



December 1988

# FINANCIAL AUDIT

## National Credit Union Administration's FY 1987 and 1986 Financial Statements





**United States  
General Accounting Office  
Washington, D.C. 20548**

**Comptroller General  
of the United States**

B-202052

December 21, 1988

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our review of the independent certified public accountant's audits of the financial statements of the National Credit Union Administration's Operating and Share Insurance funds and its Central Liquidity Facility for the periods ending September 30, 1987 and 1986. In the auditor's opinion, the statements of the National Credit Union Administration's Operating and Share Insurance funds and the Central Liquidity Facility are fairly presented. The independent auditor's reports on the Administration's internal accounting controls and on its compliance with laws and regulations are also provided.

The Federal Credit Union Act of 1934, as amended, (12 U.S.C. 1751 et seq.) established the National Credit Union Administration as an independent agency of the executive branch. The Administration regulates and insures federally chartered credit unions and insures state-chartered credit unions which apply and qualify for insurance. To accomplish this, it administers the three funds which provide support services to all federally insured credit unions: the Operating and Share Insurance funds and the Central Liquidity Facility. The Operating Fund is a revolving fund that provides administrative services to the credit union system. The Share Insurance Fund is a revolving fund created to insure member accounts in all federal credit unions and qualifying state credit unions. The Central Liquidity Facility is a mixed-ownership government corporation established to meet the cash flow needs of member credit unions. Additional information on the organization and purpose of the funds and the Central Liquidity Facility is provided in the notes to the financial statements, which are included in this report.

The Administration contracted with an independent certified public accounting firm, Price Waterhouse, to perform, in accordance with generally accepted government auditing standards, financial and compliance audits of the fiscal year 1987 and 1986 financial statements of the National Credit Union Administration's Operating and Share Insurance funds and its Central Liquidity Facility. Our reviews of the audits were made under provisions of the Federal Credit Union Act of 1934 (12 U.S.C. 1752a(f), 1789(b) (2), and 1795h), which authorize us to audit

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the Administration's financial transactions consistent with the principles and procedures applicable to commercial corporate transactions. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our resources, we reviewed the independent auditor's work and reports.

We conducted our review of the auditor's work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditor's work and the extent to which we could rely on it, we

- reviewed the auditor's approach and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of the audit quality control methods the auditor used, (3) whether a study and evaluation was conducted of the entity's internal accounting controls, (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditor's opinion on the financial statements and internal accounting controls and compliance reports.

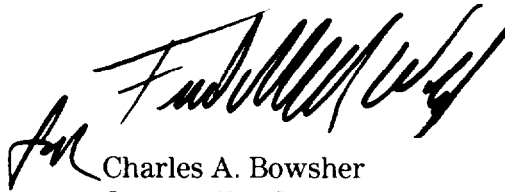
In the opinion of Price Waterhouse, the financial statements of the National Credit Union Administration's Operating and Share Insurance funds and its Central Liquidity Facility present fairly their financial positions as of September 30, 1987 and 1986, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles. Also, Price Waterhouse's reports to the Administration on internal accounting controls and on compliance with laws and regulations did not disclose any material internal control weaknesses or noncompliance with laws and regulations.

During our review, we found nothing to indicate that Price Waterhouse's opinions on the fiscal year 1987 and 1986 financial statements of the National Credit Union Administration's Operating and Share Insurance funds and the Central Liquidity Facility are inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditor's reports on internal accounting controls and on compliance with laws and regulations are inappropriate or cannot be relied on.

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We believe that the financial statements, together with Price Waterhouse's opinions and our review of that work, provide the Congress with a dependable basis for overseeing the financial position of the National Credit Union Administration's Operating and Share Insurance funds and its Central Liquidity Facility. This report presents the financial statements and the auditor's opinions thereon.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the National Credit Union Administration.

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is written in a cursive style with a large initial "C" and "B".

Charles A. Bowsher  
Comptroller General  
of the United States

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# Operating Fund

## Auditor's Opinion

1401 K Street, N.W.  
Washington, D.C. 20004

Telephone 202/296-0500

*Price Waterhouse*



November 13, 1987

Board of Directors  
National Credit Union Administration

In our opinion, the accompanying balance sheets and the related statements of revenue, expenses and changes in fund balance and of changes in financial position present fairly the financial position of the National Credit Union Administration-Operating Fund at September 30, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, in the method of accounting for operating fee revenues made as of October 1, 1985, as described in Note B to the financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*

Operating Fund

Auditor's Report on Internal Accounting Controls

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 13, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Operating Fund

We have examined the financial statements of the National Credit Union Administration Operating Fund (the Fund) for the year ended September 30, 1987 and have issued our report thereon, dated November 13, 1987. As part of our examination, we made a study and evaluation of the Fund's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. Our study and evaluation of the system of internal accounting control included all of the Fund's significant control systems:

- o Investment purchases and maturities
- o Operating fee collections
- o Cash disbursements
- o Payroll
- o Call report and financial performance report systems

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Fund is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions



Operating Fund

November 13, 1987  
To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Operating Fund  
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are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Fund taken as a whole. However, our study and evaluation disclosed no condition which we believe to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose.

*Prisc Waterhouse*

Operating Fund

Auditor's Report on Compliance With Laws and Regulations

1501 K Street, N.W.  
Washington, D.C. 20006

Telephone: (202) 462-2400

*Price Waterhouse*



November 13, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Operating Fund

We have examined the financial statements of the National Credit Union Administration Operating Fund (the Fund) for the year ended September 30, 1987 and have issued our report thereon, dated November 13, 1987. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. It included tests for compliance with material terms and conditions of Title I of the Federal Credit Union Act, as amended in August 1987.

Our testing was performed on the following significant transactions systems:

- o Investment purchases and maturities
- o Operating fee collections
- o Cash disbursements
- o Payroll

Based on our examination, we found that for the items tested, the Fund complied with the material terms and conditions of the Federal Credit Union Act and the applicable rules and regulations. Nothing came to our attention which would lead us to believe that transactions not tested did not comply with the terms and conditions of the Federal Credit Union Act and the applicable rules and regulations in all material respects.

This letter does not comprehend matters of a legal nature or matters which do not relate to the financial and accounting functions of the Fund. Furthermore, this report is intended solely for the use of management and should not be used for any other purpose.

*Price Waterhouse*

**Operating Fund**

**Balance Sheets**

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
<b>Assets</b>		
Cash	\$ 14,930	\$ 5,450
Investments (Note B and C)	3,224,282	5,965,000
Due from National Credit Union Administration - Share Insurance Fund (Note D)	2,478,899	929,350
Employee advances	575,659	163,656
Other accounts receivable	89,677	100,876
Prepaid expenses	129,797	120,244
Furniture and equipment, net of accumulated depreciation of \$3,400,755 and \$2,702,088	5,014,693	588,144
Leasehold improvements, net of accumulated amortization of \$13,116	218,459	
Total assets	<u>\$11,746,396</u>	<u>\$7,872,720</u>
<b>Liabilities and Fund Balance</b>		
Accounts payable	\$ 3,083,596	\$1,354,267
Accrued wages and benefits	1,463,814	1,097,665
Accrued annual leave	2,238,160	1,915,846
Accrued employee travel	964,040	317,010
Total liabilities	<u>7,749,610</u>	<u>4,684,788</u>
<b>Fund balance:</b>		
Available for operations	(610,715)	2,599,788
Invested in fixed assets, net	4,607,501	588,144
Total fund balance	<u>3,996,786</u>	<u>3,187,932</u>
Total liabilities and fund balance	<u>\$11,746,396</u>	<u>\$7,872,720</u>

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

Operating Fund

Statements of Revenue, Expenses, and Changes in Fund Balance

	<u>Year ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
<b>Revenue</b>		
Operating fee revenue	\$21,162,842	\$16,934,295
Investment income	755,853	725,005
Miscellaneous income	269,768	345,625
Total revenue	<u>22,188,463</u>	<u>18,004,925</u>
<b>Expenses</b>		
Employee wages and benefits	14,070,751	11,653,342
Travel expense	2,894,044	1,852,982
Rent, communications, and utilities	1,833,043	1,775,370
Contracted services	867,486	749,388
Other administrative	1,714,285	976,823
Total administrative expenses	<u>21,379,609</u>	<u>17,007,905</u>
Excess of revenue before cumulative effect of change in accounting principle	808,854	997,020
Cumulative effect on prior years of changing to a different revenue recognition policy (Note B)		3,510,501
Excess of revenue	808,854	4,507,521
Fund balance (deficit) at beginning of year	3,187,932	(1,319,589)
Fund balance at end of year	<u>\$ 3,996,786</u>	<u>\$ 3,187,932</u>

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

Operating Fund

Statements of Changes in Financial Position

	<u>Year ended September 30,</u>	
	<u>1967</u>	<u>1966</u>
Cash and investments were provided by:		
Operations:		
Excess of revenue	\$ 808,854	\$ 4,507,521
Items not affecting cash:		
Depreciation and amortization	784,493	337,729
Loss on disposition of fixed assets	3,727	
Decrease (increase) in:		
Other accounts receivable	11,199	18,723
Due from NCUA-Insurance Fund	(1,549,549)	(579,424)
Prepaid expenses	(9,553)	4,102
Increase (decrease) in:		
Accounts payable	1,729,329	844,694
Accrued wages and benefits	366,149	272,577
Accrued annual leave	322,314	338,680
Accrued employee travel	647,030	131,190
Deferred operating revenue		(3,510,501)
Cash and investments provided by operations	<u>3,113,993</u>	<u>2,365,291</u>
Cash and investments were used for:		
Purchases of furniture and equipment and leasehold improvements	5,433,228	102,385
Employee advances	412,003	140,700
Total uses of cash and investments	<u>5,845,231</u>	<u>243,085</u>
(Decrease) increase in cash and investments	<u>(2,731,238)</u>	<u>2,122,206</u>
Cash and investments - beginning of year	5,970,450	3,848,244
Cash and investments - end of year	<u>\$ 3,239,212</u>	<u>\$ 5,970,450</u>
Composed of:		
Cash	\$ 14,930	\$ 5,450
Investments	3,224,282	5,965,000
Total cash and investments	<u>\$ 3,239,212</u>	<u>\$ 5,970,450</u>

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

Operating Fund

Notes to Financial Statements

SEPTEMBER 30, 1987

Note A - 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 Board for the purpose of providing administration and service to the Federal Credit Union System.

Note B - Significant Accounting Policies

Investments

The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Depreciation and Amortization

Furniture and equipment and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements.

Deferred Operating Fee Revenue

The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding June 30. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. Prior to fiscal year 1986, fees were recognized as revenue ratably during the calendar year in which they were assessed. Fees assessed but not yet recognized as revenue were classified as deferred revenue.

In fiscal year 1986, the Fund changed the manner in which it accounts for operating fee revenue. Operating fees are now recognized on a fiscal year (as opposed to calendar year) basis. This change was made in order to better match the recognition of such fees with the annual budgeted fiscal year expenditure upon which such fees are based.

**Operating Fund**

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The effect in fiscal year 1986 was to increase operating fee revenue, by approximately \$723,000. The adjustment of \$3,510,501 to record the cumulative effect on prior years of the new policy is included in income in fiscal year 1986.

Income Taxes

The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Note C - Investments

All cash received by the fund which is not used to defray operating expenses is invested in U.S. Treasury Securities.

As of September 30, 1987 and 1986, the Fund's investment portfolio consisted of the following:

	<u>1987</u>		<u>1986</u>	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasury Securities:				
Overnight funds	\$1,223,000	\$1,223,000	\$5,965,000	\$5,965,000
Maturities less than one year	2,001,282	1,999,098		
Total	<u>\$3,224,282</u>	<u>\$3,222,098</u>	<u>\$5,965,000</u>	<u>\$5,965,000</u>

Note D - Transactions with the National Credit Union Administration - Share Insurance Fund (NCUSIF)

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by NCUA's Board of Directors derived from an estimate of actual usage. The cost of these services, which totaled \$21,379,609 and \$16,821,936 for the years ended September 30, 1987 and 1986, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Note E - Commitments

The Fund leases certain office space under an agreement which expires in November 1994. The agreement provides for annual rent adjustments based on increases in the consumer price index. In addition, the Fund leases certain office equipment under operating leases. Rental charges for the years ended September 30, 1987 and 1986 amounted to \$1,893,700 and \$1,889,600 of which \$946,850 and \$944,800 was reimbursed by NCUSIF.

Operating Fund

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The future minimum lease payments as of September 30, 1987, are as follows:

1988	\$ 980,000
1989	980,000
1990	997,000
1991	1,001,000
1992	1,001,000
Thereafter	2,169,000
	<u>\$7,128,000</u>

Based on the allocation factor approved by the NCUA Board of Directors for fiscal year 1988, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

Note F - Retirement Plan

Certain employees of the Fund hired before January 1, 1984 participate in the Civil Service Retirement System which is a defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the years ended September 30, 1987 and 1986 were \$1,474,452 and \$1,358,175 of which \$737,226 and \$679,087 was reimbursed by NCUSIF, respectively.

During 1987, the Federal Employees Retirement System (FERS) was implemented. This is a defined contribution retirement plan and is comprised of a Social Security Benefits Plan, a Basic Benefit Plan and a Savings Plan and is mandatory for all employees hired on or after January 1, 1984. Employees hired before January 1, 1984 have until December 31, 1987 the option to elect to transfer coverage from the Civil Service Retirement System. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan employees can also elect additional contributions between one and ten percent of their gross pay and the NCUA will match up to five percent of the employee elected contribution. Pension contributions for the year ended September 30, 1987 were \$396,647 of which \$198,324 was reimbursed by NCUSIF.



# Share Insurance Fund

## Auditor's Opinion

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 13, 1987

Board of Directors  
National Credit Union Administration

In our opinion, the accompanying balance sheets and the related statements of operations, of insured credit union accumulated contributions and fund balance, and of changes in financial position present fairly the financial position of the National Credit Union Share Insurance Fund at September 30, 1987 and 1986 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Government Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*

Auditor's Report on Internal Accounting Controls

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 13, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union  
Share Insurance Fund

We have examined the financial statements of the National Credit Union Share Insurance Fund (the Fund) for the year ended September 30, 1987 and have issued our report thereon dated November 13, 1987. As part of our examination, we made a study and evaluation of the NCUSIF's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. Our study and evaluation of the system of internal accounting control included all of the NCUSIF's significant control systems:

- o Investment purchases and maturities
- o Capital contribution collections
- o Disbursements to shareholders for liquidated credit unions
- o Loss reserve additions, payments and recoveries
- o Cash disbursements
- o Payroll
- o Call report and financial performance report systems

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Share Insurance Fund

November 13, 1987  
To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Share Insurance Fund  
Page 2



The management of the Fund is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Fund taken as a whole. However, our study and evaluation disclosed no condition which we believe to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose.

*Prisc Waterhouse*

Share Insurance Fund

Auditor's Report on Compliance With Laws and Regulations

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 13, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union  
Share Insurance Fund

We have examined the financial statements of the National Credit Union Share Insurance Fund (the Fund) for the year ended September 30, 1987 and have issued our report thereon, dated November 13, 1987. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. It included tests for compliance with material terms and conditions of Title II of the Federal Credit Union Act, as amended in August 1987.

Our testing was performed on the following significant transactions systems:

- o Investment purchases and maturities
- o Capital contribution collections
- o Disbursements to shareholders for liquidated credit unions
- o Loss reserve, additions, payments and recoveries
- o Cash disbursements
- o Payroll

Based on our examination, we found that for the items tested, the Fund complied with the material terms and conditions of the Federal Credit Union Act and the applicable rules and regulations. Nothing came to our attention which would lead us to believe that transactions not tested did not comply with the terms and conditions of the Federal Credit Union Act and the applicable rules and regulations in all material respects.

Share Insurance Fund

November 13, 1987  
To the Board of the National Credit  
Union Administration and the  
National Credit Union  
Share Insurance Fund  
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This letter does not comprehend matters of a legal nature or matters which do not relate to the financial and accounting functions of the Fund. Furthermore, this report is intended solely for the use of management and should not be used for any other purpose.

*Price Waterhouse*

**Share Insurance Fund**

**Balance Sheets**

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
<b>Assets</b>		
Investments (Notes B and E)	\$1,595,809,668	\$1,398,007,545
Advances to insured credit unions:		
Non-interest bearing capital notes	5,031,228	20,338,657
Share deposits		2,057,081
	<u>5,031,228</u>	<u>22,395,738</u>
Assets acquired in assistance to insured credit unions:		
Liquidating and acquired credit union assets	76,357,080	31,122,969
Receivers certificate		470,956
Allowance for losses on acquired assets	(20,378,000)	(1,500,000)
	<u>55,979,080</u>	<u>30,093,925</u>
Cash	5,390,829	67,255
Accrued interest receivable	32,996,462	22,011,193
<b>Total assets</b>	<u><u>\$1,695,207,267</u></u>	<u><u>\$1,472,575,656</u></u>
<b>Liabilities and Fund Capitalization</b>		
Due to NCUA-Operating Fund (Note G)	\$ 2,478,899	\$ 929,350
Amounts due to insured shareholders of liquidated credit unions	34,071,129	7,967,949
Estimated losses from supervised credit unions (Note C)	53,221,000	48,600,000
Estimated losses from asset and merger guarantees (Note C)	3,041,000	3,273,000
Other liabilities	144,733	414,615
<b>Total liabilities</b>	<u>92,956,761</u>	<u>61,184,914</u>
<b>Fund capitalization</b>		
Accumulated contributions from insured credit unions (Note D)	1,263,991,374	1,108,679,220
Insurance fund balance	338,259,132	302,711,522
<b>Total fund capitalization</b>	<u>1,602,250,506</u>	<u>1,411,390,742</u>
<b>Total liabilities and fund capitalization</b>	<u><u>\$1,695,207,267</u></u>	<u><u>\$1,472,575,656</u></u>

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

Share Insurance Fund

Statements of Operations

	Year ended September 30,	
	1987	1986
Revenue		
Interest income	\$112,406,501	\$121,079,440
Other income	339,285	346,414
Total revenue	<u>112,745,786</u>	<u>121,425,854</u>
Expenses		
Administrative expenses (Note G)		
Employee wages and benefits	14,070,748	11,467,382
Travel expense	2,894,044	1,852,979
Rent, communications, and utilities	1,833,044	1,775,370
Contracted services	867,486	749,387
Other administrative	1,800,854	976,818
Total administrative expenses	<u>21,466,176</u>	<u>16,821,936</u>
Provision for insurance losses	55,732,000	37,864,000
Total expenses	<u>77,198,176</u>	<u>54,685,936</u>
Excess of revenue	<u>\$ 35,547,610</u>	<u>\$ 66,739,918</u>

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

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Share Insurance Fund

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Statements of Insured Credit Union Accumulated Contributions and Fund Balance

	<u>Insured Credit Union Accumulated Contributions</u>	<u>Fund Balance</u>
Balance at September 30, 1985	\$ 683,384,003	\$235,971,604
Contributions from insured credit unions	225,295,217	
Excess of revenue		<u>66,739,918</u>
Balance at September 30, 1986	\$1,108,679,220	\$302,711,522
Contributions from insured credit unions	155,312,154	
Excess of revenue		<u>35,547,610</u>
Balance at September 30, 1987	<u>\$1,263,991,374</u>	<u>\$338,259,132</u>

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



Share Insurance Fund

Statements of Changes in Financial Position

	Year ended September 30,	
	1987	1986
Cash and investments were provided by:		
Operations:		
Excess of revenue over expenses	\$ 35,547,610	\$ 66,739,918
Charge (credits) to revenue or expenses not affecting cash and investments:		
Provision for insurance losses	55,732,000	37,864,000
Accrued interest receivable	(10,985,269)	(2,571,641)
Payments relating to losses from supervised credit unions and asset and merger guarantees, net	(51,343,000)	(35,591,000)
Decrease (increase) in:		
Advances to credit unions	17,364,510	10,870,517
Assets acquired from credit unions, net	(25,885,155)	(14,646,543)
Other assets		176,332
Increase (decrease) in:		
Due to NCUA-Operating Fund	1,549,549	579,424
Amounts due to insured shareholders of liquidated credit unions	26,103,180	(1,507,383)
Other liabilities	(269,882)	46,130
Cash and investments provided by operations	47,813,543	61,959,554
Other sources of cash and investments		
Increase in contributions from insured credit unions	155,312,154	225,295,217
Total	203,125,697	287,254,771
Cash and investments were used for:		
Dividends paid		(29,509,140)
Increase in cash and investments	203,125,697	257,745,631
Cash and investments at beginning of year	1,398,074,800	1,140,329,169
Cash and investments at end of year	\$1,601,200,497	\$1,398,074,800
Composed of:		
Cash	\$ 5,390,829	\$ 67,255
Investments	1,595,809,668	1,398,007,545
	\$1,601,200,497	\$1,398,074,800

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

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Share Insurance Fund

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Notes to Financial Statements

SEPTEMBER 30, 1987

Note A - Organization and Purpose

The National Credit Union Share Insurance Fund (the Fund) was created by Public Law 91-468 (Title II of the Federal Credit Union Act) which was amended in 1984 by Public Law 98-369 as discussed in Note D. The Fund was established as a revolving fund in the Treasury of the United States under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder.

NCUA exercises direct supervisory authority over federal credit unions and coordinates any required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semi-annual basis and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctible. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined to be infeasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, the credit union is liquidated.

The first form of special assistance are waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes or may purchase assets from the credit union.

## Share Insurance Fund

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Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not considered practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are at times guaranteed to third-party purchasers by the Fund.

### Note B - Significant Accounting Policies

#### Investments

Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

#### Advances to Credit Unions

The Fund provides cash assistance in the form of non-interest bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing operations.

#### Assets Acquired from Credit Unions

The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. In addition, to assist in the merger of credit unions, the Fund may purchase certain credit union assets. Such assets acquired are recorded at their estimated net realizable value.

#### Insurance Premium Revenue

Through fiscal year 1986, the Fund could assess each insured credit union a regular annual premium of 1/12 of 1% of member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31 of the preceding year. Effective for fiscal year 1987, insurance premiums may be assessed on member share deposits outstanding as of June 30 (as opposed to December 31) of the preceding fiscal year. The NCUA Board waived the 1986, 1987 and 1988 share insurance premium.

#### Income Taxes

The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Share Insurance Fund

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Note C - Provision for Insurance Losses

Management identifies credit unions experiencing financial difficulty through the supervisory and examination process. The estimated losses from these supervised credit unions are determined by management based on a case-by-case evaluation.

In exercising its supervisory function, the Fund at times will extend guarantees of assets (primarily loans) to third party purchasers or to credit unions to facilitate mergers; such guarantees totaled \$5,572,000 and \$4,900,000 at September 30, 1987 and 1986, respectively. The estimated losses from asset and merger guarantees are determined by management based on a case-by-case evaluation.

The activity in the reserve for estimated losses from supervised credit unions and asset and merger guarantees for the years ended September 30, 1987 and 1986 was as follows:

	<u>Years ended September 30,</u>	
	<u>1987</u>	<u>1986</u>
Beginning balance	\$ 51,873,000	\$ 49,600,000
Provision for insurance losses	55,732,000	37,864,000
Insurance losses and transfers to the allowance for losses on acquired assets	(61,108,000)	(42,483,000)
Recoveries	9,765,000	6,892,000
Ending balance	<u>\$ 56,262,000</u>	<u>\$ 51,873,000</u>

Note D - Fund Capitalization

Title VIII of Public Law 98-369, effective July 14, 1984, provided for the capitalization of the Fund through the contribution by each insured credit union of an amount equal to 1% of the credit union's insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. Effective for fiscal year 1987 the annual adjustment of the contribution is based on member share deposits outstanding as of June 30 (as opposed to December 31) of the preceding fiscal year. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, insurance coverage is obtained from another source, or the operations of the Fund are transferred from the NCUA Board. The aggregate contribution of \$1,263,991,374 at September 30, 1987, consists of \$1,180,118,351 of insured credit union accumulated contributions and \$83,873,023 of the previously accumulated fund balance which was designated by the NCUA Board as a component of credit union accumulated contributions.

The law requires that upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level to be determined by the NCUA Board. The NCUA Board has determined this level to be 1.3% of insured shares. The NCUA Board did not declare any dividends during 1986 or 1987.

Share Insurance Fund

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**Note E - Investments**

All cash received by The Fund which is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

As of September 30, 1987 and 1986, The Fund's investment portfolio consisted of the following:

	1987		1986	
	Book Value	Market Value	Book Value	Market Value
<b>U.S. Treasury Securities</b>				
Overnight funds	\$ 52,302,000	\$ 52,302,000	\$ 367,448,000	\$ 367,448,000
Maturities up to one year	457,730,188	457,556,250	431,150,666	436,116,000
Maturities over one year	1,085,777,480	1,064,484,375	599,408,879	614,325,000
	<u>\$1,595,809,668</u>	<u>\$1,574,342,625</u>	<u>\$1,398,007,545</u>	<u>\$1,417,889,000</u>

**Note F - Available Borrowings**

The Fund is authorized under the Federal Credit Union Act to borrow from the Treasury of the United States upon authorization by the NCUA Board to a maximum of \$100,000,000 outstanding at any one time. The Central Liquidity Facility of NCUA is authorized to make advances to the Fund under such terms and conditions as may be established by the NCUA Board. No amounts were borrowed from these sources during 1987 or 1986.

**Note G - Transactions with NCUA-Operating Fund**

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. NCUA charges the Fund for these services based on an annual allocation factor approved by the NCUA's Board of Directors derived from a study conducted by the Funds of actual usage. The cost of services provided by the NCUA Operating Fund was \$21,379,609 and \$16,821,936 for 1987 and 1986, respectively, and includes pension contributions of \$737,226 and \$679,087 for 1987 and 1986, respectively, to the Civil Service Retirement System and pension contributions of \$198,324 for 1987 to the Federal Employees Retirement System. Both are defined contribution retirement plans.

The NCUA Operating Fund leases certain office space under an agreement which expires in November 1994, which provides for annual rent adjustments based on increases in the consumer price index. The future minimum aggregate lease payments through expiration of the lease are \$7,128,000 at September 30, 1987. The cost of services provided by the NCUA Operating Fund includes rental charges of \$946,850 and \$944,800 for 1987 and 1986, respectively. The amounts were derived using the current annual allocation factor.

# Central Liquidity Facility

## Auditor's Opinion

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 2, 1987

To the Board of the National Credit  
Union Administration and  
the National Credit Union Administration  
Central Liquidity Facility

In our opinion, the accompanying balance sheets and the related statements of operations and retained earnings and of changes in financial position present fairly the financial position of the National Credit Union Administration Central Liquidity Facility at September 30, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse*

Auditor's Report on Internal Accounting Controls

1801 K Street, N.W.  
Washington, D.C. 20006

Telephone 202 296 0800

*Price Waterhouse*



November 2, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility

We have examined the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) for the year ended September 30, 1987 and have issued our report thereon dated November 2, 1987. As part of our examination, we made a study and evaluation of the CLF's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. Our study and evaluation of the system of internal accounting control included all of the CLF's significant control systems:

- o Investment placements and maturities
- o Loan grants and collections
- o Notes payable, borrowings and repayments
- o Capital and liquidity reserve additions and withdrawals

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the CLF is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss

Central Liquidity Facility

November 2, 1987  
To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility  
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from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the CLF taken as a whole. However, our study and evaluation disclosed no condition which we believe to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose.

*Price Waterhouse*



Auditor's Report on Compliance With Laws and Regulations

1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



November 2, 1987

To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility

We have examined the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) for the year ended September 30, 1987 and have issued our report thereon, dated November 2, 1987. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. Comptroller General in 1981. It included tests for compliance with material terms and conditions of Title III of the Federal Credit Union Act, as amended to August 1987 and Part 725 of the Rules and Regulations of the National Credit Union Administration Board of Directors as amended to July 1985, which we believe have financial significance to the CLF.

Our testing was performed on the following significant transaction systems:

- o Investment placements and maturities
- o Loan grants and collections
- o Notes payable, borrowings and repayments
- o Capital and liquidity reserve additions and withdrawals

Based on our examination, we found that for the items tested, the CLF complied with the material terms and conditions of the Federal Credit Union Act and the applicable rules and regulations indicated above. Nothing came to our attention which would lead us to believe that transactions not tested did not comply with the terms and conditions of the Federal Credit Union Act and the applicable rules and regulations in all material respects.

Central Liquidity Facility

November 2, 1987  
To the Board of the National Credit  
Union Administration and the  
National Credit Union Administration  
Central Liquidity Facility  
Page 2



This letter does not comprehend matters of a legal nature or matters which do not relate to the financial and accounting functions of the CLF. Furthermore, this report is intended solely for the use of management and should not be used for any other purpose.

*Prisc Waterhouse*

Central Liquidity Facility

Balance Sheets

(Expressed in thousands of dollars)

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
<u>ASSETS</u>		
Cash	\$ 6	\$ 4
Investments	363,197	298,902
Loans to members	111,544	105,550
Accrued interest receivable	6,746	4,574
	<u>\$481,493</u>	<u>\$409,030</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities		
Notes payable	\$111,394	\$104,050
Member deposits	14,083	16,389
Accrued interest payable	1,347	769
Accounts payable and other liabilities	139	110
	<u>126,963</u>	<u>121,318</u>
Equity		
Capital stock - required	347,736	281,508
Retained earnings	6,794	6,204
	<u>354,530</u>	<u>287,712</u>
Commitments		
	<u>\$481,493</u>	<u>\$409,030</u>

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

Central Liquidity Facility

Statements of Operations and Retained Earnings

(Expressed in thousands of dollars)

	Year ended September 30,	
	1987	1986
<b>Income</b>		
Interest on loans	\$ 5,894	\$12,824
Income from investments	19,884	19,074
Other	73	288
<b>Total income</b>	<u>25,851</u>	<u>32,186</u>
<b>Expenses</b>		
Personnel services	215	167
Personnel benefits	32	19
Employee travel	22	10
Rent, communications and utilities	63	50
Printing and reproduction	10	1
Other services	68	93
Agent commitment fee	384	382
Supplies and materials	3	2
<b>Total operating expenses</b>	<u>797</u>	<u>724</u>
<b>Interest</b>		
Federal Financing Bank	5,722	12,416
Member deposits	695	676
<b>Total expenses</b>	<u>7,214</u>	<u>13,816</u>
<b>Net income</b>	18,637	18,370
<b>Dividends to members</b>	18,047	17,402
<b>Addition to retained earnings</b>	590	968
<b>Retained earnings at beginning of period</b>	6,204	5,236
<b>Retained earnings at end of period</b>	<u>\$ 6,794</u>	<u>\$ 6,204</u>

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

Central Liquidity Facility

Statements of Changes in Financial Position

(Expressed in thousands of dollars)

	Year ended September 30,	
	1987	1986
Cash and investments were provided by:		
Operations		
Net income	\$ 18,637	\$ 18,370
Issuance of required capital stock	68,005	32,732
Addition to member deposits	19,663	21,689
Borrowings	483,376	677,839
Loan repayments	470,783	789,143
Total cash and investments provided	1,060,464	1,539,773
Cash and investments were used for:		
Redemption of required capital stock	1,777	2,714
Withdrawal of member deposits	21,969	19,222
Dividends	18,047	17,402
Borrowing repayments	476,032	795,958
Loan disbursements	476,777	672,524
Other, net	1,565	(2,193)
Total cash and investments used	996,167	1,505,627
Increase in cash and investments	\$ 64,297	\$ 34,146

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

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Central Liquidity Facility

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Notes to Financial Statements

SEPTEMBER 30, 1987 AND 1986

Note 1 - Organization and Purpose

The National Credit Union Administration Central Liquidity Facility ("the CLF") was created by the National Credit Union Central Liquidity Facility Act ("the Act"). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. It exists within the National Credit Union Administration (NCUA) and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax exempt organization under Section 501(c) of the Internal Revenue Code.

Note 2 - Significant Accounting Policies

Basis of Accounting

The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses

Loans to members are made on both a short-term and long-term basis. The CLF obtains a security interest in the assets of the borrower on all loans and in some cases the CLF receives the guarantee of the NCUA Share Insurance Fund.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

No allowance for loan losses was considered necessary at September 30, 1987 and 1986.

## Central Liquidity Facility

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### Investments

The CLF invests in members' share accounts (see Notes 5 and 8). All of the CLF's other investments are short-term with no maturities in excess of one year. These investments are recorded at cost, which approximates market value.

### Note 3 - Government Regulations

The CLF was created by the Act and is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in federally insured financial institutions and shares and deposits in credit unions. Borrowing is limited to the lesser of \$594 million or twelve times equity and capital subscriptions on-call. At September 30, 1987 and 1986, the CLF was in compliance with these limitations.

### Note 4 - Loans to Members

During 1987 loans were made only to member credit unions. These loans carry interest rates which ranged from 6.29% to 8.00% at September 30, 1987 (5.510% to 6.453% at September 30, 1986). The loans outstanding at September 30, 1987 are scheduled to mature during fiscal year 1988 (the loans outstanding at September 30, 1986 matured during fiscal year 1987). Included in loans to members at September 30, 1987 and 1986 are loans to U.S. Central Corporate Credit Union in its capacity as agent of the CLF (see Note 8) in the amount of \$110,394,000 and \$104,050,000, respectively.

The CLF has also provided members with extended loan commitments through 1988. Outstanding commitments at September 30, 1987 and 1986 were approximately \$32,000,000. The CLF instituted lines of credit to members during fiscal year 1987. As of September 30, 1987, lines of credit totaling \$38,455,000 had been authorized; however, no advances had been made against these lines.

The CLF instituted lines of credit for state insurance corporations during fiscal year 1985. Advances against these lines would be non-revolving and fully secured by a senior perfected security interest in negotiable, marketable securities acceptable to the CLF. As of September 30, 1987, no advances had been made against the lines and all existing lines expired on that date. Subsequent to September 30, 1987, lines of credit totaling \$19 million have been authorized. Each line of credit calls for a commitment fee of 1/4 of 1 percent per annum (3/8 of 1 percent per annum in fiscal year 1986).

Central Liquidity Facility

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Note 5 - Investments

Funds not currently required for operations are invested as follows (dollars in thousands):

	<u>September 30,</u>	
	<u>1987</u>	<u>1986</u>
U.S. Central (see Note 8)		
Redeposits	\$286,000	\$218,000
Share accounts	17,197	20,902
Time deposits	60,000	60,000
	<u>\$363,197</u>	<u>\$298,902</u>

Note 6 - Notes Payable

All of the CLF's borrowings have been from the Federal Financing Bank. The interest rates on these obligations are fixed and range from 5.985% to 6.915% at September 30, 1987 (5.385% to 6.305% at September 30, 1986). Interest is generally payable upon maturity. The notes outstanding at September 30, 1987 are scheduled to mature during fiscal year 1988 (the notes outstanding at September 30, 1986 matured during fiscal year 1987).

The Secretary of the Treasury is authorized by the Act to lend up to \$500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, President Reagan signed PL 97-101 which provided \$100 million of permanent indefinite borrowing authority which may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions.

Note 7 - Capital Stock and Member Deposits

The required capital stock account represents subscriptions remitted to the 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 amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which amount is required to be remitted to the CLF. In both cases the



## Central Liquidity Facility

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remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

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.

### Note 8 - Membership Increase

During the year ended September 30, 1984, the CLF accepted a membership request from U.S. Central Corporate Credit Union (USC) on behalf of 29 of its corporate credit union members. At September 30, 1987 and 1986, \$291,900,000 and \$235,919,000, respectively, of the required portion of subscribed capital stock was on deposit with the CLF by USC on behalf of its member credit unions.

In addition, by accepting this membership request, the CLF is initially committed to reinvest all but \$50,000,000 of its total share capital in USC at market rates of interest. At September 30, 1987 and 1986, \$303,197,000 and \$238,902,000, respectively, were invested in USC share accounts at approximately 6.03% and 5.6% respective yields.

### Note 9 - Services Provided by the National Credit Union Administration

The National Credit Union Administration provides the CLF with miscellaneous services, data processing services, and supplies. In addition, the employees of the CLF are paid by the National Credit Union Administration. The CLF reimburses the National Credit Union Administration on a monthly basis for these items.

Total reimbursements for the years ended September 30, 1987 and 1986 amounted to approximately \$309,000 and \$236,000, respectively.

Central Liquidity Facility

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Note 10 - Pension Plan

The employees of the CLF are participants in the Civil Service Retirement Plan and the Federal Employees' Retirement System. Both plans are contributory defined benefit pension plans covering all of the employees of the CLF. The Federal Employees' Retirement System (FERS) is a defined contribution retirement plan and is comprised of a Social Security Benefits Plan, a Basic Benefit Plan and a Savings Plan and is mandatory for all employees hired on or after January 1, 1984. Employees hired before January 1, 1984 have until December 31, 1987 the option to elect to transfer coverage from the Civil Service Retirement System. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plans employees can also elect additional contributions between one and ten percent of their gross pay and the CLF will match up to five percent of the employee elected contribution. Pension expense for the years ended September 30, 1987 and 1986 was approximately \$19,000 and \$12,000, respectively.

Note 11 - Lease

The CLF leases office space jointly with the National Credit Union Administration under a non-cancellable operating lease expiring in 1994. The agreement provides for annual rent adjustments based on increases in the consumer price index. Under the terms of this lease, the CLF and the National Credit Union Administration are jointly and severally liable for future minimum lease payments as of September 30, 1987, as follows (dollars in thousands):

<u>Year ended September 30,</u>	
1988	\$ 980
1989	980
1990	997
1991	1,001
1992	1,001
Thereafter	2,169
	<u>\$7,128</u>

The CLF's portion of these lease payments (rent expense) for each of the years ended September 30, 1987 and 1986 was approximately \$46,000 and \$33,000, respectively.







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