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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114831

SEP 02 1976

The Honorable Robert E. Barnett
Chairman, Board of Directors
Federal Deposit Insurance Corporation

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Dear Mr. Barnett:

We have examined the financial statements of the Federal Deposit Insurance Corporation for the year ended December 31, 1975. Our audit, required by the Federal Deposit Insurance Act (12 U.S.C. 1827), was made in accordance with generally accepted auditing standards and, with the exception of bank examination reports, included such tests of the accounting records and other auditing procedures as we considered necessary. In our examination we relied, to the extent possible, on the work of the Corporation's Financial Audit Branch.

This report is submitted according to the agreement reached between the General Accounting Office and the Corporation on September 24, 1975. This audit completes the transition required to change the audit cycle from a fiscal year to a calendar year. The report will be included as an appendix to our report to the Congress on the examination of the calendar year 1976 financial statements.

The financial statements do not show an estimate of the liability which the Corporation may incur because of future bank failures.

As in prior audits, we could not fully discharge our audit responsibilities under the Federal Deposit Insurance Act because we did not have unrestricted access to examination reports, files, and other records relating to insured banks except for the records of closed banks. Therefore, we could not determine (1) whether bank examinations were of sufficient scope and reliability to identify all banks that should have been classified as problem banks, (2) whether the Corporation had taken effective followup action on bank examiners' findings, and (3) the significance of any possible adverse effect of problem banks on the Corporation's financial position.

For these reasons we cannot express an overall opinion on the accompanying financial statements for calendar year

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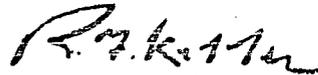
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1975. However, in our opinion, the individual amounts shown in the financial statements are fairly stated as of December 31, 1975, and for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

As you know, we have been granted access to the bank examination reports of the Corporation, as well as the Federal Reserve Board and the Comptroller of the Currency, for purposes of responding to a congressional request for a study of the effectiveness of Federal bank supervision. This study is separate from our review of the financial statements of the Corporation. It is estimated that this study will be completed in December 1976.

We have recommended in prior reports to the Congress that, to more effectively carry out our audit responsibility, the Federal Deposit Insurance Act be amended to clarify our authority to have access to all examination reports, files, and other records of the Corporation. Our position on this matter remains unchanged.

Sincerely yours,



ACTING Comptroller General
of the United States

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C o n t e n t s

Page

FINANCIAL STATEMENTS

Schedule

Federal Deposit Insurance Corporation

1	Comparative statement of financial condition, December 31, 1975, and December 31, 1974	3
2	Comparative statement of income and deposit insurance fund, calendar years ended December 31, 1975, and December 31, 1974	4
3	Statement of changes in financial position, calendar year ended December 31, 1975	5
4	Analysis of deposit insurance fund from inception to December 31, 1975	6
	Notes to financial statements	7

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FINANCIAL STATEMENTS

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SCHEDULE 1

FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 1975, AND DECEMBER 31, 1974

	December 31, 1975		December 31, 1974	
	(000 omitted)			
ASSETS				
CASH		\$ 17,359		\$ 18,857
U.S. GOVERNMENT SECURITIES:				
Securities at amortized cost (notes 1 and 4)	\$6,366,090		\$5,874,374	
Accrued interest receivable	<u>106,204</u>	6,72,294	<u>91,868</u>	5,966,242
ASSETS ACQUIRED IN RECEIVER-SHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:				
Subrogated claims of depositors against closed insured banks	65,686		53,644	
Net insured balances of depositors in closed insured banks to be subrogated when paid, see related liability	900		900	
Equity in assets acquired under agreements with insured banks (note 5)	1,790,443		2,113,341	
Corporation purchases	<u>4,477</u>		<u>4,609</u>	
Less reserves for losses	<u>1,861,506</u>	1,648,356	<u>2,172,497</u>	1,986,754
Notes purchased to facilitate deposit assumption:				
Principal (note 6)	163,000		158,000	
Accrued interest receivable	<u>3,518</u>	166,518	<u>3,445</u>	161,445
ASSISTANCE TO OPERATING INSURED BANKS:				
Principal (note 7)	37,000		37,000	
Accrued interest receivable	<u>1</u>	37,001	<u>1</u>	37,001
LAND AND OFFICE BUILDING, less depreciation on building (note 1)		6,688		6,824
MISCELLANEOUS ASSETS		<u>1,645</u>		<u>625</u>
Total assets (note 2)		<u>\$8,349,861</u>		<u>\$8,177,751</u>

The notes following schedule 4 are an integral part of this statement.

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SCHEDULE 1

	<u>December 31, 1975</u>	<u>December 31, 1974</u>
	<u>(000 omitted)</u>	
LIABILITIES AND DEPOSIT INSURANCE FUND		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 4,053	\$ 4,494
EARNST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	2,137	1,630
ACCRUED ANNUAL LEAVE OF EMPLOYEES	3,359	2,979
DUE INSURED BANKS:		
Net assessment income credits:		
Available July 1, 1975		\$ 265,433
Available July 1, 1976	\$ 362,428	
Other	<u>1,098</u>	<u>4,831</u>
	363,526	290,264
LIABILITIES INCURRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:		
Federal Reserve Bank of New York indebtedness:		
Notes payable	1,125,000	1,723,000
Accrued interest payable (note 8)	<u>134,847</u>	<u>30,291</u>
	1,259,847	1,753,291
NET INSURED BALANCE OF DEPOSITORS IN CLOSED INSURED BANKS-- See related asset	<u>900</u>	<u>903</u>
Total liabilities (notes 2 and 3)	1,633,822	2,053,561
DEPOSIT INSURANCE FUND, net income accumulated since inception (sch. 2)	<u>6,716,039</u>	<u>5,124,190</u>
Total liabilities and deposit insurance fund	<u>\$8,349,861</u>	<u>\$9,177,751</u>

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FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND
CALENDAR YEARS ENDED DECEMBER 31, 1975, AND DECEMBER 31, 1974

	<u>1975</u>		<u>1974</u>
	(000 omitted)		
INCOME:			
Deposit insurance assessments:			
Assessments earned during the year (note 1)	\$640,915		\$587,322
Less net assessment income credits to insured banks	<u>362,304</u>	\$ 278,611	<u>285,420</u> \$ 301,902
Adjustments of assessments earned in prior years		<u>318</u>	<u>44</u>
		278,929	301,946
Net income from U.S. Government securities	394,355		357,648
Less adjustment to securities income--prior years (note 9)	<u>-</u>	394,355	<u>186</u> 357,462
Interest on capital notes		15,720	-
Other income		<u>304</u>	<u>8,634</u>
Total income		<u>689,308</u>	<u>668,642</u>
EXPENSES AND LOSSES:			
Administrative and operating expenses		67,688	59,214
Provision for insurance losses:			
Applicable to banks assisted in the current year	32,577		5,625
Adjustments applicable to banks assisted in prior years	<u>-4,958</u>	27,619	<u>92,238</u> 97,863
Nonrecoverable insurance expenses incurred to protect depositors--net		<u>2,152</u>	<u>2,111</u>
Total expenses and losses		<u>97,459</u>	<u>159,188</u>
NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR		591,849	508,854
DEPOSIT INSURANCE FUND, at the beginning of the year		<u>6,124,190</u>	<u>5,515,336</u>
DEPOSIT INSURANCE FUND, at the end of the year--net income accumulated since inception		<u>\$6,716,039</u>	<u>\$6,124,190</u>

The notes following schedule 4 are an integral part of this statement.

FEDERAL DEPOSIT INSURANCE CORPORATIONSTATEMENT OF CHANGES IN FINANCIAL POSITIONCALENDAR YEAR ENDED DECEMBER 31, 1975

	<u>Amount</u>
	(000 omitted)
FUNDS PROVIDED BY:	
Net deposit insurance assessments	\$ 278,929
Income from U.S. Government securities, less amortized net discounts	300,558
Maturities and sales of U.S. Government securities, including exchanges of long-term securities	1,723,976
Collections on assets acquired in receivership and deposit assumption transactions	733,855
Increase in assessment credits due banks	73,262
Income from capital notes	<u>15,720</u>
Total funds provided	<u>\$3,216,300</u>
FUNDS APPLIED TO:	
Administrative, operating and insurance expenses less miscellaneous credits	69,400
Acquisitions of assets in receivership and deposit assumption transactions	921,596
Purchase of U.S. Government securities, including exchanges of long-term securities	2,211,895
Net change in other assets and liabilities	<u>13,409</u>
Total funds applied	<u>\$3,216,300</u>

ANALYSIS OF NET CHANGE IN OTHER ASSETS AND LIABILITIES

	<u>1975</u>	<u>1974</u>	<u>Increase or decrease (-)</u>
Assets:			
Cash	\$ 17,359	\$ 18,857	\$-1,498
Accrued interest receivable	106,204	91,868	14,336
Other assets	<u>1,645</u>	<u>628</u>	<u>1,017</u>
	<u>125,208</u>	<u>111,353</u>	<u>13,855</u>
Less liabilities:			
Accounts payable	4,053	4,494	441
Collections held for others	2,137	1,630	-507
Accrued annual leave	<u>3,359</u>	<u>2,979</u>	<u>-380</u>
	<u>9,549</u>	<u>9,103</u>	<u>-446</u>
Net change in other assets and liabilities	<u>\$115,659</u>	<u>\$102,250</u>	<u>\$13,409</u>

The notes following schedule 4 are an integral part of this statement.

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FEDERAL DEPOSIT INSURANCE CORPORATIONANALYSIS OF DEPOSIT INSURANCE FUNDFROM INCEPTION TO DECEMBER 31, 1975

	<u>Amount</u>
	(000 omitted)
INCOME:	
Insurance assessments	\$8,095,711
Less net assessment income credits	<u>4,056,248</u>
Net insurance assessments	<u>4,039,463</u>
Income from U.S. Government securities	3,631,374
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>40,537</u>
Total income	<u>7,711,374</u>
EXPENSE AND LOSSES:	
Administrative and operating expenses	660,622
Deposit insurance losses and expenses	254,151
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562</u>
Total expenses and losses	<u>995,335</u>
DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED SINCE INCEPTION	<u>\$6,716,039</u>

The notes following schedule 4 are an integral part of this statement.

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FEDERAL DEPOSIT INSURANCE CORPORATION

FOOTNOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. ACCOUNTING POLICIES

Securities--U.S. Government securities are presented at amortized cost which is the purchase price of the securities less the amortized premium or plus the amortized discount. As of December 31, 1975, amortized premiums amounted to \$6,488,858 and amortized discounts \$13,763,390. Premiums and discounts are amortized on a daily straight-line basis from the date of acquisition to the date of maturity. Net income from U.S. Government securities represents the total of interest income earned less premium plus discount amortization for the year.

Deposit insurance assessments--The Corporation assesses insured banks at the rate of 1/12 of 1 percent each year on the bank's average deposit liability less certain amortized exclusions and deductions. Assessments are due in advance for a 6-month period and credited to income when earned each month. Sixty-six and two-thirds percent of the Corporation's net assessment income for the prior calendar year is made available each July 1 to insured banks in the form of a prorated credit against the current assessments due.

Depreciation--The office building is depreciated on a straight-line basis at the rate of 2 percent each year over a 50-year estimated life. Furniture, fixtures, and equipment are fully depreciated at the time of acquisition.

2. These statements:

- a. Do not include accountability for the assets and liabilities of the closed insured banks for which the Corporation acts as receiver or liquidating agent.
- b. Include transactions reflected in unaudited collection and disbursement reports from the liquidator of Franklin National Bank for the last quarter of 1975.

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3. Legal actions pending against the Corporation on December 31, 1975, involved an estimated potential liability of \$1,942 million. In the opinion of the Corporation's General Counsel, these actions, arising essentially from litigation involving closed bank activities, may result in recoveries against the Corporation of \$17 million. This estimated loss has been provided for in these statements.
4. The securities had a face value of \$6,376,176,570, a cost of \$6,358,006,191, and a market value of \$6,481,691,963 at December 31, 1975.
5. Equity in assets acquired under agreements with insured banks totaled \$1.790 billion. Of this total approximately \$1.125 billion represents equity in assets acquired as a result of the closing of Franklin National Bank on October 8, 1974.
6. Notes purchased to facilitate deposit assumption:

Crocker National Corporation, San Francisco, California	\$ 50,000,000
Southern Bancorporation, Inc., Greenville, South Carolina	8,000,000
European-American Bank and Trust Co., New York, New York	100,000,000
Clearing Bank, Chicago, Illinois	1,500,000
Marine National Exchange Bank, Milwaukee, Wisconsin	<u>3,500,000</u>
	<u>\$163,000,000</u>
7. Assistance to operating insured banks:

Bank of the Commonwealth, Detroit, Michigan	\$35,500,000
Unity Bank and Trust Company, Boston, Massachusetts	<u>1,500,000</u>
	<u>\$37,000,000</u>
8. Accrued interest payable of \$134.8 million represents interest for 450 days at the rate of 7.52 percent simple interest per annum on the unpaid principal amount due on Franklin National Bank's indebtedness to the Federal Reserve Bank of New York. This amount is subject to adjustment for certain out-of-pocket expenses the Corporation incurred as provided for in the Agreement of Sale.

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