NCUA 2012
FINANCIAL STATEMENT AUDITS
FOR

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND
OPERATING FUND
CENTRAL LIQUIDITY FACILITY
SHARE INSURANCE FUND

For the year ended December 31, 2012

Audited Financial Statements	Audit Report Number
Community Development Revolving Loan Fund	OIG-13-01
Operating Fund	OIG-13-02
Central Liquidity Facility	OIG-13-03
Share Insurance Fund	OIG-13-04

February 15, 2013

William A. DeSarno
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE

This report transmits KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Community Development Revolving Loan Fund, Operating Fund, Central Liquidity Facility, and Share Insurance Fund as of and for the years ending December 31, 2012 and 2011. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and subjected them to audit.

AUDIT REPORTS ON FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE AND OTHER MATTERS

Under a contract monitored by the NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of the NCUA's financial statements as of December 31, 2012. 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 2012 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 the 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 to internal controls.[2]
- 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.

OIG EVALUATION OF KPMG'S AUDIT PERFORMANCE

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 13, 14, and 15, 2013 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.

Report # OIG-13-01
National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
and Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

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, 2012 and 2011, 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 Responsibilities

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 (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 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, 2012 and 2011, and the results of 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 Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CDRLF's internal control as a basis for designing 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.

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 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.

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. 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 of 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 and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 13, 2013

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 12,918,956	$ 14,371,893
Loans Receivable (Notes 5, 7, and 8)	3,949,022	2,756,164
Interest Receivable (Note 8)	3,283	6,772
Total	$ 16,871,261	$ 17,134,829
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 1,230,923	$ 1,513,828
Fund Balance:		
Fund Capital (Note 4)	13,778,866	13,565,689
Accumulated Earnings	1,861,472	2,055,312
Total Fund Balance	15,640,338	15,621,001
Total	$ 16,871,261	$ 17,134,829

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, 2012 AND 2011

	2012	2011
SUPPORT AND REVENUES:		
Interest on Cash Equivalents	$ 8,405	$ 2,681
Interest on Loans	18,964	41,761
Appropriation Revenue		
Appropriations Expended (Note 4)	1,492,872	1,069,588
Cancelled Technical Assistance Grants (Note 6)	(459,049)	-
Total Support and Revenues	1,061,192	1,114,030
EXPENSES:		
Technical Assistance Grants	1,744,702	1,153,780
Cancelled Technical Assistance Grants (Note 6)	(489,802)	(615,339)
Provision for Loan Losses	132	60
Total Expenses	1,255,032	538,501
NET INCOME/(LOSS)	$ (193,840)	$ 575,529

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Fund Capital				
	For Loans	**For Technical Assistance Grants**	**Total Fund Capital**	**Accumulated Earnings**	**Total Fund Balance**
December 31, 2010	$ 13,387,777	$ -	$ 13,387,777	$ 1,479,783	$ 14,867,560
Appropriations Received (Note 4)	-	1,250,000	1,250,000	-	1,250,000
Appropriations Expended	-	(1,069,588)	(1,069,588)	-	(1,069,588)
Appropriations Rescinded	-	(2,500)	(2,500)	-	(2,500)
Net Income/(Loss)	-	-	-	575,529	575,529
December 31, 2011	13,387,777	177,912	13,565,689	2,055,312	15,621,001
Appropriations Received (Note 4)	-	1,247,000	1,247,000	-	1,247,000
Appropriations Expended	-	(1,492,872)	(1,492,872)	-	(1,492,872)
Cancelled Technical Assistance Grants (Note 6)	-	459,049	459,049	-	459,049
Net Income/(Loss)	-	-	-	(193,840)	(193,840)
December 31, 2012	$ 13,387,777	$ 391,089	$ 13,778,866	$ 1,861,472	$ 15,640,338

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$ (193,840)	$ 575,529
Adjustments to Reconcile Net Income/(Loss) to Net Cash Used in		
Operating Activities:		
Provision for Loan Loss	132	60
Appropriations Expended	(1,492,872)	(1,069,588)
Cancelled Technical Assistance Grants	459,049	-
Changes in Assets and Liabilities:		
Decrease in Interest Receivable	3,489	6,212
Decrease in Accrued Technical Assistance Grants	(282,905)	(680,266)
Net Cash Used in Operating Activities	(1,506,947)	(1,168,053)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	1,807,009	2,726,390
Loan Disbursements	(2,999,999)	-
Net Cash Provided by/(Used In) Investing Activities	(1,192,990)	2,726,390
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received 2012/2013	1,247,000	-
Appropriations Received 2011/2012	-	1,250,000
Appropriations Rescinded	-	(2,500)
Net Cash Provided by Financing Activities	1,247,000	1,247,500
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,452,937)	2,805,837
CASH AND CASH EQUIVALENTS — Beginning of Year	14,371,893	11,566,056
CASH AND CASH EQUIVALENTS — End of Year	$ 12,918,956	$ 14,371,893

See accompanying notes to the financial statements.

1. NATURE OF ORGANIZATION

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 AND OPERATIONAL 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 reports its financial statements on the accrual basis of accounting in conformity with GAAP.

Cash Equivalents – The Federal Credit Union Act permits CDRLF to make investments in United States Government Treasury securities. All investments in 2012 and 2011 were cash equivalents and were stated at cost, which approximates fair value. Cash equivalents are highly liquid investments with original maturities of three months or less.

Loans Receivable and Allowance for Loan Losses – Prior to fiscal year 2012, outstanding principal was limited to $300,000 per credit union, the maximum loan term was five (5) years, and interest and principal were paid on a semi-annual basis beginning six months and one year, respectively, after the initial loan disbursement. Per NCUA policy, loans issued after May 22, 2012 carry a fixed rate of 0.4%, and the applicable regulation does not provide a maximum limit on loan applications. Interest is to be paid on a semiannual 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 maximum term of each loan is five years.

Loans are initially recognized at their disbursed amount, 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, 2012 and 2011. 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 credit unions. CDRLF utilizes multi-year 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 provides certain general and administrative support to CDRLF, including office space, salaries, and certain supplies. 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 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 – CDRLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

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, 2012 and 2011 are as follows:

	2012	2011
Deposit with U.S. Treasury	$ 2,118,956	$ 4,371,893
U.S. Treasury Overnight Securities	10,800,000	10,000,000
	$ 12,918,956	$ 14,371,893

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, 2012, CDRLF received appropriations for technical assistance grants in the amount of $1,247,000 for Federal fiscal years (FY) 2012-2013. Of this amount, $1,210,016 was expended for the year ended December 31, 2012. An additional $282,856 was expended from the FY 2011-2012 appropriation.

During the year ended December 31, 2011, CDRLF received appropriations for technical assistance grants in the amount of $1,250,000 for Federal FY 2011-2012, of which $2,500 was rescinded. At year ended December 31, 2011, $1,069,588 was expended from the FY 2011-2012 appropriation.

These appropriations were designated to be used for technical assistance grants, and no amounts were designated to be used as revolving loans. As of December 31, 2012 no appropriated funds were remitted to the U.S. Treasury for cancelled appropriations.

5. LOANS RECEIVABLE

Receivables consisted of the following as of December 31, 2012 and 2011.

	2012	2011
Balance as of beginning of year	$ 2,756,164	$ 5,482,614
Add: Loans disbursed	2,999,999	-
Less: Loan repayments	(1,807,009)	(2,726,390)
Less: Bad Debt Expense	(132)	(60)
Loans receivable as of end of year	$ 3,949,022	$ 2,756,164

Changes in the allowance for loan losses consisted of the following:

	2012	2011
Balance as of beginning of year	$ -	$ -
Decrease (increase) in allowance	-	-
Accounts for loan losses as of end of year	$ -	$ -
Loans receivable, net as of end of year	$ 3,949,022	$ 2,756,164

Loans outstanding as of December 31, 2012, are scheduled to be repaid during the following subsequent years:

	2012
2013	$ 460,791
2014	460,791
2015	27,441
2016	-
2017	2,999,999
Loans Outstanding	3,949,022
Allowance for Loan Losses	-
Total Loans Receivable	$ 3,949,022

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 2012, CDRLF cancelled $30,753 of technical assistance grants awarded from the revolving fund and $459,049 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants under 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 $459,049 was also recognized under revenue, resulting in no change to net income.

For the year ended December 31, 2011, CDRLF cancelled $615,339 from the revolving fund.

Cancelled technical assistances grants awarded from appropriations from FY 2008 through 2011 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 $832,323 and $0 as of December 31, 2012 and 2011, respectively.

8. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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, 2012.

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, 2012 and 2011.

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 12,918,956	$ 12,919,000	$ 14,371,893	$ 14,372,000
Loans receivable	3,949,022	3,954,000	2,756,164	2,777,000
Interest receivable	3,283	3,000	6,772	7,000
Liabilities:				
Accrued technical assistance grants	1,230,923	1,231,000	1,513,828	1,514,000

9. RELATED PARTY TRANSACTIONS

NCUA, in supporting the activities of CDRLF, provides for the administration of CDRLF. The administrative costs paid by NCUA's Operating Fund (OF) are directly related to the percentage of employee's time spent on CDRLF. The administrative cost calculation takes into account the employees' salary, benefits, travel, training, and certain "other" costs (e.g., telephone, supplies, online applications, printing, and postage).

For the years ending December 31, 2012 and 2011, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

	2012	2011
Employee	$ 346,613	$ 330,651
Other	89,421	19,989
Total	$ 436,034	$ 350,640

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2013, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

Report # OIG-13-02

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2012 and 2011, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

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, 2012 and 2011, 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 Responsibilities

OF 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 (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2012 and 2011, and the results of 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 Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OF's internal control as a basis for designing 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.

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 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.

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. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2013

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
ASSETS:		
CASH AND CASH EQUIVALENTS (Note 3)	$36,521	$36,982
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 7)	2,040	1,182
EMPLOYEE ADVANCES	25	43
OTHER ACCOUNTS RECEIVABLE, Net (Note 7)	211	885
PREPAID EXPENSES AND OTHER ASSETS	1,055	1,015
ASSETS HELD FOR SALE (Note 6)	854	397
FIXED ASSETS — Net of accumulated depreciation of $27,208 and $25,231 as of December 31, 2012 and December 31, 2011, respectively (Note 4)	31,464	31,760
INTANGIBLE ASSETS — Net of accumulated amortization of $10,772 and $8,333 as of December 31, 2012 and December 31, 2011, respectively (Note 5)	5,232	7,367
TOTAL	$77,402	$79,631
LIABILITIES AND FUND BALANCE:		
LIABILITIES:		
Accounts payable and accrued other liabilities	$4,604	$7,074
Obligations under capital leases (Note 8)	78	58
Accrued wages and benefits	10,178	9,295
Accrued annual leave	13,832	12,699
Accrued employee travel	695	628
Notes payable to National Credit Union Share Insurance Fund (Note 7)	14,415	15,756
Total liabilities	43,802	45,510
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12)		
FUND BALANCE	33,600	34,121
TOTAL	$77,402	$79,631

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
REVENUES:		
Operating fees	$ 88,798	$ 86,197
Interest	47	18
Other	1,280	1,200
Total revenues	90,125	87,415
EXPENSES, NET (Note 7):		
Employee wages and benefits	66,509	62,194
Travel	9,946	9,809
Rent, communications, and utilities	1,949	1,936
Contracted services	7,123	6,326
Depreciation and amortization	6,289	4,695
Administrative	(1,170)	1,242
Total expenses	90,646	86,202
EXCESS OF REVENUES (UNDER) / OVER EXPENSES	(521)	1,213
FUND BALANCE—Beginning of year	34,121	32,908
FUND BALANCE—End of year	$ 33,600	$ 34,121

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues (under) / over expenses	$ (521)	$ 1,213
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	6,289	4,695
Provision for loss on disposal of employee residences held for sale	186	305
Loss on fixed asset and intangible asset retirements	107	2
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(858)	1,675
Employee advances	18	7
Other accounts receivable, net	674	(536)
Prepaid expenses and other assets	(40)	356
(Decrease) increase in liabilities:		
Accounts payable	(2,470)	2,031
Accrued wages and benefits	883	714
Accrued annual leave	1,133	1,298
Accrued employee travel	67	96
Net cash provided by operating activities	5,468	11,856
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and intangible assets	(3,950)	(6,146)
Proceeds from insurance on fixed assets	25	-
Purchases of employee residences held for sale	(1,301)	(1,197)
Proceeds from sale of employee residences held for sale	658	1,192
Net cash used in investing activities	(4,568)	(6,151)
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	(20)	(27)
Net cash used in financing activities	(1,361)	(1,368)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(461)	4,337
CASH AND CASH EQUIVALENTS—Beginning of year	36,982	32,645
CASH AND CASH EQUIVALENTS—End of year	$ 36,521	$ 36,982
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES -		
Acquisition of equipment under capital lease	$ 40	$ 61
CASH PAYMENTS FOR INTEREST	$ 290	$ 344

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 on its prior year asset balances and rates set by the NCUA Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Fund 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 – 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)
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 as 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 2012 and 2011 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 programmers, and other personnel in the development of the software. Capital leases are recorded at the present value of the future minimum lease payments. 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 building 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 adjustment to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund holds 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 amounts due from the NCUSIF, employee advances, and other accounts receivable. In 2011, amounts also include a non-recurring rent incentive associated with an office lease in Alexandria, Virginia.

As of December 31, 2012 and 2011, the Fund's Other Accounts Receivable includes an allowance in the amount of $76,000 and $0, respectively.

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). This act 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.

Operating Fees – Each federally chartered credit union is assessed an annual fee based on their 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 (FOIA) fees, sales of publications, parking income, and rental income is recognized when earned.

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

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. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 8.

Fair Value of Financial Instruments – The following method and assumption was used in estimating the fair value disclosures for financial instruments:

Cash and cash equivalents, receivables from related parties, employee advances, other accounts receivable (net), accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate their respective 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.

Advertising Costs – Advertising costs, per FASB ASC 720-35-50, *Other Expenses - Advertising Costs*, consist primarily of radio and Internet advertisements. Advertising costs are expensed as incurred. The Fund enters into certain contracts for the purpose of advertising. In 2012 and 2011, advertising expenses amounted to approximately $0 and $248,000, respectively.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Deposit with U.S. Treasury	$ 435	$ 240
U.S. Treasury Overnight Investments	36,086	36,742
Total	$ 36,521	$ 36,982

As a revolving fund within the U.S. Treasury, the Operating Fund does not hold any cash or cash equivalents outside of Treasury.

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Office building and land	$ 47,899	$ 46,336
Furniture and equipment	10,265	9,394
Leasehold improvements	406	376
Equipment under capital leases	102	99
Total	58,672	56,205
Less accumulated depreciation	(27,208)	(25,231)
Assets under construction	-	786
Fixed assets — net	$ 31,464	$ 31,760

Depreciation expense for the years ended December 31, 2012 and 2011 totaled $2,427,000 and $2,407,000, respectively.

In 2011, assets under construction primarily represented costs incurred related to building improvements to the King Street NCUA headquarters office space. Upon completion in 2012, all costs were fully capitalized and transferred to "Office building and land".

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2012 and 2011 (in thousands).

	2012	2011
Internal-use software	$ 15,823	$ 13,187
Less accumulated amortization	(10,772)	(8,333)
Total	5,051	4,854
Internal-use software-in development	181	2,513
Intangible assets — net	$ 5,232	$ 7,367

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2012 and 2011 totaled $3,862,000 and $2,288,000, respectively.

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

6. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Currently, the Fund owns three homes. Ongoing costs to maintain properties are expensed as incurred. The balance of real estate available for sale as of December 31, 2012 and 2011 was $854,000 and $397,000, respectively, net of impairment charges and costs to sell of $120,000 and $133,000 as of December 31, 2012 and 2011, respectively.

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 approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 100% of the expenses of the Office of Corporate Credit Unions to the extent that it exceeds the actual operating fees paid by Federal corporate credit unions, plus 59.3% of all other expenses to NCUSIF for 2012 and 58.9% for 2011. The cost of the services allocated to NCUSIF, which totaled $137,528,000 and $129,985,000 for 2012 and 2011, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2012 and 2011, amounts due from NCUSIF, under this allocation method, totaled $2,040,000 and $1,182,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 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 $290,000 and $344,000 for 2012 and 2011, respectively. The notes payable balances as of December 31, 2012 and 2011 were $14,415,000 and $15,756,000, respectively. The current portion of the long term debt is $1,341,000 as of December 31, 2012 and 2011, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2012 and 2011 were 1.93% and 2.10%, respectively. The interest rates as of December 31, 2012 and 2011 were 1.83% and 2.01%, respectively.

The secured term note requires principal repayments as of December 31, 2012 as follows (in thousands):

Years Ending December 31	Secured Term Note
2013	$ 1,341
2014	1,341
2015	1,341
2016	1,341
2017	1,341
Thereafter	7,710
Total	$ 14,415

(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 $553,000 and $637,000 for the years ending December 31, 2012 and 2011, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $0 and $171,000 of amounts due from the CLF as of December 31, 2012 and 2011, respectively.

(c) Support of CDRLF

Pursuant to the Act, the Fund supports the administration of programs under CDRLF by paying related personnel and other associated costs. The estimation of administrative expenses includes personnel related costs, travel, training, telephone, supplies, printing and postage.

For the years ending December 31, 2012 and 2011, administrative support to CDRLF is estimated at (in thousands):

	2012	2011
Personnel	$ 347	$ 331
Other	89	20
Total	$ 436	$ 351

(d) Support of TCCUSF

Pursuant to the Act, the Fund supports the administration of programs under TCCUSF by paying related personnel and other associated costs. The estimation of administrative expenses includes personnel related costs, travel, training, telephone, supplies, printing and postage.

For the years ending December 31, 2012 and 2011, administrative support to TCCUSF is estimated at (in thousands):

	2012	2011
Personnel	$ 1,838	$ 3,674
Other	59	104
Total	$ 1,897	$ 3,778

In 2012, the Fund began collecting from TCCUSF, reimbursements for the salary and benefits of certain staff in newly created positions who directly work on TCCUSF-related activities with settlement and payment occurring quarterly. The total amount associated with these staff was $231,000 in 2012, which is not included in the above table.

(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 and currently serves as its Chairman. 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, 2012 and 2011, FFIEC assessments totaled $868,000 and $828,000, respectively. FFIEC's 2013 budgeted assessments to NCUA total $748,000 (unaudited).

(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 laptops, and copiers.

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2017. Office rental charges amounted to approximately $1,156,000 and $1,129,000, of which approximately $685,000 and $665,000 were reimbursed by NCUSIF for 2012 and 2011, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that will continue through 2015.

Capital Leases – The Fund leases copier equipment under lease agreements that run through 2017. Amounts presented in the table below include $13,000 of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2012, before reimbursements, are as follows (in thousands):

Years Ending December 31	**Operating Leases**	**Capital Leases**
2013	$ 1,664	$ 24
2014	1,174	24
2015	689	22
2016	191	15
2017	193	6
Thereafter	-	-
Total	$ 3,911	$ 91

Based on the allocation factor approved by the NCUA Board, NCUSIF is expected to reimburse the Fund for approximately 59.1% of the 2013 operating lease payments.

The Fund, as a lessor, holds operating lease agreements with three tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry five year terms with escalating rent payments. The last of these leases is set to expire in 2015.

he future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2012 are as follows (amounts in thousands):

Years Ending December 31	Scheduled Rent Payments
2013	$ 576
2014	518
2015	71
2016	-
2017	-
Thereafter	-
Total	$ 1,165

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 are defined benefit retirement 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 up to $17,000 in 2012, and the Fund will match up to 5% of the employee’s gross pay. In 2012 and 2011, the Fund’s contributions to the plans were approximately $19,224,000 and $18,211,000, respectively, of which approximately $11,400,000 and $10,726,000, 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 Fund’s policy in 2012 and thereafter is to contribute, 3.0% of an employee’s compensation as defined in the NCUA Collective Bargaining Agreement (CBA), Article 9 *Compensation and Benefits.* NCUA’s contribution for 2012 was $3,655,000. The operating expense associated with the NCUA Savings Plan in 2012 was $5,000. A total of 59.3% of all costs of the NCUA Savings Plan was allocated to the NCUSIF in 2012. The Fund’s policy is to match employee contributions up to 1.0% in 2013 and 2.0% in 2014 and thereafter. In the event that the federal pay freeze is lifted, the match decreases to 0.5% in 2013 and 1.0% in 2014 and thereafter. 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 accounting standards established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2012 and 2011. The impairment charges are recorded within the statement of revenues, expenses and changes in fund balance and represent non-recurring fair value measures.

	2012			2011		
	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges
Assets held for sale	$ 854	$ 854	$ 120	$ 397	$ 397	$ 133

Assets held for sale – Assets held for sale represents residences from relocating employees and 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. Accordingly, the Fund uses level 3 inputs to measure the fair value of these investments.

The carrying values approximate the fair values of certain financial instruments as of December 31, 2012 and 2011, were as follows (in thousands):

	2012		2011	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Cash and cash equivalents	$36,521	$36,521	$36,982	$36,982
Due from NCUSIF	2,040	2,040	1,182	1,182
Employee advances	25	25	43	43
Other accounts receivable, net	211	211	885	885
Obligation under capital lease	78	78	58	58
Notes payable to NCUSIF	14,415	14,415	15,756	15,756

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 is within the first quarter of fiscal year 2013.

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 2013.

Other Accounts Receivable, Net – The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts have been written down by an allowance to reflect the net amount that is deemed collectible.

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 approximates rates currently available to the Fund.

Notes Payable to NCUSIF – The carrying amounts for notes payable to NCUSIF financial instruments approximates 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 measurable. NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which has 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 as of December 31, 2012.

12. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) with the National Treasury Employees Union (NTEU) that became effective on November 1, 2011. NTEU is the exclusive representative of approximately 80% of NCUA employees. This agreement will remain in effect for a period of three years from its effective date and will be automatically renewable for additional one year periods until otherwise renegotiated by the parties.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2013, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

Report # OIG-13-03

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

CLF 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 (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 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, 2012 and 2011, and the results of its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CLF's internal control as a basis for designing 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.

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 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.

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. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 14, 2013

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	2012	2011
ASSETS		
Cash and Cash Equivalents (Notes 3 and 6)	$ 39,168	$ 1,989,641
Accounts Receivable (Notes 4 and 6)	-	1,000
Investments Held to Maturity (Net of $1,035 and $622 unamortized premium, fair value of $73,055 and $109,957 as of 2012 and 2011, respectively) (Notes 5 and 6)	72,107	108,872
Accrued Interest Receivable (Note 6)	196	145
TOTAL	$ 111,471	$ 2,099,658
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts Payable (Note 6)	$ 76	$ 219
Other Liabilities (Notes 6 and 7)	3,224	12,310
Dividends Payable (Note 6)	19	366
Member Deposits (Notes 6 and 9)	299	322
Total Liabilities	3,618	13,217
MEMBERS' EQUITY		
Capital Stock – Required ($50 per share par value authorized: 3,223,232 and 82,403,220 shares; issued and outstanding: 1,611,616 and 41,201,610 shares as of 2012 and 2011, respectively) (Notes 7 and 8)	80,581	2,060,081
Retained Earnings	27,272	26,360
Total Members' Equity	107,853	2,086,441
TOTAL	$ 111,471	$ 2,099,658

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
REVENUE:		
Investment Income	$ 1,661	$ 8,101
Total Revenue	1,661	8,101
EXPENSES: (Note 11)		
Personnel Services	417	437
Personnel Benefits	107	111
Other General and Administrative Expenses	57	89
Total Operating Expenses	581	637
Interest – Liquidity Reserve	-	1
Total Expenses	581	638
NET INCOME	$ 1,080	$ 7,463

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	Capital Stock		Retained Earnings	Total
	Shares	**Amount**		
BALANCE – December 31, 2010	39,118,159	$ 1,955,908	$ 22,006	$ 1,977,914
Issuance of Required Capital Stock	2,378,097	118,905		118,905
Redemption of Required Capital Stock (Note 7)	(294,646)	(14,732)		(14,732)
Dividends Declared ($0.08/share) (Notes 8 and 9)			(3,109)	(3,109)
Net Income			7,463	7,463
BALANCE – December 31, 2011	41,201,610	2,060,081	26,360	2,086,441
Issuance of Required Capital Stock	447,305	22,365		22,365
Redemption of Required Capital Stock (Note 7)	(40,037,299)	(2,001,865)		(2,001,865)
Dividends Declared ($0.01/share) (Notes 8 and 9)			(168)	(168)
Net Income			1,080	1,080
BALANCE – December 31, 2012	1,611,616	$ 80,581	$ 27,272	$ 107,853

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,080	$ 7,463
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Amortization of investment premiums	376	4,927
(Increase)/decrease in accrued interest receivable	(51)	355
(Decrease)/increase in accounts payable	(143)	(20)
(Decrease)/increase in other liabilities	(272)	272
Net cash provided by operating activities	990	12,997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,962,123)	(1,685,858)
Proceeds from maturing investments	1,999,511	3,548,615
Net cash provided by investing activities	37,388	1,862,757
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of required capital stock	22,333	118,905
Dividends paid (notes 8 and 9)	(505)	(4,222)
Redemption of required capital stock	(2,010,649)	(2,694)
Withdrawal of member deposits, net	(30)	(7)
Net cash provided by/(used in) financing activities	(1,988,851)	111,982
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,950,473)	1,987,736
CASH AND CASH EQUIVALENTS - beginning of year	1,989,641	1,905
CASH AND CASH EQUIVALENTS - end of year	$ 39,168	$ 1,989,641
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - cash paid during the year for interest	$ -	$ -

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

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 (the "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's operating budget requires Congressional approval, and 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 8 and 10 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 on the accrual basis of accounting. CLF recognizes interest income on loans and investments when they are earned, and recognizes interest expense on borrowings when it is incurred. CLF recognizes expenses when incurred. CLF accrues and records dividends on capital stock monthly and pays dividends quarterly.

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, liabilities, and disclosures of contingent assets and liabilities 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.

Cash and Cash Equivalents – CLF considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

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 Statement 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 percent of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2012 and 2011.

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.

Tax-Exempt Status – CLF is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

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.

Reclassifications – Certain amounts in the financial statements have been reclassified to conform to the current year presentation.

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 consisted of the following:

(Dollars in thousands)	As of December 31, 2012	As of December 31, 2011
U.S. Treasury Securities	$ 39,157	$ 1,988,905
USC Bridge Daily Transaction Share Account	-	447
PNC Bank	-	289
SunTrust Bank	11	-
Total	$ 39,168	$ 1,989,641

The USC Bridge Daily Transaction Share Account, which was a variable rate share account used primarily for CLF clearing transactions, closed during 2012. The account was available only to CLF. U.S. Treasury securities had an initial term of less than three months when purchased.

4. ACCOUNTS RECEIVABLE

At December 31, 2012, CLF did not have any accounts receivable. At December 31, 2011, CLF recognized $1 million in accounts receivable for the pending receipt of a matured U.S. Treasury Note. The security matured on December 31, 2011 and was removed from investments, but proceeds were not received until January 2012.

5. 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, 2012 and 2011 were as follows:

(Dollars in thousands)	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2012				
U.S. Treasury Securities	$ 72,107	$ 994	$ (46)	$ 73,055
As of December 31, 2011				
U.S. Treasury Securities	$ 108,872	$ 1,085	$ -	$ 109,957

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

(Dollars in thousands)	As of December, 31 2012 Net Carrying Amount	As of December, 31 2012 Aggregate Fair Value	As of December 31, 2011 Net Carrying Amount	As of December 31, 2011 Aggregate Fair Value
Due in one year or less	$ 999	$ 1,002	$ 98,849	$ 99,050
Due after one year through five years	42,890	43,221	5,009	5,286
Due after five years through ten years	28,218	28,832	5,014	5,621
Total	$72,107	$73,055	$108,872	$109,957

6. 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.

Accounts receivable – The carrying amount for accounts receivable approximates fair value because it represents pending proceeds from a maturing U.S. Treasury security.

Investments held-to-maturity – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which a share price can be readily obtained. The fair value for investments is determined using the quoted market prices at the reporting date (observable inputs).

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, other liabilities, 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, 2012 and 2011. The carrying values and approximate fair values of financial instruments are as follows:

Financial Instruments (Dollars in thousands)	**As of December 31, 2012** Carrying Value	Fair Value	**As of December 31, 2011** Carrying Value	Fair Value
Cash and cash equivalents	$39,168	$39,168	$1,989,641	$1,989,641
Accounts receivable	-	-	1,000	1,000
Investments held-to-maturity	72,107	73,055	108,872	109,957
Accrued interest receivable	196	196	145	145
Accounts payable	76	76	219	219
Other liabilities	3,224	3,224	12,310	12,310
Dividends payable	19	19	366	366
Member deposits	299	299	322	322

7. OTHER LIABILITIES

Other liabilities include pending redemptions of capital stock and advance deposits from a future member credit union. CLF reclassified $3.2 million and $12.0 million of capital stock to other liabilities in 2012 and 2011, respectively, to reflect the pending redemption of 64,487 and 240,753 shares, respectively, of required capital stock at the request of a regular (non-agent) member credit union. Capital stock is redeemable upon demand by members, subject to certain conditions as set out in the Act and NCUA regulations. The redemption will occur in 2013. Dividends are paid on these shares until they are redeemed. As of December 31, 2011, other liabilities also include $272.0 thousand in advance deposits from a credit union that became a member in 2012.

8. CAPITAL STOCK

Membership in CLF is voluntary and 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. There are two types of membership—regular (natural person credit unions) and agent (through corporate credit unions). Natural person credit unions may borrow from CLF directly as a regular member or indirectly through an agent member.

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. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the natural person credit unions served by the agent member, one-half of which is required to be remitted to CLF. In both cases, 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 five percent 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 five percent 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, 2012, CLF had one member withdrawal request pending. As of December 31, 2011, CLF had one 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.

In FY1984, CLF accepted an agent membership request from U.S. Central Federal Credit Union (USC) on behalf of its corporate credit union members. CLF appointed USC as the agent group representative and master servicer for all loans extended by CLF. USC relied on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members.

On September 24, 2010, the NCUA Board announced the Corporate System Resolution Program (CSRP). The CSRP is a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of securities held by the failed corporate credit unions, and establishing a new regulatory framework for corporate credit unions.

As a part of the CSRP, the NCUA Board liquidated five corporate credit unions, including USC on October 1, 2010, and placed them in the Asset Management Estate (AME) status.

To facilitate the resolution process, the NCUA Board chartered four bridge corporate credit unions (Bridge Corporates) including USC Bridge. The Bridge Corporates were established to function in a temporary capacity and were formed by the NCUA Board as chartered private enterprises to purchase selected assets, including CLF capital stock held by USC, and assume liabilities and member shares of the five liquidated corporate credit unions in order to provide uninterrupted services to the natural person credit unions that were members of the now failed corporate credit unions.

In conjunction with CSRP efforts, the NCUA Board had been actively pursuing a credit union system-led resolution to the Bridge Corporates to facilitate a number of transitions, including the CLF agent-member structure. Neither USC Bridge's members nor NCUA were able to secure the transition of USC's products and services to a successor entity, thereby leading to the Board's decision to wind-down and liquidate USC Bridge's operations as of October 29, 2012. Accordingly, USC Bridge discontinued its role as the agent group representative for CLF and CLF redeemed USC Bridge's capital stock on October 25, 2012. The result of the liquidation of the agent group representative is that, as of December 31, 2012, CLF membership is comprised solely of regular members, and no agent arrangement is in place. As of December 31, 2012, USC Bridge had been liquidated and held no CLF capital stock. As of December 31, 2011, $2.0 billion of CLF capital stock was held by USC Bridge, on behalf of its member corporate credit union members.

CLF's capital stock accounts were composed of the following as of December 31, 2012 and 2011:

(Dollars in thousands, except share data)	As of December 31, 2012		As of December 31, 2011	
	Shares	Amount	Shares	Amount
Regular members	1,611,616	$ 80,581	1,288,203	$ 64,411
Agent members	-	-	39,913,407	1,995,670
Total	1,611,616	$ 80,581	41,201,610	$ 2,060,081

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 both regular and agent members change quarterly.

9. 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.

10. 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, 2012 and 2011, CLF's statutory borrowing authority was $2.3 billion and $49.8 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. In conjunction with the closure of USC Bridge, CLF redeemed the Agent Group stock on October 25, 2012. The termination of Agent Membership resulted in a significant decline in the amount of subscribed capital stock. In turn, the level of corresponding borrowing authority also declined as only Regular members of the Facility currently contribute capital to 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. 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 made under the current promissory notes can be made in amounts up to the statutory borrowing authority and cannot mature later than March 31, 2013. FFB was notified of the reduction in the Maximum Principal Amount in accordance with the terms of the Note (paragraph 4(b)).

As of December 31, 2012, CLF was in compliance with its borrowing authority.

11. RELATED PARTY TRANSACTIONS

NCUA OF pays the salaries and related benefits of CLF's employees, CLF's building and operating costs. Expenses are allocated by applying the ratio of CLF full-time equivalent employees to the NCUA total. These expenses are reimbursed to NCUA OF quarterly. All other CLF reimbursement expenses are paid annually. The total amount charged by NCUA was approximately $553.0 thousand and $637.0 thousand respectively, for December 31, 2012 and 2011. Accounts payable includes approximately $0 and $171.0 thousand respectively, for December 31, 2012 and 2011, due to NCUA OF for services provided.

12. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2012 through February 14, 2013, which is the date CLF issued these financial statements. Management determined that there are no other items to disclose.

Report # OIG-13-04

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended December 31, 2012 and 2011

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[1] (NCUSIF or Fund). 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 U.S. Government. As of December 2012, the NCUSIF insures $839.4 billion in member shares in over 6,800 credit unions.

The NCUSIF protects members' accounts in insured credit unions in the unlikely 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 the failure. The Fund insures all types of member shares received by a credit union in its usual course of business.

The NCUSIF also provides funding when the NCUA Board determines that some form of financial assistance to troubled credit unions will result in the least resolution cost. Examples of financial assistance include:

- a waiver of statutory reserve requirements;
- a guaranteed line of credit, permanent cash assistance in the form of a subordinated note; and
- the identification of an assisted merger partner.

When a credit union is no longer able to continue operating and assistance alternatives 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 Director of the Office of Examination and Insurance (E&I) is responsible for overseeing the agency's examination and supervision program. NCUA's E&I Director is also the President of the NCUSIF and responsible for risk management of the NCUSIF. Regional offices primarily conduct examinations and other NCUA offices provide operational and administrative services to the NCUSIF. The Asset Management and Assistance Center (AMAC) conducts credit union liquidations. AMAC establishes an Asset Management Estate (AME) to collect the obligations due to the credit union, monetize assets and distribute amounts to claimants, including the NCUSIF, according to their respective regulatory payout priorities.

II. Performance Goals, Objectives and Results

Consistent with the *NCUA 2011-2014 Strategic Plan*, the agency prepared the *NCUA Annual Performance Plan for 2013*, which included the high priority performance goal to "monitor and control risks in consumer credit unions." The plan measures success for this goal as a decrease in the ratio of "net losses for current year failures to average insured shares." For 2012, the ratio was 0.026%, as compared to 0.007% for 2011. While there was an increase in the measure, overall, NCUSIF losses were not significant.

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[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 from insured credit unions. All five funds report under separate financial statements.

In measuring the performance of the NCUSIF for 2012 and 2011, the following additional measures should be considered.

2012 and 2011 Performance Measures		
	December 31, 2012	December 31, 2011
Equity Ratio (Before Distribution)	1.31%	1.32%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$412.5 million	$606.6 million
Net Position	$11.3 billion	$10.8 billion
Insured Shares	$839.4 billion	$795.3 billion
Credit Union Involuntary Liquidations and Assisted Mergers	22	16
Assets in CAMEL[2] 4 and 5 rated Credit Unions	$19.0 billion	$29.4 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 revolves around the equity ratio and the Normal Operating Level (NOL). The equity ratio is calculated as the ratio of the contributed one percent 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 long-term target equity level for the NCUSIF. The NCUA Board sets the NOL between 1.20 and 1.50 percent. The NCUA Board set the current NOL at 1.30 percent.

By statute, when the equity ratio falls below 1.20 percent, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio. In 2012 and 2011, the NCUA Board did not assess a premium charge to insured credit unions for the NCUSIF. The NCUSIF pays a distribution when the equity ratio exceeds the NOL 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.

Despite the stresses in the financial services industry resulting from the recent financial crisis, the equity ratio was at 1.31 percent, slightly above the NOL as of the year-end 2012. This resulted in a distribution payable of $88.1 million to TCCUSF to reduce the equity ratio to 1.30 percent. For 2011, the NCUSIF ended the year with an equity ratio of 1.32 percent, which resulted in a distribution of $278.6 million to TCCUSF to reduce the equity ratio to 1.30 percent.

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 adequacy of **L**iquidity (CAMEL), applying a rating to the credit union ranging from "1" (strongest) to "5" (weakest). The NCUSIF's contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates. In addition, specific analysis is performed on those insured credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

[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 adequacy of **L**iquidity.

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. NCUA uses 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 credit union industry improved during 2012 as reflected by the reduction in assets in CAMEL 4 and 5 rated credit unions as compared to 2011. Assets in CAMEL 4 and 5 rated credit unions dropped to $19.0 billion at the end of 2012, versus $29.4 billion at the end of 2011. This decrease contributed to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF balance sheets. The NCUSIF ended 2012 with Insurance and Guarantee Program Liabilities of $412.5 million to cover potential losses as compared with $606.6 million for the previous year-end, a reduction of $194.1 million.

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

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 determination on future results.

III. Financial Statement Analysis

The NCUSIF ended 2012 in a strong position as a result of the growth of Total Assets, a reduction in Insurance and Guarantee Program Liabilities, which more than offset the growth of Operating Expenses and a decline in Interest Revenue.

Summarized Financial Information (in thousands)		
	December 31, 2012	December 31, 2011
Total Assets	$11,874,691	$11,675,484
Investments, Net	11,293,087	11,392,576
Notes Receivable, Net	249,254	70,000
Receivables from Asset Management Estates, Net	252,029	114,741
Insurance and Guarantee Program Liabilities	412,452	606,617
Contributed Capital	8,315,011	7,805,718
Net Position	11,283,852	10,788,878
Operating Expenses	141,237	132,358
Provision for Insurance Losses, Reserve Expense (Reduction)	(74,874)	(525,678)
Total Net Cost/(Income) of Operations	54,685	(401,087)
Cumulative Results of Operations	2,968,841	2,983,160
Interest Revenue - Investments	206,995	226,011

Balance Sheet Highlights

Assets grew by $199.2 million in 2012. Asset growth primarily came from Contributed Capital, which increased by $509.3 million during 2012. In addition, Investments reflect a $99.5 million decreased as investments were used to help fund the acquisition of a collateralized senior note receivable and fund activities in AMEs. The collateralized senior note receivable was $179.3 million as of the 2012 year-end and Receivables from Asset Management Estates increased by $137.3 million in 2012.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively. The decrease reflects improved financial strength in the credit union industry, as reflected in the decline in assets of CAMEL 4 and 5 rated credit unions over 2012.

Statements of Net Cost Highlights

Total Net Cost of Operations was $54.7 million for 2012, as compared to Total Net Income from Operations for 2011 of $401.1 million. In 2012, like 2011, the decline in Insurance and Guarantee Program Liabilities resulted in a reduction in reserve expenses related to insurance losses in the Statements of Net Cost. The reduction was $74.9 million for 2012 versus $525.7 million for 2011.

Cumulative Results of Operations Highlights

Cumulative results of operations decreased by $14.3 million in 2012. This decrease was due to Interest Revenue of $207.0 million, distribution to TCCUSF of $88.1 million, net unrealized losses on Investments of $78.5 million and Net Cost of Operations of $54.7 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

As of December 31, 2012 and 2011, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling $88.1 million and $278.6 million, respectively, thereby bringing the equity ratio down to its NOL of 1.30 percent.

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 NCUSIF had net cash inflows of $280.2 million and $289.7 million for 2012 and 2011, respectively. This increase is primarily the result of the growth of credit union insured shares and the related 1.00 percent contributed capital deposit adjustment.

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) as well as investments in U.S. Treasury Securities. Investments in U.S. Treasury Securities include overnight investments, which are available for the possibility of urgent liquidity needs.

2012 and 2011 Fund Balance with Treasury and Investments		
	December 31, 2012	December 31, 2011
Fund Balance with Treasury	$2.5 million	$0.4 million
U.S. Treasury Securities		
Overnight	$359.7 million	$558.9 million
Available-for-Sale	$10,933.4 million	$10,833.7 million

During 2012, the FBWT account was primarily increased by maturing investments in U.S. Treasury securities. The FBWT account was decreased by purchases of U.S. Treasury securities, nonexpenditure transfers, 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 (FCU Act);
- cumulative results of operations retained by the NCUSIF;
- 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 percent of its insured shares. For the years ended December 31, 2012 and 2011, the NCUSIF's contributed capital from insured credit unions increased by $509.3 million and $320.6 million, respectively. Total insured shares were $839.4 billion and $795.3 billion as of December 31, 2012 and 2011, respectively.

At December 31, 2012, NCUA estimated the total insured shares to be approximately $839.4 billion, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately $79.0 million from insured credit unions in early 2013 when NCUA invoices for its biannual contributed capital adjustment.

Cumulative Results of Operations
The NCUSIF ended 2012 and 2011 with a total of $3.0 billion in cumulative results of operations. Interest Revenue 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, 2012 and 2011, 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, 2012 and 2011, the TCCUSF had $5.1 billion and $3.5 billion in borrowing outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had $0.9 billion and $2.5 billion, respectively, in available borrowing authority shared with the TCCUSF. The estimated losses and liquidity needs of the TCCUSF are based on the 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. Consequently, additional borrowing for the TCCUSF reduces funds available 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, 2012 and 2011, 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. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF. 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 made under the current promissory notes can be made in amounts up to the statutory borrowing authority and cannot mature later than March 31, 2013. The CLF had borrowing capacity under its note purchase agreement with the FFB of $2.3 billion as of December 31, 2012.

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. §661e (a) (1)).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The Federal Manager's Financial Integrity Act (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, and the Debt Collection and Improvement Act. As required by the Improper Payments Elimination and Recovery Act, we have determined that the NCUSIF's programs are not susceptible to a high risk of significant improper payments.

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Washington, DC 20006

Independent Auditors' Report

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

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, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibilities

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 (Internal Control Over Financial Reporting) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 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, 2012 and 2011, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the NCUSIF changed its presentation for reporting the statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the NCUSIF's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

Supplemental Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information 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 Responsibilities

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NCUSIF's internal control as a basis for designing 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.

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 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.

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. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Purpose of the Other Reporting Responsibilities

The purpose of the communication related to internal control over financial reporting and compliance and other matters described in the Other Reporting Responsibilities 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 15, 2013

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 2,479	$ 423
Investments, Net - U.S. Treasury Securities (Note 3)	11,293,087	11,392,576
Accounts Receivable - Other	8	10
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)	14,415	15,756
Accrued Interest Receivable (Note 3)	63,154	81,707
Total Intragovernmental Assets	11,373,143	11,490,472
PUBLIC		
Accounts Receivable - Capitalization Deposits from Insured Credit Unions, Net (Note 4)	38	30
Accounts Receivable - Premium Assessments from Insured Credit Unions, Net (Note 4)	-	73
Accounts Receivable - Other	25	-
General Property, Plant, and Equipment, Net	-	18
Notes Receivable, Net (Note 5)	249,254	70,000
Accrued Interest Receivable - Notes (Note 5)	202	150
Other - Receivables from Asset Management Estates (AMEs), Net (Note 6)	252,029	114,741
Total Public Assets	501,548	185,012
TOTAL ASSETS	$ 11,874,691	$ 11,675,484
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	$ 690	$ -
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 9)	2,040	1,182
Other - Distribution Payable to the Temporary Corporate Credit Union Stabilization Fund (Note 8)	88,090	278,641
Total Intragovernmental Liabilities	90,820	279,823
PUBLIC		
Accounts Payable	87,567	166
Other - Insurance and Guarantee Program Liabilities (Note 7)	412,452	606,617
Total Public Liabilities	500,019	606,783
TOTAL LIABILITIES	590,839	886,606
Commitments and Contingencies (Note 7)		
NET POSITION		
Contributed Capital (Note 12)	8,315,011	7,805,718
Cumulative Result of Operations	2,968,841	2,983,160
Total Net Position	11,283,852	10,788,878
TOTAL LIABILITIES AND NET POSITION	$ 11,874,691	$ 11,675,484

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, 2012 and 2011
(Dollars in thousands)

	2012	2011
GROSS COSTS		
Operating Expenses	$ 141,237	$ 132,358
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 7)	(74,874)	(525,678)
AME Receivable Bad Debt Expense (Reduction) (Note 6)	(2,910)	(6,730)
Total Gross Costs	63,453	(400,050)
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)	(290)	(344)
Interest Revenue on Notes (Note 5)	(2,097)	(150)
Insurance and Guarantee Premium Revenue	(6,381)	(543)
Total Earned Revenues	(8,768)	(1,037)
TOTAL NET COST/(INCOME) OF OPERATIONS	$ 54,685	$ (401,087)

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, 2012 and 2011
(Dollars in thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,983,160	$ 2,370,890
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	206,995	226,011
Other		
Distribution to the Temporary Corporate Credit Union Stabilization Fund (Note 8)	(88,090)	(278,641)
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments	(78,539)	263,813
Total Financing Sources	40,366	211,183
(Net Cost of)/Income from Operations	(54,685)	401,087
Net Change	(14,319)	612,270
CUMULATIVE RESULTS OF OPERATIONS	2,968,841	2,983,160
CONTRIBUTED CAPITAL (Note 12)		
Beginning Balances	7,805,718	7,485,159
Change in Contributed Capital	509,293	320,559
CONTRIBUTED CAPITAL	8,315,011	7,805,718
NET POSITION	$ 11,283,852	$ 10,788,878

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, 2012 and 2011
(Dollars in thousands)

	2012		2011	
BUDGETARY RESOURCES (Notes 11 and 14)				
Unobligated balance, brought forward, January 1	$	10,453,208	$	10,430,194
Spending authority from offsetting collections (mandatory)				
Collected		940,745		705,451
Change in receivables from federal sources		(18,556)		9,358
Anticipated nonexpenditure transfer		(88,090)		(278,641)
TOTAL BUDGETARY RESOURCES	$	11,287,307	$	10,866,362
STATUS OF BUDGETARY RESOURCES				
Obligations incurred	$	746,148	$	413,154
Unobligated balance, end of year:				
Exempt from apportionment		10,541,159		10,453,208
Total unobligated balance, end of year		10,541,159		10,453,208
TOTAL STATUS OF BUDGETARY RESOURCES	$	11,287,307	$	10,866,362
CHANGE IN OBLIGATED BALANCE				
Unpaid obligations, brought forward, January 1	$	1,710	$	4,279
Uncollected customer payments from Federal sources, brought forward, January 1		(81,717)		(72,359)
Obligated balance, start of year (net), before adjustments		(80,007)		(68,080)
Obligations incurred		746,148		413,154
Outlays (gross)		(660,547)		(415,723)
Change in uncollected customer payments from Federal sources		18,556		(9,358)
Obligated balance, end of year				
Unpaid obligations, end of year		87,311		1,710
Uncollected customer payments from Federal Sources, end of year		(63,161)		(81,717)
OBLIGATED BALANCE, END OF YEAR (NET)	$	24,150	$	(80,007)
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget authority, gross (mandatory)	$	834,099	$	436,168
Actual offsetting collections (mandatory)		(940,745)		(705,451)
Change in uncollected customer payments from Federal sources (mandatory)		18,556		(9,358)
Anticipated offsetting collections (mandatory)		88,090		278,641
BUDGET AUTHORITY, NET (MANDATORY)	$	-	$	-
Outlays, gross (mandatory)	$	660,547	$	415,723
Actual offsetting collections (mandatory)		(940,745)		(705,451)
AGENCY OUTLAYS, NET (MANDATORY)	$	(280,198)	$	(289,728)

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

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 (FCU Act), 12 U.S.C. §1781 *et seq.*, as amended. 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, permanent 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 a 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 percent 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 the NCUA's Central Liquidity Facility (CLF).

Recent Legislation
In January 2011, *The National Credit Union Authority Clarification Act*, Public Law 111-382 (2011), amended the FCU Act by clarifying NCUA's authority to make TCCUSF expenditures without borrowing from the U.S. Treasury.

The National Credit Union Authority Clarification Act amended the FCU Act to permit the NCUA Board to assess a special premium with respect to each insured credit union in an aggregate amount that is reasonably calculated to make any pending or future TCCUSF expenditures, in addition to existing authority to make assessments to repay U.S. Treasury advances. The National Credit Union Authority Clarification Act also stated that "the Board take into consideration any potential impact on credit union earnings that such an assessment may have" and requires the premium be paid not later than 60 days after the date of the assessment. *The National Credit Union Authority Clarification Act* also amended the definitions of ''equity ratio'' and ''net worth,'' as further described in Note 12.

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 August 3, 2012.

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. §661e(a)(1)).

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 permanent cash assistance provided to insured credit unions; and (iv) allowance amounts for losses on the receivables from AMEs. Since 2009, the economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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.

The NCUSIF reviews all U.S. Treasury securities that are in an unrealized loss position 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 OTTI, the NCUSIF takes into consideration whether it has the intent to sell the security. The NCUSIF 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, 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. The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. 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 percent 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 percent. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20 percent, the NCUA Board shall 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 (1.20 percent) 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).

Premium receivable refers to premium charge amounts that have been billed to insured credit unions, but have not been received as of the reporting date. As the premium assessments are collected, the portion billed on behalf of the TCCUSF is recorded as a payable to the TCCUSF.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of losses in an existing 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.

Notes Receivable

Notes receivable 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.

Other - Receivables from Asset Management Estates

Receivables from AMEs 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 losses on receivables from AMEs are based on 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.

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.

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 adequacy of Liquidity (CAMEL), applying a rating ranging from "1" (strongest) to "5" (weakest). The contingent liability is derived by applying expected failures based on CAMEL ratings and historical loss rates. In addition, credit union specific analysis is performed on those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.

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.

Net Position and Contributed Capital

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.00 percent 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.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00 percent 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, 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.

Statement of Budgetary Resources

The NCUSIF has updated the Statement of Budgetary Resources presentation in the 2012 financial statements in accordance with the new presentation requirements of OMB Circular No. A-136, *Financial Reporting Requirements*. All calendar year 2011 activity and balances reported on the Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

Tax-Exempt Status

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

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, 2012 and 2011, consisted of the following:

(Dollars in thousands)	2012	2011
Total Fund Balance with Treasury: Revolving Funds	$ 2,479	$ 423
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 10,541,159	$ 10,453,208
Obligated Balances Not Yet Disbursed	87,311	1,710
Non-Budgetary FBWT Accounts	(10,650,920)	(10,651,420)
Non-FBWT Budgetary Accounts	24,929	196,925
Total	$ 2,479	$ 423

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 FBWT accounts, which consist of investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2012 and 2011, 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, 2012 and 2011, the carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of U.S. Treasury securities were as follows:

(Dollars in thousands)	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net (Par)	Net Unrealized Gain (Loss)	Carrying/ Fair Value
As of December 31, 2012:						
U.S. Treasury Securities						
Available-for-Sale	$ 10,751,623	$ (189,900)	$ 63,154	$ 10,320,000	$ 371,661	$ 10,933,384
Held to Maturity	359,703	n/a	-	359,703	n/a	359,703
Total Public Investments	$ 11,111,326	$ (189,900)	$ 63,154	$ 10,679,703	$ 371,661	$ 11,293,087
As of December 31, 2011:						
U.S. Treasury Securities						
Available-for-Sale	$ 10,560,623	$ (177,145)	$ 81,707	$ 10,120,000	$ 450,200	$ 10,833,678
Held to Maturity	558,898	n/a	-	558,898	n/a	558,898
Total	$ 11,119,521	$ (177,145)	$ 81,707	$ 10,678,898	$ 450,200	$ 11,392,576

Maturities of U.S. Treasury securities as of December 31, 2012 and 2011 were as follows:

(Dollars in thousands)	2012 Fair value	2011 Fair value
Held to Maturity (Overnights)	$ 359,703	$ 558,898
Available-for-sale:		
Due prior to one year	1,622,672	1,627,172
Due after one year through five years	6,835,744	7,785,740
Due after five years through ten years	2,474,968	1,420,766
	$ 11,293,087	$ 11,392,576

There were no realized gains or losses for the years ended December 31, 2012 and 2011.

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, 2012 and 2011.

	Duration of Unrealized Losses Less than 12 months	
(Dollars in thousands)	Unrealized Losses	Fair Value
As of December 31, 2012:		
Available-for-sale:		
U.S. Treasury securities	$ (6,681)	$ 1,390,141
As of December 31, 2011:		
Available-for-sale:		
U.S. Treasury securities	$ (72)	$ 111,688

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF lent approximately $42 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 $290 thousand and $344 thousand for the years ended December 31, 2012 and 2011, respectively. The note receivable balance as of December 31, 2012 and 2011 was approximately $14.4 million and $15.8 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, 2012 and 2011 was 1.93 percent and 2.10 percent respectively. The interest rate as of December 31, 2012 and 2011 was 1.83 percent and 2.01 percent, respectively.

As of December 31, 2012, the above note requires principal repayments as follows:

Years Ending December 31	**Secured Term Note** (Dollars in thousands)
2013	$ 1,341
2014	1,341
2015	1,341
2016	1,341
2017	1,341
Thereafter	7,710
Total	$ 14,415

Public – Accounts Receivable

Capitalization Deposits from Insured Credit Unions
As of December 31, 2012 and 2011, the capitalization deposits due from insured credit unions were $38 thousand and $30 thousand, respectively.

Premium Assessments from Insured Credit Unions
As of December 31, 2012 and 2011, assessments due from insured credit unions were $0 and $73 thousand, respectively.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2012 and 2011 was zero.

5. NOTES RECEIVABLE

As of December 31, 2012 and 2011, the NCUSIF had two outstanding capital notes due from insured credit unions. The capital notes receivable totaled $80.0 million and the related allowance for loss was $10.0 million, for a net capital note receivable of $70.0 million as of December 31, 2012 and 2011. These capital notes are subordinated to all shareholders, creditors, and any other such financial obligations. Accrued interest on the notes is due on a semi-annual basis. Interest on these notes have fixed and variable terms.

As of December 31, 2012, the NCUSIF had an outstanding collateralized senior note due from an insured credit union for $179.3 million. Accrued interest on the notes is due on a monthly basis. Interest on this note has variable terms.

As of December 31, 2012 and 2011, the accrued interest receivable for the notes totaled $202 thousand and $150 thousand, respectively.

6. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2012 and 2011, the receivable from AMEs was $1.1 billion and $932.0 million, and the related allowance for loss was $880.1 million and $817.3 million, for a net receivable from AMEs of $252.0 million and $114.7 million, respectively.

(Dollars in thousands)	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Gross Receivable from AME	$ 1,132,137	$ 932,061
Allowance for Loss, beginning balance	817,320	777,570
AME Receivable Bad Debt Expense (Reduction)	(2,910)	(6,730)
Increase in Allowance	107,578	80,955
Write-off of Cancelled Charters	(41,880)	(34,475)
Allowance for Loss, ending balance	880,108	817,320
Receivable from AME, Net	$ 252,029	$ 114,741

7. 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. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. 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 $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2012 or as of December 31, 2012. There were no guarantees outstanding during 2011 or as of December 31, 2011.

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 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, 2012 and 2011 were approximately $0 and $115.0 million, respectively. The insured credit unions borrowed $0 and $15.4 million, from the third-party lender, under these line-of-credit guarantees as of December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the NCUSIF reserved $0 and $2.1 million, respectively, for these guaranteed lines-of-credit. Guarantees of $60.0 million expired on December 31, 2012.

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, 2012 and 2011, respectively.

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

(Dollars in thousands)	For the Year Ended December 31, 2012		For the Year Ended December 31, 2011	
Beginning balance	$	606,617	$	1,225,281
Reserve Expense (Reduction)		(74,874)		(525,678)
Insurance losses claims paid		(349,080)		(105,099)
Net Estimated Recovery/Claim on AMEs		229,789		12,113
Ending balance	$	412,452	$	606,617

The Insurance and Guarantee Program Liabilities at December 31, 2012 and December 31, 2011 were comprised of the following:

- Specific reserves were $95.2 million and $16.4 million, respectively. Specific reserves are identified for those credit unions where failure is imminent or where additional information is available that may affect the estimate of losses.
- General reserves were $317.3 million and $590.2 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.

8. OTHER LIABILITIES – DISTRIBUTION PAYABLE

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 of 1.30 percent; and
- (iii) the NCUSIF's available assets ratio exceeds 1.00 percent.

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

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(c)(3) of the FCU Act. As of December 31, 2012 and 2011, the TCCUSF had an outstanding advance from the U.S. Treasury. 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 normal operating level of 1.30 percent and does not reduce the NCUSIF's available assets ratio below 1.00 percent.

As of December 31, 2012 and 2011, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling approximately $88.1 million and $278.6 million, respectively; thereby bringing the equity ratio down to its normal operating level of 1.30 percent. As of December 31, 2012 and 2011, the NCUSIF's available assets ratio was 1.29 and 1.32 percent, respectively. The equity ratio and available assets ratio calculations are discussed in Note 12. The $88.1 million amount payable as of December 31, 2012 is expected to be paid in the first half of 2013, upon receipt of certification of certain insured share information from credit unions.

9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and expenses arise from transactions with other federal entities. Public revenue and expenses arise from transactions with domestic and foreign persons and organizations outside of the Federal Government.

Intragovernmental Costs and Exchange Revenue	**For the Year Ended December 31, 2012**	**For the Year Ended December 31, 2011**
(Dollars in thousands)		
Intragovernmental Costs	$ 137,528	$ 129,985
Public Costs/(Cost Reduction)	(74,075)	(530,035)
Total	63,453	(400,050)
Intragovernmental Exchange Revenue	(290)	(344)
Public Exchange Revenue	(8,478)	(693)
Total	(8,768)	(1,037)
Net Cost/(Income)	$ 54,685	$ (401,087)

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 approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 59.3 percent and 58.9 percent to the NCUSIF for 2012 and 2011, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $137.5 million and $130.0 million for the years ended December 31, 2012 and 2011, respectively, is reflected as an expense in the Statements of Net Cost. These transactions are settled monthly. As of December 31, 2012 and 2011, amounts due to the NCUA Operating Fund for allocated administrative expenses were $2.0 million and $1.2 million, respectively. The following table provides a breakdown of the administrative services provided to the NCUSIF by the NCUA Operating Fund.

Administrative Services Reimbursed to the NCUA Operating Fund		**For the Year Ended December 31, 2012**		**For the Year Ended December 31, 2011**
(Dollars in thousands)				
Employee Salaries	$	75,177	$	73,271
Employee Benefits		26,178		20,996
Employee Travel		15,446		15,313
Contracted Services		10,408		9,107
Administrative Costs		7,472		8,518
Rent, Communications, and Utilities		2,847		2,780
Total Services Provided by the NCUA Operating Fund	$	137,528	$	129,985

10. 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, 2012 and 2011, the TCCUSF had $5.1 billion and $3.5 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2012 and 2011, the NCUSIF had $0.9 billion and $2.5 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, 2012 and 2011, the CLF had available borrowing capacity under its note purchase agreement for $2.3 billion and $10.0 billion. CLF’s current note purchase agreement expires March 31, 2013.

At December 31, 2012 and 2011, the NCUSIF had $3.2 billion and $12.5 billion, respectively, in total available borrowing authority.

11. 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, 2012 and 2011. 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, 2012 and 2011, the NCUSIF’s resources in budgetary accounts were $11.3 billion and $10.9 billion and undelivered orders were $694 thousand and $362 thousand, 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.

12. CONTRIBUTED CAPITAL

The *Credit Union Membership Access Act of 1998* (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.00 percent of the credit union's insured shares. Under Section 1782(c) of the FCU Act, 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 member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00 percent 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, 2012 and 2011, contributed capital owed to the NCUSIF totaled $38 thousand and $30 thousand, respectively. As of December 31, 2012 and 2011, contributed capital due to insured credit unions was zero.

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 Act of 2009*, 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 of 1.30 percent and does not reduce the current available assets ratio below 1.00 percent.

Pursuant to the FCU Act, the NCUSIF calculated and initiated distributions to the TCCUSF in the estimated amount of $88.1 million and $278.6 million, which is recognized as a payable as of December 31, 2012 and 2011. Thus, the NCUSIF's calculated equity ratio after distribution as of December 31, 2012 and 2011 was 1.30 percent, based on estimated total insured shares as of December 31, 2012 and 2011 of $839.4 billion and $795.3 billion, respectively. Total contributed capital as of December 31, 2012 and 2011 was $8.3 billion and $7.8 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 calculated available assets ratio as of December 31, 2012 and 2011 was 1.29 and 1.32 percent, based on total estimated insured shares as of December 31, 2012 and 2011 of $839.4 billion and $795.3 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), to (B) the aggregate amount of the insured shares in all insured credit unions.

13. 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 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.

Schedule of Fiduciary Activity	**For the Year Ended December 31, 2012**	**For the Year Ended December 31, 2011**
(Dollars in thousands)		
Fiduciary Net Liabilities, beginning of year	$ (823,594)	$ (781,264)
Net Realized Losses upon Liquidation	(196,037)	(59,986)
Revenues		
Interest on Loans	10,775	7,535
Other Fiduciary Revenues	2,154	1,691
Expenses		
Professional & Outside Services Expenses	(8,667)	(7,501)
Compensation and Benefits	(1,773)	(1,729)
Other Expenses	(1,848)	336
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	(1,233)	(25,144)
Net Gain/(Loss) on Real Estate Owned	210	712
Other, Net Gain/(Loss)	3,313	7,281
Decrease/(Increase) in Fiduciary Net Liabilities	(193,106)	(76,805)
Write off of Fiduciary Liabilities for Cancelled Charters	41,880	34,475
Fiduciary Net Liabilities, end of year	**$ (974,820)**	**$ (823,594)**

Revenues consist of cash collected during the liquidation of assets held within the AME. Gains and losses include the revaluation of assets, as well as the disposition of assets and adjustments to liabilities, which contribute to the change in fiduciary net assets/liabilities.

Schedule of Fiduciary Net Assets/Liabilities	**As of December 31, 2012**	**As of December 31, 2011**
(Dollars in thousands)		
Fiduciary Assets		
Loans	$ 186,688	$ 96,755
Real Estate Owned	32,443	31,687
Other Fiduciary Assets	25,209	7,954
Total Fiduciary Assets	**244,340**	**136,396**
Fiduciary Liabilities		
Insured Shares	63,861	8,595
Secured Claims	-	1,400
Accrued Liquidation Expenses	17,571	7,290
Unsecured Claims	4,692	7,793
Uninsured Shares	899	2,851
Due to NCUSIF	1,132,137	932,061
Total Fiduciary Liabilities	**1,219,160**	**959,990**
Total Fiduciary Net Assets/(Liabilities)	**$ (974,820)**	**$ (823,594)**

14. 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:

Reconciliation of Net Cost of Operations to Budget	As of December 31, 2012	As of December 31, 2011
(Dollars in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Budgetary Obligations Incurred	$ 746,148	$ 413,154
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(922,189)	(714,809)
Net Obligations	(176,041)	(301,655)
Other Resources:		
Net Unrealized (Gain)/Loss	78,539	(263,813)
Total Resources Used to Finance Activities	(97,502)	(565,468)
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(331)	432
Resources that Fund Expenses Recognized in Prior Periods	88,948	(2,136)
Costs Capitalized on the Balance Sheet	192,861	285,061
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(51,290)	413,986
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	230,188	697,343
Resources Used to Finance the Net Cost of Operations	132,686	131,875
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	(74,874)	(525,678)
AME Receivable Bad Debt Expense (Reduction)	(2,910)	(6,730)
Increase in Exchange Revenue	(235)	(574)
Components not Requiring or Generating Resources		
Depreciation Expense	18	20
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(78,001)	(532,962)
Net Cost/ (Income) from Operations	$ 54,685	$ (401,087)

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through February 15, 2013, which is the date the financial statements were available to be issued. Management determined that there were no items to disclose as of December 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2012 and 2011, the aggregate outstanding insured shares of the insured credit unions were $839.4 billion and $795.3 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, pursuant to Section 217(b)(2)(A) of the FCU Act, to the extent that the required funding for the guarantee obligations exceeds the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no 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 $412.5 million and $606.6 million as of December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, the general reserves were $317.3 million and $590.2 million, respectively. At December 31, 2012 and 2011, the specific reserves resulting from insured credit unions' failures were $95.2 million and $16.4 million, respectively.

While certain risk factors remain elevated, as compared to pre-2009, the NCUSIF's contingent liability decreased by $194.1 million from 2011 to 2012, and decreased by $618.7 million from 2010 to 2011. The trend is partly attributable to certain improving metrics, specifically a declining trend in the resolution of certain troubled credit unions, a reduction in assets in credit unions with CAMEL 4 and 5 ratings, and lower delinquencies and charge-offs.

Fees and Premiums

During 2012 and 2011, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

Sensitivity, Risks and Uncertainties of the Assumptions

As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures using an internal model that applies failure and loss rates based on historical data to troubled credit unions identified through the CAMEL rating system under various scenarios. Historical trends are not indicative of future performance. Actual losses could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2012.

The development of assumptions for 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 failure and loss rates. The failure rate is developed based on actual failures and historical migration trends in the CAMEL ratings, and incorporates the NCUA's expectations and assumptions about macroeconomic trends such as unemployment rate and level of consumer debt, as well as credit union system-wide factors such as delinquencies, bankruptcies and charge-offs. The loss rate 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 NCUSIF general reserve is sensitive to assumptions made about the failure and loss rates under various scenarios in the Monte Carlo simulation. Changing our assumptions for observed variations in failure rates and loss rates results in a wide range of losses, as compared to $317.3 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2012. Consistent with accounting standards, the assumptions used to estimate the anticipated losses will require continued calibration and refinement as circumstances change.