
Total	$ 1,035

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 $18.0 thousand ($24.0 thousand for age 50 and above) in 2016 and 2015. In addition, the Fund matched up to 5% of the employee's gross pay.

In 2016 and 2015, the Fund's contributions to the plans were approximately $25.2 and $23.8 million, respectively, of which approximately $18.4 and $17.1 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 (NCUA Savings 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% and 1.5% of the employee's total pay for 2016 and 2015, respectively. The Fund's match of 2.0% remains in effect for the duration of the CBA. NCUA's contributions for 2016 and 2015 were

$6.6 and $5.8 million, respectively. The gross operating expenses associated with the NCUA Savings Plan in 2016 and 2015 were $64.3 and $68.2 thousand, respectively. Costs of the NCUA Savings Plan were allocated at 73.1% and 71.8% to the NCUSIF in 2016 and 2015, respectively. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

10. 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 2016 and 2015 were $27.2 and $113.5 thousand, respectively. Impairment charges are recorded within the Statement of Revenues, Expenses, and Changes in Fund Balance and represent non-recurring fair value measures.

The carrying amounts and established fair values of the Fund's assets held for sale as of December 31, 2016 and 2015 are as follows (in thousands):

Assets held for sale	**Amortized Cost Basis**	**Fair Value**	**Impairment at Year-end**
2016	$ -	$ -	$ -
2015	$ 377	$ 377	$ 66

(a) Non-recurring Fair Value Measures

Assets held for sale consist of residences from relocating employees and the amount 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 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, 2016 and 2015, were as follows (in thousands):

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 49,349	$ 49,349	$ 40,528	$ 40,528
Due from NCUSIF	4,059	4,059	3,944	3,944
Employee advances	5	5	38	38
Other accounts receivable, net	437	437	332	332
Obligations under capital lease	957	957	1,515	1,515
Notes payable to NCUSIF	9,051	9,051	10,392	10,392

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 2017.

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 2017.

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, 2016 and 2015, the Fund's Other Accounts Receivable includes an allowance in the amount of $8.9 and $5.7 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.

11. CONTINGENCIES

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. 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.

12. COLLECTIVE BARGAINING AGREEMENT

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 78% 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.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

OIG-17-03

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

TABLE OF CONTENTS

KPMG

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 Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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 Central Liquidity Facility as of December 31, 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the CLF'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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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 CLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2017

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
As of December 31, 2016 and 2015
(Dollars in thousands, except share data)

		2016		2015
ASSETS				
Cash and Cash Equivalents (Notes 3 and 5)	$	7,048	$	11,486
Investments Held to Maturity (Net of $1,117 and $537 unamortized premium, fair value of $264,463 and $237,324 as of 2016 and 2015, respectively) (Notes 4 and 5)		265,682		237,503
Accrued Interest Receivable (Note 5)		1,084		710
TOTAL ASSETS	$	273,814	$	249,699
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts Payable (Notes 5 and 9)	$	188	$	160
Dividends Payable (Note 5)		305		138
Stock Redemption Payable (Note 5)		302		-
Member Deposits (Notes 5 and 7)		1,552		1,320
Total Liabilities		2,347		1,618
MEMBERS' EQUITY				
Capital Stock – Required ($50 per share par value authorized: 9,596,298 and 8,725,806 shares; issued and outstanding: 4,798,149 and 4,362,903 shares as of 2016 and 2015, respectively) (Note 6)		239,907		218,145
Retained Earnings		31,560		29,936
Total Members' Equity		271,467		248,081
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	273,814	$	249,699

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
REVENUE		
Investment Income	$ 3,214	$ 2,486
Total Revenue	3,214	2,486
EXPENSES (Note 9)		
Personnel Services	341	325
Personnel Benefits	133	100
Other General and Administrative Expenses	78	73
Total Operating Expenses	552	498
Interest – Member Deposits (Note 7)	6	3
Total Expenses	558	501
NET INCOME	$ 2,656	$ 1,985

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

	Capital Stock			
	Shares	**Amount**	**Retained Earnings**	**Total**
BALANCE – December 31, 2014	4,002,787	$ 200,139	$ 28,477	$ 228,616
Issuance of Required Capital Stock	380,319	19,016		19,016
Redemption of Required Capital Stock	(20,203)	(1,010)		(1,010)
Dividends Declared (Notes 6 and 7)			(526)	(526)
Net Income			1,985	1,985
BALANCE – December 31, 2015	4,362,903	$ 218,145	$ 29,936	$ 248,081
Issuance of Required Capital Stock	451,677	22,584		22,584
Redemption of Required Capital Stock	(16,431)	(822)		(822)
Dividends Declared (Notes 6 and 7)			(1,032)	(1,032)
Net Income			2,656	2,656
BALANCE – December 31, 2016	4,798,149	$ 239,907	$ 31,560	$ 271,467

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Dollars in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 2,656	$ 1,985
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
Amortization of Investments	204	104
Interest - Member Deposits	6	3
Changes in Assets and Liabilities:		
Increase in Accrued Interest Receivable	(374)	(196)
Increase/(Decrease) in Accounts Payable	28	(19)
Net Cash Provided by Operating Activities	2,520	1,877
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(74,783)	(67,876)
Proceeds from Maturing Investments	46,400	24,006
Net Cash Used in Investing Activities	(28,383)	(43,870)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	21,577	18,966
Redemption of Required Capital Stock	(114)	(595)
Withdrawal of Member Deposits	(38)	(161)
Net Cash Provided by Financing Activities	21,425	18,210
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,438)	(23,783)
CASH AND CASH EQUIVALENTS–Beginning of Year	11,486	35,269
CASH AND CASH EQUIVALENTS–End of Year	$ 7,048	$ 11,486

See accompanying notes to the financial statements.

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). CLF is designated as a mixed-ownership Government corporation under the Government Corporation Control Act. CLF exists within NCUA and is managed by the NCUA Board. CLF became operational on October 1, 1979.

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. CLF accomplishes its purpose by lending funds, subject to certain statutory limitations, when a liquidity need arises.

CLF is subject to various Federal laws and regulations. CLF may not make loans to members for the purpose of expanding credit union loan portfolios. 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. Borrowing is limited by statute to 12 times the subscribed capital stock and surplus. See Notes 6 and 8 for further information about the capital stock and the CLF's borrowing authority.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – 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 CLF, that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – CLF maintains its accounting records in accordance with the accrual basis of accounting. As such, CLF recognizes interest income on loans and investments when earned, and recognizes interest expense on borrowings when incurred. CLF recognizes expenses when incurred. In addition, 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, 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 Investment Securities*, as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

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 (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is other-than-temporary, 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 is included in the "investment income" line item in the Statements of Operations.

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. CLF obtains a security interest in the assets of the member equal to at least 110% of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2016 and 2015.

Borrowings – 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.

Income Taxes – 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 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.

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.

Related Parties – CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies; in addition, NCUA OF pays CLF's employees' salaries and benefits, as well as 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 CLF employees spend performing CLF functions.

3. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
U.S. Treasury Overnight Investments	$ 5,988	$ 11,300
Deposits with U.S. Treasury	1,060	180
SunTrust Bank	-	6
Total	$ 7,048	$ 11,486

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, 2016 and 2015 were as follows (in thousands):

	2016	2015
Carrying Amount, December 31,	$ 265,682	$ 237,503
Gross Unrealized Holding Gains	732	782
Gross Unrealized Holding Losses	(1,951)	(961)
Fair Value	$ 264,463	$ 237,324

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

	2016		2015	
(Dollars in thousands)	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Due in one year or less	$ 47,261	$ 47,309	$ 50,838	$ 50,837
Due after one year through five years	185,852	185,219	155,949	155,853
Due after five years through ten years	32,569	31,935	30,716	30,634
Total	$ 265,682	$ 264,463	$ 237,503	$ 237,324

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, 2016 and 2015.

(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, 2016						
U.S. Treasury Securities	$ (1,951)	$ 133,740	$ -	$ -	$ (1,951)	$ 133,740
As of December 31, 2015						
U.S. Treasury Securities	$ (624)	$ 103,352	$ (337)	$ 20,796	$ (961)	$ 124,148

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 – 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 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 CLF's financial instruments as of December 31, 2016 and 2015. The carrying values and approximate fair values of financial instruments are as follows:

(Dollars in thousands)	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 7,048	$ 7,048	$ 11,486	$ 11,486
Investments held-to-maturity	265,682	264,463	237,503	237,324
Accrued interest receivable	1,084	1,084	710	710
Accounts payable	188	188	160	160
Dividends payable	305	305	138	138
Stock redemption payable	302	302	-	-
Member deposits	1,552	1,552	1,320	1,320

6. CAPITAL STOCK

Membership in CLF is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of $50. Currently, there is one subscribed form of membership—regular members which are natural person credit unions. Natural person credit unions may borrow from CLF directly as a regular member.

In October 2013, the NCUA Board issued a final rule 12 CFR Part 741, § 741.12 "Liquidity and Contingency Funding Plans," which requires federally insured credit unions with assets of $250 million or more to have access to a backup federal liquidity source for emergency situations. A credit union subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the CLF, or establishing borrowing access at the Federal Reserve Discount Window.

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular 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 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 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.

A member of CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2016, CLF had one member withdrawal request pending. As of December 31, 2015, CLF had no member withdrawal request pending.

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.

CLF's capital stock accounts were composed of the following as of December 31, 2016 and 2015 (in thousands, except share data):

	2016		**2015**	
	Shares	Amounts	Shares	Amounts
Regular members	4,798,149	$ 239,907	4,362,903	$ 218,145

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 members change quarterly. The dividend rates were $0.125 per share each quarter for 2015 and were $0.125 per share for the first quarter and $0.25 per share for the second, third and fourth quarters of 2016.

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

CLF is authorized by statute to borrow, from any source, an amount not to exceed 12 times its subscribed capital stock and surplus. As of December 31, 2016 and 2015, CLF's statutory borrowing authority was $6.1 billion and $5.6 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). NCUA maintains a note purchase agreement with FFB on behalf of CLF with a current maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, 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, 2017.

9. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and related benefits of CLF's employees, 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 total amount charged by NCUA was approximately $540.0 and $521.3 thousand, respectively, for December 31, 2016 and 2015. Accounts payable includes approximately $144.6 and $127.2 thousand, respectively, for December 31, 2016 and 2015, due to NCUA OF for services provided.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

OIG-17-04

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

TABLE OF CONTENTS

KPMG LLP
Suite 12000
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Washington, DC 20006

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of

December 31, 2016 and 2015, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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

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

KPMG LLP

February 14, 2017

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
As of December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 7,424,530	$ 8,283,455
Loans Receivable (Notes 5, 7, and 8)	10,214,722	9,364,904
Interest Receivable (Note 8)	10,212	9,495
TOTAL ASSETS	$ 17,649,464	$ 17,657,854
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 2,288,071	$ 1,954,448
Fund Balance		
Fund Capital (Note 4)	13,625,820	13,954,708
Accumulated Earnings	1,735,573	1,748,698
Total Fund Balance	15,361,393	15,703,406
TOTAL LIABILITIES AND FUND BALANCE	$ 17,649,464	$ 17,657,854

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, 2016 and 2015

	2016	2015
SUPPORT AND REVENUES		
Interest on Cash Equivalents	$ 12,738	$ 1,988
Interest on Loans	41,443	37,649
Total Interest Income	54,181	39,637
Appropriation Revenue		
Appropriations Expended (Note 4)	2,499,187	2,528,386
Cancelled Technical Assistance Grants (Note 6)	(379,691)	(518,444)
Total Appropriation Revenue	2,119,496	2,009,942
Total Support and Revenues	2,173,677	2,049,579
EXPENSES		
Technical Assistance Grants	2,574,153	2,602,004
Cancelled Technical Assistance Grants (Note 6)	(387,351)	(519,248)
Total Expenses	2,186,802	2,082,756
NET LOSS	$ (13,125)	$ (33,177)

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, 2016 and 2015

	Fund Capital				
	For Loans	**For Technical Assistance**	**Total Fund Capital**	**Accumulated Earnings**	**Total Fund Balance**
December 31, 2014	$ 13,387,777	$ 736,287	$ 14,124,064	$ 1,781,875	$ 15,905,939
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,528,386)	(2,528,386)	-	(2,528,386)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(159,414)	(159,414)	-	(159,414)
Cancelled Technical Assistance Grants (Note 6)	-	518,444	518,444	-	518,444
Net Loss	-	-	-	(33,177)	(33,177)
December 31, 2015	$ 13,387,777	$ 566,931	$ 13,954,708	$ 1,748,698	$ 15,703,406
Appropriations Received (Note 4)	-	2,000,000	2,000,000	-	2,000,000
Appropriations Expended	-	(2,499,187)	(2,499,187)	-	(2,499,187)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(209,392)	(209,392)	-	(209,392)
Cancelled Technical Assistance Grants (Note 6)	-	379,691	379,691	-	379,691
Net Loss	-	-	-	(13,125)	(13,125)
December 31, 2016	$ 13,387,777	$ 238,043	$ 13,625,820	$ 1,735,573	$ 15,361,393

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (13,125)	$ (33,177)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities		
Appropriations Expended	(2,499,187)	(2,528,386)
Cancelled Technical Assistance	379,691	518,444
Changes in Assets and Liabilities		
Increase in Interest Receivable	(717)	(4,287)
Increase in Accrued Technical Assistance	333,623	926,401
Net Cash Used in Operating Activities	(1,799,715)	(1,121,005)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	525,182	224,782
Loan Disbursements	(1,375,000)	(1,500,000)
Net Cash Used In Investing Activities	(849,818)	(1,275,218)
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2016/2017	2,000,000	-
Appropriations Received 2015/2016	-	2,000,000
Cancelled Appropriations Remitted to Treasury 2010/2011	(209,392)	-
Cancelled Appropriations Remitted to Treasury 2009/2010	-	(159,414)
Net Cash Provided by Financing Activities	1,790,608	1,840,586
NET DECREASE IN CASH AND CASH EQUIVALENTS	(858,925)	(555,637)
CASH AND CASH EQUIVALENTS — Beginning of Year	8,283,455	8,839,092
CASH AND CASH EQUIVALENTS — End of Year	$ 7,424,530	$ 8,283,455

See accompanying notes to the financial statements.

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (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 (NCUA) and the Community Services Association (CSA) jointly adopted Part 705 of NCUA Rules and Regulations, governing administration of CDRLF, on February 28, 1980.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2016 and 2015 were cash equivalents and were stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – Loans are generally limited to $300,000 per credit union, however, NCUA may make loans that exceed this amount in certain circumstances. NCUA Rules and Regulations do not provide a maximum limit on loan applications. The maximum loan term is five (5) years. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. CDRLF reviews the interest rate on an annual basis. For 2016 and 2015, the interest rate was set at 0.60%.

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

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2016 and 2015. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

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

Related Party Transactions – NCUA, through the Operating Fund (OF), provides certain general and administrative support to 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 CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because not all technical assistance grants are funded by appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

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

Income Taxes – 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 CDRLF.

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

3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deposits with U.S. Treasury	$ 3,524,530	$ 2,983,455
U.S. Treasury Overnight Securities	3,900,000	5,300,000
	$ 7,424,530	$ 8,283,455

4. GOVERNMENT REGULATIONS

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

Since inception, Congress has appropriated $13,387,777 for the revolving loan component of the program, and this component is governed by Part 705 of NCUA Rules and Regulations.

During the year ended December 31, 2016, CDRLF received an appropriation for technical assistance grants in the amount of $2,000,000 for the Federal fiscal year (FY) 2016. This is a multiyear appropriation that is available for obligation through September 30, 2017. Of this amount, $1,873,479 was expended for the year ended December 31, 2016. An additional $625,708, was expended from the FY 2015 appropriation.

During the year ended December 31, 2015, CDRLF received an appropriation for technical assistance grants in the amount of $2,000,000 for FY 2015. This was a multiyear appropriation that was available for obligation through September 30, 2016. Of this amount, $1,651,056 was expended for the year ended December 31, 2015. An additional $877,330 was expended from the FY 2014 appropriation.

Appropriated funds in the amount of $209,392 from the FY 2010 appropriation were remitted to the U.S. Treasury in 2016 upon cancellation. Appropriated funds in the amount of $159,414 from the FY 2009 appropriation were remitted to the U.S. Treasury in 2015 upon cancellation.

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

5. LOANS RECEIVABLE

Loans receivable as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
Balance as of the Beginning of the Year	$ 9,364,904	$ 8,089,686
Loans Disbursed	1,375,000	1,500,000
Loan Repayments	(525,182)	(224,782)
Bad Debt Expense	-	-
Loans Receivable as of the End of the Year	10,214,722	9,364,904
Changes in the Allowance for Loan Losses Consisted of the Following:		
Balance as of the Beginning of the Year	-	-
Decrease (increase) in the Allowance	-	-
Allowance for Loan Losses as of the End of the Year	-	-
Loans Receivable, Net, as of the End of the Year	$ 10,214,722	$ 9,364,904

Loans outstanding as of December 31, 2016, are scheduled to be repaid during the following subsequent years:

	2016
2017	$ 2,499,723
2018	309,999
2019	4,530,000
2020	1,500,000
2021	1,375,000
Total Loans Receivable	$ 10,214,722

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

6. CANCELLED TECHNICAL ASSISTANCE GRANTS

During 2016, CDRLF cancelled $7,660 of technical assistance grants awarded from the revolving fund and $379,691 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $379,691 was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2015, CDRLF cancelled $804 of technical assistance grants awarded from the revolving fund and $518,444 of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2011 through 2015 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

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

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $3,424,723 and $3,549,723 as of December 31, 2016 and 2015, respectively. The decrease in FY 2016 is primarily due to the payoff of one loan over $250,000.

8. FAIR VALUE MEASUREMENTS

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

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

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

The following table presents the carrying value amounts and established fair values of CDRLF's financial instruments as of December 31, 2016 and 2015.

	2016		2015	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and Cash Equivalents	$ 7,424,530	$ 7,424,530	$ 8,283,455	$ 8,283,455
Loans Receivable	10,214,722	10,224,809	9,364,904	9,374,039
Interest Receivable	10,212	10,212	9,495	9,495
Liabilities				
Accrued Technical Assistance Grants	2,288,071	2,288,071	1,954,448	1,954,448

9. RELATED PARTY TRANSACTIONS

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

For the years ending December 31, 2016 and 2015, NCUA, through the OF, provided the following unreimbursed administrative support to CDRLF:

	2016	2015
Employee	$ 499,287	$ 321,027
Other	83,445	53,364
Total	$ 582,732	$ 374,391

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2017, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.