NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

NCUA 2014

FINANCIAL STATEMENT AUDITS

FOR

CENTRAL LIQUIDITY FACILITY

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

OPERATING FUND

SHARE INSURANCE FUND

For the year ended December 31, 2014

Audited Financial Statements	Audit Report Number
Central Liquidity Fund	OIG-15-02
Community Development Revolving Loan Fund	OIG-15-03
Operating Fund	OIG-15-04
Share Insurance Fund	OIG-15-05

February 17, 2015

James W. Hagen
Inspector General

February 17, 2015

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

Dear Chairman Matz and NCUA Board Members:

I am pleased to transmit KPMG LLP's (KPMG) report on its financial statement audit of the National Credit Union Administration's (NCUA) financial statements, which includes the Central Liquidity Facility, the Community Development Revolving Loan Fund, the Operating Fund, and the Share Insurance Fund, as of and for the years ending December 31, 2014 and 2013. The NCUA prepared financial statements in accordance with the Office of Management and Budget (OMB) Circular No. A-136 Revised, *Financial Reporting Requirements*, and subjected them to audit.

Under a contract monitored by NCUA OIG, KPMG, an independent certified public accounting firm, performed an audit of NCUA's financial statements as of December 31, 2014. 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 2014 includes: (1) an opinion on the financial statements, (2) conclusions on internal control over financial reporting, and (3) a section addressing compliance and other matters. In its audit of NCUA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- There were no material weaknesses in internal controls;[1]
- There were no significant deficiencies related to internal controls;[2] and
- No instances of reportable noncompliance with laws and regulations it tested or other matters that are required to be reported under Government Auditing Standards or OMB guidance.

[1] A material weakness is defined as a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
[2] A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To ensure the quality of the audit work performed, we reviewed KPMG's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, and reviewed and accepted KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NCUA's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's reports dated February 13, 2015 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We would like to extend our thanks to NCUA management and staff involved in issuing the financial statements within the established milestones. In addition, we appreciate the professionalism, courtesies, and cooperation extended to KPMG throughout the audit and our oversight of the audit process.

Management and Performance Challenges

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

<u>Organizational Structure</u>
Created by Congress, NCUA is an independent federal agency with the unique role of insuring deposits at all federal and most state-chartered credit unions, protecting the members who own credit unions, and regulating federally chartered credit unions. A three member politically appointed Board oversees NCUA's operations by setting policy, approving budgets, and adopting rules. As of September 30, 2014, over 98.7 million members have $939.1 billion in deposits at 6,350 federally insured credit unions. These credit unions have $1.1 trillion in assets.

<u>Agency Mission and Vision</u>
Throughout 2015 and 2016, NCUA will implement initiatives to continue meeting its mission to "provide, through regulation and supervision, a safe and sound credit union system which promotes confidence in the national system of cooperative credit," and its vision to ensure that "NCUA will protect consumer rights and member deposits."

Agency Challenges

<u>The Economic Environment</u>
The external environment will influence credit union industry results in 2015 and 2016. The near term outlook calls for continued improvement in labor markets, and modest economic growth. While those conditions are supportive of increased lending activity and continued low

delinquency rates, an improving economy may also result in a normalization of the interest rate environment. Therefore, credit unions' ability to manage and mitigate interest rate risk remains vital for their success.

<u>The Low Rate Environment and Interest Rate Risk</u>
The interest rate environment in 2015 and 2016 is likely to be marked by uncertainty and dominated by a transition to a more normal interest rate environment. This transition period may have profound impacts on both the level of interest rates and the shape of the yield curve –the relative level of rates for short-term bonds versus longer-term bonds. For some credit unions, rising interest rates might result in reduced earnings, lower asset valuations, and liquidity stress. Moreover, this transition will be occurring in the competitive environment of the 21st century, where consumers can move their funds quickly and are presented with many new alternatives for payment. There have also been regulatory changes that may result in more competition for deposits.

As noted last year, in a rising rate environment, credit unions with rate-sensitive deposits and fixed-rate assets may come under multiple stresses as fixed-rate assets lose value, deposit rates rise, liquidity decreases, and earnings are compressed by lower net interest margins.

<u>Cybersecurity</u>
Cyber threats pose significant dangers to the stability and soundness of the credit union industry. The nation faces a growing threat not only from the number of these cyber threats, but also the sophistication of malicious events. As consumers continue to integrate their interactions with financial institutions through online and mobile transactions, the risk of hacking and fraud will become substantially higher. Credit unions will need to enhance the security of their systems to protect themselves and their members. Of particular concern are attacks to credit union service organizations, which could potentially compromise a large number of credit unions at once.

<u>Lending trends</u>
Increasing concentrations in new lending areas, including member business loans and private student loans, emphasize the need for long-term risk diversification and effective risk management tools and practices, along with expertise to properly manage increasing concentrations of risk.

Respectfully,

James W. Hagen
Inspector General

cc: Executive Director, Mark Treichel
Deputy Executive Director (Audit Follow-up Official), John Kutchey
Chief Financial Officer, Rendell Jones
Deputy Chief Financial Officer, Peggy Sherry
General Counsel, Michael McKenna
Director, E&I, Larry Fazio
Director, E&I, Division of Capital and Credit Markets, J. Owen Cole, Jr.
Director, OSCUI, William Myers
Acting Chief Information Officer, David Chow
President, AMAC, Mike Barton
Director, PACA, Todd Harper

Report #OIG-15-02
National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, 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 National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Central Liquidity Facility (CLF), which comprise the balance sheets as of December 31, 2014 and 2013, 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 Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2014 and 2013, and its operations, members' equity, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the CLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 13, 2015

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Dollars in thousands, except share data)

	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 3 and 5)	$ 35,269	$ 30,442
Investments Held to Maturity (Net of $266 and $734 unamortized premium, fair value of $193,788 and $106,511 as of 2014 and 2013, respectively) (Notes 4 and 5)	193,737	108,306
Accrued Interest Receivable (Note 5)	514	313
TOTAL	$ 229,520	$ 139,061
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable (Note 5)	$ 179	$ 88
Other Liabilities (Notes 5 and 6)	-	3,123
Dividends Payable (Note 5)	125	26
Member Deposits (Notes 5 and 8)	600	252
TOTAL LIABILITIES	904	3,489
MEMBERS' EQUITY		
Capital Stock – Required ($50 per share par value authorized: 8,005,574 and 4,315,214 shares; issued and outstanding: 4,002,787 and 2,157,607 shares as of 2014 and 2013, respectively) (Notes 6 and 7)	200,139	107,880
Retained Earnings	28,477	27,692
TOTAL MEMBERS' EQUITY	228,616	135,572
TOTAL	$ 229,520	$ 139,061

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in thousands)

	2014	2013
REVENUE		
Investment Income	$ 1,735	$ 918
Total Revenue	1,735	918
EXPENSES (Note 10)		
Personnel Services	338	284
Personnel Benefits	108	59
Other General and Administrative Expenses	67	60
Total Operating Expenses	513	403
Interest – Liquidity Reserve	1	-
Total Expenses	514	403
NET INCOME	$ 1,221	$ 515

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in thousands, except share data)

	Capital Stock		Retained Earnings	Total
	Shares	**Amount**		
BALANCE – December 31, 2012	1,611,616	$ 80,581	$ 27,272	$ 107,853
Issuance of Required Capital Stock	557,295	27,864		27,864
Redemption of Required Capital Stock (Note 6)	(11,304)	(565)		(565)
Dividends Declared ($0.05/share) (Notes 7 and 8)			(95)	(95)
Net Income			515	515
BALANCE – December 31, 2013	2,157,607	107,880	27,692	135,572
Issuance of Required Capital Stock	1,857,120	92,856		92,856
Redemption of Required Capital Stock (Note 6)	(11,940)	(597)		(597)
Dividends Declared ($0.125/share) (Notes 7 and 8)			(436)	(436)
Net Income			1,221	1,221
BALANCE – December 31, 2014	4,002,787	$ 200,139	$ 28,477	$ 228,616

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 1,221	$ 515
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities:		
Amortization of Investments	88	157
Increase in Accrued Interest Receivable	(201)	(117)
Increase in Accounts Payable	91	12
Decrease in Other Liabilities	-	(101)
Net Cash Provided by Operating Activities	1,199	466
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(93,519)	(37,356)
Proceeds from Maturing Investments	8,000	1,000
Net Cash Used in Investing Activities	(85,519)	(36,356)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Required Capital Stock	89,653	27,777
Dividends Paid (Notes 7 and 8)	-	(40)
Redemption of Required Capital Stock	(502)	(562)
Withdrawal of Member Deposits	(4)	(11)
Net Cash Provided by Financing Activities	89,147	27,164
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,827	(8,726)
CASH AND CASH EQUIVALENTS - Beginning of Year	30,442	39,168
CASH AND CASH EQUIVALENTS - End of Year	$ 35,269	$ 30,442

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 7 and 9 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 maturities 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.

CLF evaluates investment securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is an OTTI, CLF takes into consideration whether it has the intent to sell the security.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the "investment income" line item in the 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% of all amounts due. CLF does not currently charge additional fees for its lending activities. There was no lending activity during 2014 and 2013.

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 – NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for CLF.

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, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to OF by CLF. 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, 2014	As of December 31, 2013
U.S. Treasury Overnight Investments	$ 35,107	$ 27,323
Deposits with U.S. Treasury	160	20
SunTrust Bank	2	3,099
Total	$ 35,269	$ 30,442

U.S. Treasury securities had an initial term of less than three months when purchased.

4. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and the fair value of held-to-maturity debt securities as of December 31, 2014 and 2013 were as follows:

(Dollars in thousands)	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2014				
U.S. Treasury Securities	$ 193,737	$ 933	$ (882)	$ 193,788
As of December 31, 2013				
U.S. Treasury Securities	$ 108,306	$ 508	$ (2,303)	$ 106,511

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

(Dollars in thousands)	As of December 31, 2014 Net Carrying Amount	As of December 31, 2014 Aggregate Fair Value	As of December 31, 2013 Net Carrying Amount	As of December 31, 2013 Aggregate Fair Value
Due in one year or less	$ 24,013	$ 24,036	$ 8,005	$ 8,051
Due after one year through five years	140,877	140,910	69,729	69,342
Due after five years through ten years	28,847	28,842	30,572	29,118
Total	$ 193,737	$ 193,788	$ 108,306	$ 106,511

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, 2014 and 2013.

	Losses Less than 12 months		Losses 12 months or Greater		Total	
(Dollars in thousands)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
As of December 31, 2014:						
U.S. Treasury securities	$ (107)	$ 45,271	$ (775)	$ 40,104	$ (882)	$ 85,375
As of December 31, 2013:						
U.S. Treasury securities	$ (2,303)	$ 63,499	$ -	$ -	$ (2,303)	$ 63,499

5. FAIR VALUE MEASUREMENTS

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

Cash and cash equivalents– The carrying amounts for cash and cash equivalents approximate fair value.

Investments held-to-maturity – CLF's investments held-to-maturity are all comprised of U.S. Treasury Securities, for which 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, 2014 and 2013. The carrying values and approximate fair values of financial instruments are as follows:

	As of December 31, 2014		As of December 31, 2013	
Financial Instruments (Dollars in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 35,269	$ 35,269	$ 30,442	$ 30,442
Investments held-to-maturity	193,737	193,788	108,306	106,511
Accrued interest receivable	514	514	313	313
Accounts payable	179	179	88	88
Other liabilities	-	-	3,123	3,123
Dividends payable	125	125	26	26
Member deposits	600	600	252	252

6. OTHER LIABILITIES

Other liabilities in 2013 include $3.1 million in advance deposits from credit unions that became members in 2014. There were no other liabilities as of December 31, 2014.

7. CAPITAL STOCK

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

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

The capital stock account represents subscriptions remitted to CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which is required to be remitted to CLF. Member credit unions are required to hold the remaining one-half in assets subject to call by the NCUA Board. These unremitted subscriptions are not reflected in CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are non-cumulative, and are declared and paid on required capital stock.

A member of CLF whose capital stock account constitutes less than 5% of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes 5% or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2014, CLF had no member withdrawal requests pending. As of December 31, 2013, CLF had no member withdrawal requests pending.

The required capital stock is redeemable upon demand by the members, subject to certain conditions as set out in the Act and NCUA regulations; however, the stock is not deemed "mandatorily redeemable" as defined in FASB ASC 480-10-25-7, *Mandatorily Redeemable Financial Instruments*; therefore capital stock is classified in permanent equity.

CLF's capital stock accounts were composed of the following as of December 31, 2014 and 2013:

(Dollars in thousands, except share data)	As of December 31, 2014		As of December 31, 2013	
	Shares	**Amount**	**Shares**	**Amount**
Regular members	4,002,787	$ 200,139	2,157,607	$ 107,880

Dividends on capital stock are declared based on available earnings and the dividend policy set by the NCUA Board. Dividends are accrued monthly based on prior quarter-end balances and paid on the first business day after the quarter-end. The dividend rates paid on capital stock for regular members are subject to change quarterly.

8. 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.

9. 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, 2014 and 2013, CLF's statutory borrowing authority was $5.1 billion and $2.9 billion, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock and surplus of the CLF. The CLF borrowing arrangement is exclusively with the Federal Financing Bank (FFB). NCUA maintains a note purchase agreement with FFB on behalf of CLF with a current maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary, the aggregate amount of which may not exceed its statutory borrowing authority, and renews them annually. Advances made under the current promissory notes can be made no later than March 31, 2015.

10. 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 $505.5 thousand and $409.8 thousand, respectively, for December 31, 2014 and 2013. Accounts payable includes approximately $118.7 thousand and $30.9 thousand, respectively, for December 31, 2014 and 2013, due to NCUA OF for services provided.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, which is the date the financial statements were available to be issued, and management determined there are no other items to be disclosed.

Report #OIG-15-03

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the Years Ended December 31, 2014 and 2013, 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 National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2014 and 2013, and its operations, changes in fund balance, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

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

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

KPMG LLP

February 13, 2015

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 3 and 8)	$ 8,839,092	$ 12,967,509
Loans Receivable (Notes 5, 7, and 8)	8,089,686	3,917,909
Interest Receivable (Note 8)	5,208	3,882
Total	$ 16,933,986	$ 16,889,300
LIABILITIES AND FUND BALANCE		
Liabilities - Accrued Technical Assistance Grants (Note 8)	$ 1,028,047	$ 852,010
Fund Balance:		
Fund Capital (Note 4)	14,124,064	14,244,241
Accumulated Earnings	1,781,875	1,793,049
Total Fund Balance	15,905,939	16,037,290
Total	$ 16,933,986	$ 16,889,300

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, 2014 AND 2013

	2014	2013
SUPPORT AND REVENUES:		
Interest on Cash Equivalents	$ 2,034	$ 4,835
Interest on Loans	28,850	20,969
Appropriation Revenue		
Appropriations Expended (Note 4)	1,569,740	1,002,963
Cancelled Technical Assistance Grants (Note 6)	(253,093)	(223,832)
Total Support and Revenues	1,347,531	804,935
EXPENSES:		
Technical Assistance Grants	1,613,661	1,107,833
Cancelled Technical Assistance Grants (Note 6)	(254,959)	(234,475)
Bad Debt Expense	3	-
Total Expenses	1,358,705	873,358
NET INCOME/(LOSS)	$ (11,174)	$ (68,423)

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Fund Capital				
	For Loans	For Technical Assistance	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2012	$ 13,387,777	$ 391,089	$ 13,778,866	$ 1,861,472	$ 15,640,338
Appropriations Received (Note 4)	-	1,247,000	1,247,000	-	1,247,000
Appropriations Expended	-	(1,002,963)	(1,002,963)	-	(1,002,963)
Appropriations Rescinded	-	(2,494)	(2,494)	-	(2,494)
Cancelled Technical Assistance Grants (Note 6)	-	223,832	223,832	-	223,832
Net Income/(Loss)	-	-	-	(68,423)	(68,423)
December 31, 2013	$ 13,387,777	$ 856,464	$ 14,244,241	$ 1,793,049	$ 16,037,290
Appropriations Received (Note 4)	-	1,200,000	1,200,000	-	1,200,000
Appropriations Expended	-	(1,569,740)	(1,569,740)	-	(1,569,740)
Cancelled Appropriations - Remitted to Treasury (Note 4)	-	(3,530)	(3,530)	-	(3,530)
Cancelled Technical Assistance Grants (Note 6)	-	253,093	253,093	-	253,093
Net Income/(Loss)	-	-	-	(11,174)	(11,174)
December 31, 2014	$ 13,387,777	$ 736,287	$ 14,124,064	$ 1,781,875	$ 15,905,939

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$ (11,174)	$ (68,423)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Used in Operating Activities:		
Bad Debt Expense	3	-
Appropriations Expended	(1,569,740)	(1,002,963)
Cancelled Technical Assistance	253,093	223,832
Changes in Assets and Liabilities:		
Increase in Interest Receivable	(1,326)	(599)
Increase/(Decrease) in Accrued Technical Assistance	176,037	(378,913)
Net Cash Used in Operating Activities	(1,153,107)	(1,227,066)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	858,220	601,113
Loan Disbursements	(5,030,000)	(570,000)
Net Cash Provided by/(Used in) Investing Activities	(4,171,780)	31,113
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received 2014/2015	1,200,000	-
Appropriations Received 2013/2014	-	1,247,000
Appropriations Rescinded 2013/2014	-	(2,494)
Cancelled Appropriations - Remitted to Treasury 2008/2009	(3,530)	-
Net Cash Provided by Financing Activities	1,196,470	1,244,506
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(4,128,417)	48,553
CASH AND CASH EQUIVALENTS — Beginning of Year	12,967,509	12,918,956
CASH AND CASH EQUIVALENTS — End of Year	$ 8,839,092	$ 12,967,509

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 2014 and 2013 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 – Loans are generally limited to $300,000 per credit union, however, NCUA may make loans that exceed this amount in certain circumstances. NCUA Rules and Regulations do not provide a maximum limit on loan applications. The maximum loan term is five (5) years, and for loans issued prior to May 22, 2012, interest and principal are to be paid on a semi-annual basis beginning six months and one year, respectively, after the initial loan disbursement. For loans issued on or after May 22, 2012, interest is to be paid on a semi-annual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan. The rate of interest on loans is governed by the CDRLF Loan Interest Rate Policy. Effective May 1, 2014, the interest rate was set to 0.60%, reflecting an increase of 0.20% from the previous period interest rate of 0.40%.

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

A provision for loans considered to be uncollectible is charged to the income statement when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. On the basis of this analysis, no allowance for loan losses was necessary as of December 31, 2014 and 2013. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

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

Related Party Transactions – NCUA 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, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Income Taxes – NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for CDRLF.

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

3. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

	2014	2013
Deposits with U.S. Treasury	$ 2,239,092	$ 3,967,509
U.S. Treasury Overnight Securities	6,600,000	9,000,000
	$ 8,839,092	$ 12,967,509

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, 2014, CDRLF received an appropriation for technical assistance grants in the amount of $1,200,000 for the Federal fiscal year (FY) 2014. This is a multiyear appropriation that is available for obligation through September 30, 2015. Of this amount, $848,948 was expended for the year ended December 31, 2014. An additional $720,792 was expended from the FY 2013 appropriation.

During the year ended December 31, 2013, CDRLF received an appropriation for technical assistance grants in the amount of $1,247,000 for FY 2013. This was a multiyear appropriation that was available for obligation through September 30, 2014. Of this amount, $2,494 was rescinded, and $782,733 was expended for the year ended December 31, 2013. An additional $220,230 was expended from the FY 2012 appropriation.

Appropriated funds in the amount of $3,530 from the FY 2008 appropriation were remitted to the U.S. Treasury in 2014 upon cancellation.

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

5. LOANS RECEIVABLE

Receivables consisted of the following as of December 31, 2014 and 2013.

	2014	2013
Balance as of beginning of year	$ 3,917,909	$ 3,949,022
Add: Loans disbursed	5,030,000	570,000
Less: Loan repayments	(858,220)	(601,113)
Less: Bad Debt Expense	(3)	-
Loans receivable as of end of year	$ 8,089,686	$ 3,917,909
Changes in the allowance for loan losses consisted of the following:		
Balance as of beginning of year	$ -	$ -
Decrease (increase) in allowance	-	-
Allowance for loan losses as of end of year	$ -	$ -
Loans receivable, net as of end of year	$ 8,089,686	$ 3,917,909

Loans outstanding as of December 31, 2014, are scheduled to be repaid during the following subsequent years:

	2014
2015	$ -
2016	-
2017	2,599,688
2018	459,998
2019	5,030,000
Loans Outstanding	8,089,686
Allowance for Loan Losses	-
Total Loans Receivable	$ 8,089,686

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 2014, CDRLF cancelled $1,866 of technical assistance grants awarded from the revolving fund and $253,093 of technical assistance grants awarded from multiyear funds. These amounts were recognized as Cancelled Technical Assistance Grants, decreasing expenses.

Cancelled technical assistance grants from the revolving fund are credited back to accumulated earnings. Cancelled technical assistance grants from previously expended multiyear funds are credited back to the original appropriated fund from which they are awarded. As a result, the $253,093 was also recognized as Cancelled Technical Assistance Grants, decreasing revenue, and resulting in no change to net income.

For the year ended December 31, 2013, CDRLF cancelled $10,643 of technical assistance grants awarded from the revolving fund and $223,832 of technical assistance grants awarded from multiyear funds.

Cancelled technical assistance grants awarded from appropriations from FY 2009 through 2013 will be remitted to the U.S. Treasury upon cancellation of the related appropriation.

7. CONCENTRATION OF CREDIT RISK

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

NCUA Rules and Regulations Section 705.5 permit the classification of the loan in the participating credit union's accounting records as a non-member deposit. As a non-member deposit, $250,000 per credit union is insured by the National Credit Union Share Insurance Fund (NCUSIF). The aggregate amount of uninsured loans totaled $3,049,723 and $799,723 as of December 31, 2014 and 2013, respectively. The increase in FY 2014 is due to the issuance of nine loans over $250,000.

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.

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, 2014 and 2013.

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 8,839,092	$ 8,039,000	$ 12,967,509	$ 12,968,000
Loans receivable	8,089,686	8,095,000	3,917,909	3,923,000
Interest receivable	5,208	5,000	3,882	4,000
Liabilities:				
Accrued technical assistance grants	1,028,047	1,028,000	852,010	852,000

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, 2014 and 2013, NCUA, through the OF, paid the following overhead expenses on behalf of CDRLF:

	2014	2013
Employee	$ 306,760	$ 309,918
Other	56,789	63,829
Total	$ 363,549	$ 373,747

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, which is the date the financial statements were available to be issued, and management determined there are no other items to be disclosed.

Report #OIG-15-04
National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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KPMG LLP
Suite 12000
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Operating Fund (OF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund as of December 31, 2014 and 2013, 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 Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the OF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

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

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

KPMG LLP

February 13, 2015

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Dollars in thousands)

	2014	2013
ASSETS:		
CASH AND CASH EQUIVALENTS (Note 3)	$ 40,940	$ 37,913
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 7)	3,509	3,313
EMPLOYEE ADVANCES	62	38
OTHER ACCOUNTS RECEIVABLE, Net (Notes 7 and 10)	322	203
PREPAID EXPENSES AND OTHER ASSETS	2,145	1,378
ASSETS HELD FOR SALE (Note 6)	644	-
FIXED ASSETS — Net of accumulated depreciation of $28,210 and $29,121 as of December 31, 2014 and December 31, 2013, respectively (Note 4)	30,279	30,215
INTANGIBLE ASSETS — Net of accumulated amortization of $15,844 and $13,134 as of December 31, 2014 and December 31, 2013, respectively (Note 5)	2,904	4,263
TOTAL	$ 80,805	$ 77,323
LIABILITIES AND FUND BALANCE:		
LIABILITIES:		
Accounts payable and accrued other liabilities	$ 6,598	$ 4,718
Obligations under capital leases (Note 8)	213	59
Accrued wages and benefits	12,873	11,356
Accrued annual leave	15,469	14,571
Accrued employee travel	491	1,068
Notes payable to National Credit Union Share Insurance Fund (Note 7)	11,733	13,074
Total liabilities	47,377	44,846
COMMITMENTS AND CONTINGENCIES (Notes 7, 8, 11 & 12)		
FUND BALANCE	33,428	32,477
TOTAL	$ 80,805	$ 77,323

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in thousands)

	2014	2013
REVENUES:		
Operating fees	$ 77,875	$ 93,112
Interest	16	28
Other	1,213	1,346
Total revenues	79,104	94,486
EXPENSES, NET (Note 7):		
Employee wages and benefits	57,294	69,797
Travel	8,222	10,520
Rent, communications, and utilities	1,518	1,990
Contracted services	6,783	8,518
Depreciation and amortization	5,878	5,418
Administrative	(1,542)	(634)
Total expenses, net	78,153	95,609
EXCESS OF REVENUES OVER (UNDER) EXPENSES	951	(1,123)
FUND BALANCE—Beginning of year	32,477	33,600
FUND BALANCE—End of year	$ 33,428	$ 32,477

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over (under) expenses	$ 951	$ (1,123)
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:		
Depreciation and amortization	5,878	5,418
Provision for loss on disposal of employee residences held for sale	122	27
Loss on fixed asset and intangible asset retirements	13	17
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	(196)	(1,273)
Employee advances	(24)	(13)
Other accounts receivable, net	(119)	8
Prepaid expenses and other assets	(767)	(323)
(Decrease) increase in liabilities:		
Accounts payable	1,431	(500)
Accrued wages and benefits	1,517	1,178
Accrued annual leave	898	739
Accrued employee travel	(577)	373
Net cash provided by operating activities	9,127	4,528
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and intangible assets	(3,969)	(2,603)
Proceeds from sale of employee residences held for sale	359	827
Purchases of employee residences held for sale	(1,125)	-
Net cash used in investing activities	(4,735)	(1,776)
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	(24)	(19)
Net cash used in financing activities	(1,365)	(1,360)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,027	1,392
CASH AND CASH EQUIVALENTS—Beginning of year	37,913	36,521
CASH AND CASH EQUIVALENTS—End of year	$ 40,940	$ 37,913
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES -		
Acquisition of equipment under capital lease	$ 177	$ -
CASH PAYMENTS FOR INTEREST	$ 229	$ 249

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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), and
d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF, TCCUSF, and CLF, while support of the CDRLF is not reimbursed as described in Note 7. Expenses included on the Statement of Revenues, Expenses, and Changes in Fund Balance are shown net of reimbursements from related parties. This may result in credit balances if expense activity for the Operating Fund is less than the reimbursements from related parties.

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 2014 and 2013 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 lower of the present value of the future minimum lease payments or the fair market value of the leased asset. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the 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 may hold certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell—based on a review of available financial information including but not limited to appraisals, markets analyses, etc.—is less than its carrying amount, the carrying value of the asset is adjusted to its fair value less costs to sell.

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

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

Accounts Payable and Accrued Other Liabilities – The Fund incurs administrative expenses and liabilities for programs pertaining to related parties that are controlled by the NCUA Board. Accruals are made as expenses are incurred. Accrued other liabilities include contingent liabilities, as described in Note 11.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). 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. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from NCUA for these paid claims. The DOL bills NCUA are paid, and the Fund in turn accrues a liability to recognize the future payments. The Fund records an estimate for the FECA actuarial liability using the DOL's FECA model. The model considers the average amount of benefit payments incurred by the agency for the past three fiscal years, multiplied by the medical and compensation liability to benefits paid ratio for the whole FECA program.

Operating Fees – Each 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 fees, sales of publications, parking income, and rental income is recognized when earned.

Income Taxes – NCUA, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is recorded for the Fund.

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. 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), obligations under capital leases, and notes payable to NCUSIF 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.

3. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2014 and 2013 are as follows (in thousands):

	2014	**2013**
Deposits with U.S. Treasury	$2,152	$504
U.S. Treasury Overnight Investments	38,788	37,409
Total	$40,940	$37,913

The Operating Fund does not hold any cash or cash equivalents outside of the U.S. Department of the Treasury.

4. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2014 and 2013 (in thousands):

	2014	**2013**
Office building and land	$48,273	$48,115
Furniture and equipment	8,850	10,713
Leasehold improvements	406	406
Equipment under capital leases	279	102
Total	57,808	59,336
Less accumulated depreciation	(28,210)	(29,121)
Assets under construction	681	-
Fixed assets, net	$30,279	$30,215

Depreciation expense for the years ended December 31, 2014 and 2013 totaled $3.1 and $2.7 million, respectively.

Assets under construction includes costs associated with improvements for NCUA headquarters that increases the future service potential of the capital asset (building) and does more than maintain existing level of service.

5. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Internal-use software	$17,954	$16,945
Less accumulated amortization	(15,844)	(13,134)
Total	2,110	3,811
Internal-use software under development	794	452
Intangible assets, net	$2,904	$4,263

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2014 and 2013 totaled $2.7 and $2.7 million, respectively.

Internal-use software under 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

The net balance of real estate available for sale as of December 31, 2014 and 2013 was $643.5 thousand and $0, respectively, and includes impairment charges and costs to sell of $90.6 thousand and $0 as of December 31, 2014 and 2013, respectively. Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Ongoing costs to maintain properties are expensed as incurred.

7. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. In 2014, the allocation to NCUSIF was 69.2% of all expenses. In 2013, the allocation to NCUSIF was the entire cost of the Office of National

Examinations and Supervision (formerly called Office of Corporate Credit Unions) to the extent that they exceeded the actual operating fees paid by Federal corporate credit unions, plus 59.1% of all other expenses. The cost of the services allocated to NCUSIF, which totaled $175.6 and $146.0 million for 2014 and 2013, respectively, is reflected as a reduction of the expenses shown in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2014 and 2013, amounts due from NCUSIF, under this allocation method, totaled $3.5 and $3.3 million, respectively.

In addition, the Fund charges NCUSIF for certain developmental costs related to development of internal-use intangible assets requiring the use of Operating Fund labor. As of December 31, 2014 and 2013, these amounts were $20.9 thousand and $0, respectively.

In 1992, the Fund entered into a commitment to borrow up to $42.0 million in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $228.6 and $248.8 thousand for 2014 and 2013, respectively. The notes payable balances as of December 31, 2014 and 2013 were $11.7 and $13.1 million, respectively. The current portion of the long-term debt is $1.3 million as of December 31, 2014. The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2014 and 2013 were 1.85% and 1.82%, respectively. The interest rates as of December 31, 2014 and 2013 were 1.87% and 1.78%, respectively.

The secured term note requires principal repayments as of December 31, 2014, as follows (in thousands):

Years ending December 31	**Secured Term Note**
2015	$1,341
2016	1,341
2017	1,341
2018	1,341
2019	1,341
Thereafter	5,028
Total	$11,733

(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 $505.5 and $409.8 thousand for the years ending December 31, 2014 and 2013, respectively, and are reflected as a reduction of the expenses shown in the accompanying financial statements.

Other accounts receivable include $118.7 and $30.9 thousand of amounts due from the CLF as of December 31, 2014 and 2013, respectively.

(c) Support of CDRLF

The Fund supports the administration of programs under CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. For the years ending December 31, 2014 and 2013, unreimbursed administrative support to CDRLF is estimated at (in thousands):

	2014	2013
Personnel	$307	$310
Other	57	64
Total	$364	$374

(d) Support of TCCUSF

The Fund supports the administration of programs under TCCUSF by paying related personnel costs such as pay and benefits and other associated costs which include but are not limited to telecommunications, supplies, printing, and postage. For the years ending December 31, 2014 and 2013, unreimbursed administrative support to TCCUSF is estimated at (in thousands):

	2014	2013
Personnel	$921	$986
Other	28	29
Total	$949	$1,015

In addition, the Fund initially paid for and was reimbursed $782.7 and $589.1 thousand for the salaries and related benefits of TCCUSF employees for the year-ending December 31, 2014 and 2013, respectively. These reimbursements are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

(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 served as its Chairman for a two-year term that ended on April 1, 2013. 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, 2014 and 2013, FFIEC assessments totaled $1.1 million and $983.6 thousand, respectively. FFIEC's 2015 budgeted assessments to NCUA total $1.4 million (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 copiers, laptops, and mail equipment.

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2020. Office rental charges amounted to approximately $1.1 and $1.2 million, of which approximately $765.0 and $689.0 thousand were reimbursed by NCUSIF for 2014 and 2013, respectively. In addition, the Fund leases laptops and other office equipment under operating leases with lease terms that will continue through 2015.

Capital Leases – The Fund leases copiers, laptops, and mail equipment under lease agreements that run through 2019. Amounts presented in the table below include $74.3 thousand of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2014, before reimbursements, are as follows (in thousands):

Years ending December 31	**Operating Leases**	**Capital Leases**
2015	$1,083	$73
2016	820	85
2017	837	76
2018	659	50
2019	675	3
Thereafter	609	-
Total	$4,683	$287

Based on the allocation factor approved by the NCUA Board, NCUSIF is expected to reimburse the Fund for approximately 71.80% of the 2015 operating lease payments.

The Fund, as a lessor, currently holds operating lease agreements with two tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry six month to five year terms with escalating rent payments. The last of these leases is set to expire in 2020.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2014 are as follows (in thousands):

Years ending December 31	Scheduled Rent Payments
2015	$309
2016	305
2017	312
2018	318
2019	324
Thereafter	81
Total	$1,649

9. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans include components that are defined benefit plans. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and the Thrift Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the Thrift Savings Plan, employees may also elect additional contributions up to $17.5 thousand ($23.0 thousand for age 50 and above) in 2014, and the Fund will match up to 5% of the employee's gross pay. In 2014 and 2013, the Fund's contributions to the plans were approximately $21.5 and $19.8 million, respectively, of which approximately $14.9 and $11.7 million, respectively, was allocated to NCUSIF.

These defined benefit plans are administered by the U.S. Office of Personnel Management (OPM), which determines the required employer contribution level. The Fund does not account for the assets pertaining to the above plans, and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by OPM and are not allocated to individual employers.

The Fund established a voluntary defined contribution 401(k) Plan (NCUA Savings Plan), effective January 1, 2012. The NCUA Collective Bargaining Agreement (CBA) sets the rates of contribution required by the Fund, and the current agreement is in effect through the end of 2014, continuing each year thereafter until a new agreement is negotiated. As of December 31, 2014, no new agreement has been negotiated. The current CBA requires the Fund to contribute 3.0% of an employee's compensation as defined in Article 9 *Compensation and Benefits* of the CBA. In addition, the current CBA requires the Fund to match employee contributions up to 1.5% in 2014 and 1.5% in 2015 unless a new agreement changes the contribution rate. NCUA's contributions for 2014 and 2013 were $5.4 and $4.6 million, respectively. The operating expense associated with the NCUA Savings Plan in 2014 and 2013 were $64.1 and $63.0 thousand, respectively. A total of 69.2% of all costs of the NCUA Savings Plan was allocated to the NCUSIF in 2014. Matching, vesting, and additional information is published and made available in a Summary Plan Description.

10. FAIR VALUE MEASUREMENTS

The following disclosures of the estimated fair values are made in accordance with the requirements of FASB ASC 820, *Fair Value Measurements and Disclosures.* Fair value is the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The related impairment charges for 2014 and 2013 were $122.3 and $27.0 thousand, respectively. Impairment charges are recorded within the statement of revenues, expenses and changes in fund balance and represent non-recurring fair value measures. The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2014 and 2013.

Assets held for sale	**Amortized Cost Basis**	**Aggregate Fair Value**	**Impairment at Year-End**
2014	$644	$644	$91
2013	-	-	-

(a) Non-recurring Fair Value Measures

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.

(b) Summary Financial Instrument Fair Values

The carrying values approximate the fair values of certain financial instruments as of December 31, 2014 and 2013, were as follows (in thousands):

	2014		2013	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Cash and cash equivalents	$40,940	$40,940	$37,913	$37,913
Due from NCUSIF	3,509	3,509	3,313	3,313
Employee advances	62	62	38	38
Other accounts receivable, net	322	322	203	203
Obligations under capital lease	213	213	59	59
Notes payable to NCUSIF	11,733	11,733	13,074	13,074

Cash and Cash Equivalents – The carrying amounts for cash and cash equivalents financial instruments approximates fair value as the short-term nature of these instruments does not lead to significant fluctuations in value. Cash equivalents are U.S. Treasury overnight investments.

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid within the first quarter of fiscal year 2015.

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 2015.

Other Accounts Receivable, Net – The carrying amounts for other accounts receivable approximates fair value, as the original gross amounts together with a valuation allowance reflect the net amount that is deemed collectible. As of December 31, 2014 and 2013, the Fund's Other Accounts Receivable includes an allowance in the amount of $1.1 and $74.1 thousand, respectively.

Obligation under Capital Lease – The carrying amounts for the remaining obligations owed on capital leases financial instruments approximates fair value because the underlying interest rates 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.

12. COLLECTIVE BARGAINING AGREEMENT

NCUA has a collective bargaining agreement (CBA) with the National Treasury Employees Union (NTEU). NTEU is the exclusive representative of approximately 80% of NCUA employees. The agreement currently in place became effective on November 1, 2011, and remains in effect. NCUA and NTEU are currently negotiating a new agreement.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2015, 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-15-05

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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Overview

I. Mission and Organizational Structure

NCUSIF Mission

The National Credit Union Administration (NCUA) administers the National Credit Union Share Insurance Fund (NCUSIF or Fund).[1] Congress created the NCUSIF in 1970 to insure members' shares (deposits) in credit unions. The NCUSIF is backed by the full faith and credit of the U.S. Government. As of December 2014, the NCUSIF insures an estimated $903.0 billion in member shares in just under 6,300 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, cash assistance, including subordinated notes or other forms; and
- cash assistance to arrange a merger or purchase and assumption.

When a credit union is no longer able to continue operating and assistance alternatives 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 and the Office of National Examinations and Supervision (ONES) 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.

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

II. *Performance Goals, Objectives and Results*

Consistent with the *NCUA Strategic Plan 2014 through 2017*, which emphasizes ensuring a "sustainable credit union system," the agency prepared the *NCUA 2014-2015 Annual Performance Plan*. Performance goals include maintaining strong levels of credit union system-wide net worth and corporate credit union leverage ratios, examining all federal credit unions annually, examining all federally-insured state-chartered credit unions with assets above $250 million annually, maintaining yearly NCUSIF losses for current year failures as a percentage of average insured shares at less than 0.03%, and minimizing total assets in CAMEL[2] Code 4/5 rated credit unions. For 2014, NCUSIF losses for current year failures ratio was 0.004%, as compared to 0.008% for 2013. Total assets in CAMEL Code 4/5 credit unions decreased to $11.5 billion in 2014, as compared to $13.8 billion in 2013.

In measuring the performance of the NCUSIF for 2014 and 2013, the following additional measures should be considered.

2014 and 2013 Performance Measures		
	December 31, 2014	December 31, 2013
Equity Ratio (Before Distribution)	1.29%	1.31%
Insurance and Guarantee Program Liabilities (Contingent Liability)	$178.3 million	$220.7 million
Net Position	$11.8 billion	$11.3 billion
Insured Shares	$903.0 billion	$866.3 billion
Credit Union Involuntary Liquidations and Assisted Mergers	15	17
Assets in CAMEL 3, 4 and 5 rated Credit Unions	$106.9 billion	$122.4 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%. The NCUA Board set the current NOL at 1.30%.

By statute, when the equity ratio falls below 1.20%, the NCUA Board must establish and implement a restoration plan to rebuild the equity ratio, which may include a premium assessment to each insured credit union. In 2014 and 2013, 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.

[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.

The equity ratio was 1.29%, slightly below the NOL as of December 2014. As a result, no distribution was payable to the TCCUSF for 2014. For 2013, the NCUSIF ended the year with an equity ratio of 1.31%, which resulted in a distribution of $95.3 million to TCCUSF to reduce the equity ratio to 1.30%.

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 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 NCUSIF's year-end contingent liability is derived by using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. 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.

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.

The credit union industry improved during 2014 as reflected by the reduction in assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2013. Assets in CAMEL 3, 4 and 5 rated credit unions dropped to $106.9 billion at the end of 2014, versus $122.4 billion at the end of 2013. Improvements were also seen with the system-wide net worth ratio; this ratio increased to 11.0% from 10.7%. These improvements, as well as other trends, helped contribute to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF Balance Sheets. The NCUSIF ended 2014 with Insurance and Guarantee Program Liabilities of $178.3 million to cover potential losses as compared with $220.7 million for the previous year-end, a reduction of $42.4 million.

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

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 2014 with the Balance Sheets showing an increase in Total Assets and its Total Net Position and a reduction in Insurance and Guarantee Program Liabilities from the prior year. With the Statements of Net Cost, net cost increased to $132.3 million primarily due to increases in Operating Expenses. These changes are explained in further detail below.

Summarized Financial Information (in thousands)		
	December 31, 2014	December 31, 2013
Total Assets	$11,957,607	$11,606,600
Investments, Net	11,611,538	11,199,001
Notes Receivable, Net	174,213	212,208
Receivables from Asset Management Estates, Net	87,785	119,863
Insurance and Guarantee Program Liabilities	178,318	220,651
Contributed Capital	8,944,099	8,661,174
Net Position	11,775,355	11,281,103
Operating Expenses	179,818	148,312
Provision for Insurance Losses, Reserve Expense (Reduction)	3,298	(41,054)
Provision for Insurance Losses, AME Receivable Bad Debt Expense	(45,138)	(7,584)
Total Net Cost of Operations	132,345	95,124
Cumulative Results of Operations	2,831,256	2,619,929
Interest Revenue – Investments	208,259	198,264

Balance Sheet Highlights

Total Assets increased by $351.0 million in 2014. The increase came primarily from net unrealized gains on Investments, $135.4 million, and Interest Revenue – Investments, $208.3 million, partially offset by Total Net Cost of Operations, $132.3 million.

Balances of Investments increased by $412.5 million during 2014, primarily driven by investing net additions to Contributed Capital and increasing market values of U.S. Treasury securities held as available-for-sale. During 2014, the interest rate yield curve on U.S. Treasury securities decreased, primarily driven by the decrease in market interest rate yields on securities with maturities of five years or more. The decrease in market interest rate yields resulted in an increase in the market value of U.S. Treasury securities.

Notes Receivable, Net declined $38.0 million and Receivables from Asset Management Estates, Net declined $32.1 million. The decreases in the balances of Notes Receivable, Net and Receivables from Asset Management Estates, Net include the collection of principal on outstanding loans, mortgages and other debt instruments. Also, Receivables from Asset Management Estates, Net include various transactions that are explained in Note 7 to the financial statements.

Insurance and Guarantee Program Liabilities, referred to as contingent liabilities, were $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively. In general, the decrease reflects improved financial strength in the credit union industry and strengthening macroeconomic conditions, such as geographic housing indicators.

Contributed Capital increased by $282.9 million during 2014 due to the growth of insured shares in credit unions. Each insured credit union deposits one percent of its insured shares as Contributed Capital. In 2014, credit union membership grew by 3.13% to approximately 99.3 million members.

Net Position increased $494.3 million during 2014 and is a combination of other increases and decreases. Increases include interest revenue on Investments of $208.3 million, net additions of Contributed Capital of $282.9 million, and net unrealized gains on Investments of $135.4 million. Decreases include Net Cost of Operations of $132.3 million.

Statements of Net Cost Highlights

Total Net Cost of Operations was $132.3 million for 2014, as compared to $95.1 million for 2013. The primary increase in Net Cost of Operations is attributable to the increase in Operating Expenses of $31.5 million. As explained on Note 10, Operating Expenses include expenses from the NCUA Operating Fund based on an allocation factor that increased from 59.1% to 69.2% for 2014. Also, the Provision for Insurance Losses is an expense reduction of $41.8 million and $48.6 million for both 2014 and 2013, respectively; the net change between years is an increase in cost of $6.8 million. Within the Provision of Insurance Loss for 2014, the Reserve Expense was $3.3 million, reflecting an increase in losses related to the 15 credit union involuntary liquidations and assisted mergers, while the AME Receivable Bad Debt Expense was a $45.1 million expense reduction, reflecting recoveries and increases in net realizable values of assets managed.

Statements of Changes in Net Position Highlights

Cumulative results of operations increased by $211.3 million in 2014. This increase was primarily driven by net unrealized gains on Investments of $135.4 million and Interest Revenue of $208.3 million, partially offset by Net Cost of Operations of $132.3 million. Interest Revenue was the primary source of funds to partially offset expenses and obligations.

As of December 31, 2014, the NCUSIF calculated equity ratio was 1.29%; therefore, NCUSIF was not required to make a distribution to the TCCUSF. As of December 31, 2013, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling $95.3 million, thereby bringing the equity ratio down to its NOL of 1.30%. This amount was paid to TCCUSF in March 2014.

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 $435.3 million and $376.3 million for 2014 and 2013, respectively. This increase is primarily the result of the growth of credit union insured shares and the corresponding 1.00% contributed capital deposit adjustment received.

Limitations of the Financial Statements

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

Liquidity Risk and Capital Resources

For liquidity, the NCUSIF maintains cash in its Fund Balance with Treasury (FBWT) 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.

2014 and 2013 Fund Balance with Treasury and Investments		
	December 31, 2014	December 31, 2013
Fund Balance with Treasury	$ 10.5 million	$ 2.5 million
U.S. Treasury Securities		
Overnight	173.6 million	329.6 million
Available-for-Sale	11,437.9 million	10,869.4 million

During 2014, the FBWT account was increased primarily 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% of its insured shares. For the years ended December 31, 2014 and 2013, the NCUSIF's contributed capital from insured credit unions increased by $282.9 million and $346.2 million, respectively. Total insured shares were estimated at $903.0 billion and $866.3 billion as of December 31, 2014 and 2013, respectively.

At December 31, 2014, NCUA estimated the total insured shares to be approximately $903.0 billion, subject to certified reporting of insured share amounts. We expect that the NCUSIF will receive additional capitalization deposits of approximately $86.1 million from insured credit unions in early 2015 when NCUA invoices for its biannual contributed capital adjustment.

Cumulative Results of Operations

The NCUSIF ended 2014 and 2013 with a total of $2.8 billion and $2.6 billion in cumulative results of operations, respectively. 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, 2014 and 2013, 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, 2014 and 2013, the TCCUSF had $2.6 billion and $2.9 billion in borrowing outstanding from the U.S. Treasury, respectively; the NCUSIF had no borrowings outstanding. As a result, the NCUSIF had $3.4 billion and $3.1 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, 2014 and 2013, the NCUSIF did not have any outstanding borrowing from the CLF. The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF had statutory borrowing authority of $5.1 billion as of December 31, 2014. NCUA maintains a note purchase agreement with Federal Financing Bank (FFB) on behalf of CLF with a maximum principal amount of $2.0 billion. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances under the current promissory note can be made no later than March 31, 2015.

IV. Systems, Controls, and Legal Compliance

The NCUSIF was created by Title II of the FCU Act, 12 U.S.C. §1781 *et seq*., as amended. In January 2011, the *National Credit Union Authority Clarification Act*, Public Law 111-382, amended the FCU Act in part by amending the definitions of "equity ratio" and "net worth." NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. The Federal Managers' Financial Integrity Act (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.

As required by the Federal Information Security Management Act (FISMA), NCUA develops, documents, and implements an agency-wide program to provide information privacy and security (management, operational, and technical security controls) for the information and information systems that support the operations of the agency, including those provided or managed by another agency, contractor, or other source.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Share Insurance Fund (NCUSIF), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2014, we considered the NCUSIF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

February 13, 2015

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 10,493	$ 2,501
Investments, Net - U.S. Treasury Securities (Note 3)	11,611,538	11,199,001
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)	11,733	13,074
Accrued Interest Receivable (Note 3)	59,700	59,597
Total Intragovernmental Assets	11,693,464	11,274,173
PUBLIC		
Notes Receivable, Net (Note 5)	174,213	212,208
Accounts Receivable - Due from Insured Credit Unions, Net (Note 4)	1,586	-
Accrued Interest Receivable - Notes (Note 5)	396	329
General Property, Plant and Equipment, Net (Note 6)	128	-
Other - Receivables from Asset Management Estates (AMEs), Net (Note 7)	87,785	119,863
Other Assets	35	27
Total Public Assets	264,143	332,427
TOTAL ASSETS	$ 11,957,607	$ 11,606,600
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 10)	$ 3,509	$ 3,313
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	-	3,910
Other - Distribution Payable to the Temporary Corporate Credit Union Stabilization Fund (Note 9)	-	95,291
Total Intragovernmental Liabilities	3,509	102,514
PUBLIC		
Accounts Payable	425	2,332
Other - Insurance and Guarantee Program Liabilities (Note 8)	178,318	220,651
Total Public Liabilities	178,743	222,983
TOTAL LIABILITIES	182,252	325,497
Commitments and Contingencies (Note 8)		
NET POSITION		
Contributed Capital (Note 13)	8,944,099	8,661,174
Cumulative Result of Operations	2,831,256	2,619,929
Total Net Position	11,775,355	11,281,103
TOTAL LIABILITIES AND NET POSITION	$ 11,957,607	$ 11,606,600

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, 2014 and 2013
(Dollars in thousands)

	2014	2013
GROSS COSTS		
Operating Expenses	$ 179,818	$ 148,312
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 8)	3,298	(41,054)
AME Receivable Bad Debt Expense (Reduction) (Note 7)	(45,138)	(7,584)
Total Gross Costs	137,978	99,674
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)	(229)	(249)
Interest Revenue on Notes (Note 5)	(3,142)	(3,476)
Insurance and Guarantee Premium Revenue	(2,262)	(825)
Total Earned Revenues	(5,633)	(4,550)
TOTAL NET COST OF OPERATIONS	$ 132,345	$ 95,124

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, 2014 and 2013
(Dollars in thousands)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,619,929	$ 2,968,841
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments	208,259	198,264
Other		
Distribution to the Temporary Corporate Credit Union Stabilization Fund (Note 9)	-	(95,291)
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	135,413	(356,761)
Total Financing Sources	343,672	(253,788)
Net Cost of Operations	(132,345)	(95,124)
Net Change	211,327	(348,912)
CUMULATIVE RESULTS OF OPERATIONS	2,831,256	2,619,929
CONTRIBUTED CAPITAL (Note 13)		
Beginning Balances	8,661,174	8,315,011
Change in Contributed Capital	282,925	346,163
CONTRIBUTED CAPITAL	8,944,099	8,661,174
NET POSITION	$ 11,775,355	$ 11,281,103

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, 2014 and 2013
(Dollars in thousands)

	2014	2013
BUDGETARY RESOURCES (Notes 12 and 15)		
Unobligated balance, brought forward, January 1	$ 10,895,555	$ 10,541,159
Spending authority from offsetting collections (mandatory)		
Collected	804,885	846,416
Change in receivables from federal sources	103	(3,564)
Anticipated nonexpenditure transfer	-	(95,291)
TOTAL BUDGETARY RESOURCES	$ 11,700,543	$ 11,288,720
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 367,310	$ 393,165
Unobligated balance, end of year:		
Exempt from apportionment	11,333,233	10,895,555
Total unobligated balance, end of year	11,333,233	10,895,555
TOTAL STATUS OF BUDGETARY RESOURCES	$ 11,700,543	$ 11,288,720
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, January 1	$ 10,377	$ 87,311
Obligations incurred	367,310	393,165
Outlays (gross)	(369,633)	(470,099)
Unpaid obligations, end of year	$ 8,054	$ 10,377
Uncollected payments:		
Uncollected customer payments from federal sources, brought forward, January 1	$ (59,597)	$ (63,161)
Change in uncollected customer payments from Federal sources	(103)	3,564
Uncollected customer payments from Federal sources, end of year	$ (59,700)	$ (59,597)
Obligated balance, start of year (net)	$ (49,220)	$ 24,150
Obligated balance, end of year (net)	$ (51,646)	$ (49,220)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (mandatory)	$ 804,988	$ 747,561
Actual offsetting collections (mandatory)	(804,885)	(846,416)
Change in uncollected customer payments from Federal sources (mandatory)	(103)	3,564
Anticipated offsetting collections (mandatory)	-	95,291
BUDGET AUTHORITY, NET (MANDATORY)	$ -	$ -
Outlays, gross (mandatory)	$ 369,633	$ 470,099
Actual offsetting collections (mandatory)	(804,885)	(846,416)
Outlays, net (discretionary and mandatory)	(435,252)	(376,317)
AGENCY OUTLAYS, NET (MANDATORY)	$ (435,252)	$ (376,317)

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, cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act, or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require NCUSIF assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the NCUSIF, and/or guarantees of the values of certain assets (e.g., primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF or the appropriate state supervisory authority may liquidate the credit union. In the event of a credit union liquidation, the NCUSIF pays members' shares up to the maximum insured amount and monetizes the credit union's assets.

Fiduciary Responsibilities
Fiduciary activities are the collection or receipt, management, protection, accounting, investment, or disposition by the Federal Government of cash or other assets, in which non-federal individuals or entities have an ownership interest that the Federal Government must uphold. NCUA's Asset Management and Assistance Center (AMAC) conducts liquidations and performs management and recovery of assets for failed credit unions. Assets and liabilities of liquidated credit unions reside in Asset Management Estates (AMEs). These assets and liabilities are held in part, for the primary benefit of non-federal parties and therefore are considered fiduciary in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 31, *Accounting*

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

Sources of Funding
Deposits insured by the NCUSIF are backed by the full faith and credit of the United States. The NCUSIF has multiple sources of funding. Each insured credit union is required to deposit and maintain in the NCUSIF 1.00% of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

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

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB's SFFAS. The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised September 18, 2014.

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

Basis of Accounting

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

Federal budgetary accounting recognizes the obligation, borrowing authorities, and other fund resources upon the establishment of a properly documented legal liability, which may be different from the recording of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal controls over the use of federal funds and compliance with budgetary laws.

NCUA, including the NCUSIF, is exempt from requirements under the *Federal Credit Reform Act of 1990* (2 U.S.C. § 661 et seq.).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) for the Federal Government requires management to make estimates and assumptions that affect the following:

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

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

Fund Balance with Treasury

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

Investments

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

Interest earned and unrealized holding gains and losses on U.S. Treasury securities are excluded from net costs and reported as components of non-exchange revenue. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

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 an 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, an OTTI shall be considered to have occurred.

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

Accounts Receivable

Accounts receivable represent the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. 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% of its insured shares. Receivables and associated non-exchange revenue are recognized upon invoicing.

Premium Assessments from Insured Credit Unions
The NCUA Board has the statutory authority according to the FCU Act Section 202, *Administration of the Insurance Fund*, to assess insured credit unions for a premium charge. The NCUA Board may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of the most recently ended reporting period if the NCUSIF's equity ratio, as defined, is less than 1.30%. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.20%, 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 of 1.20% before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

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.

The NCUA Board did not assess premiums for 2014 and 2013.

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, Net

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

General Property, Plant and Equipment, Net

General Property, Plant and Equipment is subject to depreciation and carried at net cost once placed into service. Depreciation and amortization are recognized over the useful life. Incurred costs for internal use software during the software development phase are capitalized in accordance with SFFAS No. 10, *Accounting for Internal Use Software*.

Other - Receivables from Asset Management Estates, Net

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

The allowance for loss on receivables from AMEs is based on expected asset recovery rates, and come from several sources including:
- actual or pending AME asset disposition data;
- asset valuation data based upon the performance, quality, and type of the assets in the portfolio;
- estimated liquidation costs based on information from similar recently failed credit unions; and
- estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

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

Distribution Payable

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

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 year-end contingent liability is derived by using an internal model that applies estimated failure and loss rates using an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. 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. In such cases, specific reserves are established.

Liabilities for loss contingencies also arise from claims, assessments, litigation, fines, penalties, and other sources. These loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred for any contingencies.

Net Position and Contributed Capital

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

Revenue Recognition

Exchange Revenue

Exchange revenues arise and are recognized when a Federal Government entity provides goods and services to the public or to another Federal Government entity for a price. Exchange revenue primarily consists of premium assessments, the purpose of which is to recover the losses of the credit union system.

Non-Exchange Revenue

Non-exchange revenues are inflows of resources that the Federal Government demands or receives by donation. Such revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable. NCUSIF recognizes non-exchange revenue as described below.

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.00% of its insured shares. This amount is recognized as non-exchange revenue upon receipt. In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, the related unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Tax-Exempt Status

NCUA, as a government entity, is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded for the NCUSIF.

Reclassification

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

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2014 and 2013, consisted of the following:

(Dollars in thousands)	2014	2013
Total Fund Balance with Treasury: Revolving Funds	$ 10,493	$ 2,501
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 11,333,233	$ 10,895,555
Obligated Balances Not Yet Disbursed	8,054	10,377
Non-Budgetary Investment Accounts	(11,271,094)	(10,939,125)
Non-FBWT Budgetary Accounts	(59,700)	35,694
Total	$ 10,493	$ 2,501

As a revolving fund, the FBWT is used for continuing business-like activities. The NCUSIF collects premiums and capitalization deposits, which in turn are invested in U.S. Treasury securities. The proceeds are primarily held to cover insurance losses and are also used for merger assistance, liquidations, and other administrative expenses, without requirement for annual appropriations. FBWT contains monies available for future obligations as well as monies obligated for current activities. Non-budgetary Investment accounts, which consist of U.S. Treasury investments, reduce the status of fund balance. Non-FBWT Budgetary Accounts consist of budgetary receivables and nonexpenditure transfers.

As of December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014:						
U.S. Treasury Securities						
Available-for-Sale	$ 11,496,631	$ (209,040)	$ 59,700	$ 11,170,000	$ 150,312	$ 11,437,903
Held to Maturity	173,635	-	-	173,635	-	173,635
Total	$ 11,670,266	$ (209,040)	$ 59,700	$ 11,343,635	$ 150,312	$ 11,611,538
As of December 31, 2013:						
U.S. Treasury Securities						
Available-for-Sale	$ 11,042,452	$ (187,992)	$ 59,597	$ 10,670,000	$ 14,899	$ 10,869,359
Held to Maturity	329,642	-	-	329,642	-	329,642
Total	$ 11,372,094	$ (187,992)	$ 59,597	$ 10,999,642	$ 14,899	$ 11,199,001

Maturities of U.S. Treasury securities as of December 31, 2014 and 2013 were as follows:

	2014	**2013**
(Dollars in thousands)	**Fair value**	**Fair value**
Held to Maturity (Overnights)	$ 173,635	$ 329,642
Available-for-sale:		
Due prior to one year	2,095,075	1,619,031
Due after one year through five years	4,536,594	5,801,859
Due after five years through ten years	4,806,234	3,448,469
	$ 11,611,538	$ 11,199,001

There were no realized gains or losses for the years ended December 31, 2014 and 2013.

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, 2014 and 2013.

	Losses Less than 12 months		Losses 12 months or more		Total	
(Dollars in thousands)	Unrealized Losses	Fair Value	Unrealized losses	Fair value	Unrealized losses	Fair value
As of December 31, 2014:						
Available-for-sale:						
U.S. Treasury securities	$ (2,378)	$ 755,516	$ (49,055)	$ 2,213,719	$ (51,433)	$ 2,969,235
As of December 31, 2013:						
Available-for-sale:						
U.S. Treasury securities	$ (169,841)	$ 3,585,000	$ -	$ -	$ (169,841)	$ 3,585,000

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due from the NCUA Operating Fund

In 1992, the NCUSIF lent $42.0 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $228.6 thousand and $248.8 thousand for the years ended December 31, 2014 and 2013, respectively. The note receivable balance as of December 31, 2014 and 2013 was approximately $11.7 million and $13.1 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, 2014 and 2013 was 1.85% and 1.82%, respectively. The interest rate as of December 31, 2014 and 2013 was 1.87% and 1.78%, respectively.

As of December 31, 2014, the above note requires principal repayments as follows:

Years Ending December 31	**Secured Term Note** (Dollars in thousands)
2015	$ 1,341
2016	1,341
2017	1,341
2018	1,341
2019	1,341
Thereafter	5,028
Total	$ 11,733

Public – Accounts Receivable

Accounts Receivable Due from Insured Credit Unions
As of December 31, 2014 and 2013, accounts receivable due from insured credit unions were $1.6 million and $0, respectively. As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2014 and 2013 was $0.

5. NOTES RECEIVABLE

As of December 31, 2014 and 2013, the NCUSIF had two outstanding capital notes due from insured credit unions. The capital notes receivable totaled $54.6 million and $67.5 million and the related allowance for loss was $7.1 million and $8.3 million, for a net capital note receivable of $47.5 million and $59.2 million as of December 31, 2014 and 2013, respectively. 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.

The NCUSIF had an outstanding collateralized senior note due from an insured credit union for $126.7 million and $153.0 million as of December 31, 2014 and 2013, respectively. There was no related allowance for loss as of December 31, 2014 and 2013. Accrued interest on the notes is due on a monthly basis. Interest on this note had variable terms through December 2014. In December 2014, the outstanding collateralized senior note was modified to mutually benefit the NCUSIF and the insured credit union. The resulting modification resulted in changing the interest rate from variable to a fixed term over the remaining life of the senior note.

As of December 31, 2014 and 2013, the accrued interest receivable for the notes totaled $395.8 thousand and $329.1 thousand, respectively.

6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of December 31, 2014 and 2013, general property, plant and equipment, net, consisted of internal use software in development of $128.4 thousand and $0, respectively. There is no accumulated depreciation and amortization as of December 31, 2014 and 2013. Once placed into service, internal use software is expected to have a useful life of 5 years.

As of December 31, 2014, NCUSIF included $20.9 thousand in internal labor costs attributable to internal use software during its software development stage. NCUSIF reimburses the Operating Fund for these internal labor costs since these costs are incurred by the Operating Fund.

7. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2014 and 2013, the receivable from AMEs was $1.0 billion and $1.1 billion, and the related allowance for loss was $953.0 million and $963.4 million, for a net receivable from AMEs of $87.8 million and $119.9 million, respectively.

(Dollars in thousands)	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
Gross Receivable from AME	$ 1,040,764	$ 1,083,287
Allowance for Loss, beginning balance	963,424	880,108
AME Receivable Bad Debt Expense (Reduction)	(45,138)	(7,584)
Increase in Allowance	43,888	145,345
Write-off of Cancelled Charters	(9,195)	(54,445)
Allowance for Loss, ending balance	952,979	963,424
Receivable from AME, Net	$ 87,785	$ 119,863

AME Receivable Bad Debt Reduction represents overall increases in expected asset recovery rates and related repayments. The Increase in Allowance primarily represents the net loss on payments made during liquidation. Write-off of Cancelled Charters represent applying the capital deposits of certain failed credit unions as a recovery.

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies insured credit unions experiencing financial difficulty through NCUA's supervisory and examination process. On both a general and specific case basis, management determines the estimated losses from these credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The general reserve at year-end is derived by using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. 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 $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing insured credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. There were no guarantees outstanding during 2014 or as of December 31, 2014. There were no guarantees outstanding during 2013 or as of December 31, 2013.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular insured credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2014 and 2013 were approximately $2.2 million and $0, respectively. The insured credit unions borrowed $463.2 thousand and $0 from the third-party lender under these lines-of-credit guarantees as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the NCUSIF reserved $41.8 thousand and $0, respectively, for these guaranteed lines-of-credit. The guarantees expire in March 2015.

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, 2014 and 2013, 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, 2014	For the Year Ended December 31, 2013
Beginning balance	$ 220,651	$ 412,452
Reserve Expense (Reduction)	3,298	(41,054)
Insurance losses claims paid	(97,621)	(225,220)
Net Estimated Recovery/Claim on AMEs	51,990	74,473
Ending balance	$ 178,318	$ 220,651

The Insurance and Guarantee Program Liabilities at December 31, 2014 and December 31, 2013 were comprised of the following:

- Specific reserves were $5.7 million and $12.5 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 $172.6 million and $208.2 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.

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

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

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described under Section 202 of the FCU Act. As of December 31, 2014 and 2013, 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% and does not reduce the NCUSIF's available assets ratio below 1.00%.

As of December 31, 2014, the NCUSIF calculated equity ratio of 1.29% was below its normal operating level of 1.30%; therefore, NCUSIF will not make a distribution to the TCCUSF. As of December 31, 2013, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling approximately $95.3 million, thereby bringing the equity ratio down to its normal operating level of 1.30%. As of December 31, 2014 and 2013, the NCUSIF's available assets ratio was 1.27% and 1.26%, respectively. The equity ratio and available assets ratio calculations are discussed in Note 13.

10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Program costs and revenues are separated between intragovernmental and public to facilitate government-wide financial reporting. Intragovernmental revenue and 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, 2014**	**For the Year Ended December 31, 2013**
(Dollars in thousands)		
Intragovernmental Costs	$ 175,592	$ 146,009
Public Costs/(Cost Reduction)	(37,614)	(46,335)
Total	137,978	99,674
Intragovernmental Exchange Revenue	(229)	(249)
Public Exchange Revenue	(5,404)	(4,301)
Total	(5,633)	(4,550)
Net Cost	$ 132,345	$ 95,124

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. In 2014, the allocation to NCUSIF was 69.2%. In 2013, the allocation to NCUSIF was the entire cost of the Office of National Examinations and Supervision (formerly called Office of Corporate Credit Unions) to the extent that they exceeded the actual operating fees paid by Federal corporate credit unions, plus 59.1% of NCUA Operating Fund expenses. The cost of the services allocated to the NCUSIF, which totaled approximately $175.6 million and $146.0

million for the years ended December 31, 2014 and 2013, respectively, is reflected as an expense in the Statements of Net Cost and above in Intragovernmental Costs. These transactions are settled monthly. As of December 31, 2014 and 2013, amounts due to the NCUA Operating Fund for allocated administrative expenses were $3.5 million and $3.3 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, 2014**	**For the Year Ended December 31, 2013**
(Dollars in thousands)		
Employee Salaries	$ 93,858	$ 78,656
Employee Benefits	34,868	28,431
Employee Travel	18,473	16,651
Contracted Services	15,240	12,462
Administrative Costs	9,743	6,928
Rent, Communications, and Utilities	3,410	2,881
Total Services Provided by the NCUA Operating Fund	$ 175,592	$ 146,009

11. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2014 and 2013, the TCCUSF had $2.6 billion and $2.9 billion in borrowing outstanding from the U.S. Treasury, respectively. As a result, as of December 31, 2014 and 2013, the NCUSIF had $3.4 billion and $3.1 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, 2014 and 2013, the CLF had statutory borrowing authority of $5.1 billion and $2.9 billion, respectively. As of December 31, 2014 and 2013, the CLF had a note purchase agreement with the Federal Financing Bank with a maximum principal of $2.0 billion, respectively, all of which was unused. Advances made under the current promissory note can be made no later than March 31, 2015.

At December 31, 2014 and 2013, the NCUSIF had $5.4 billion and $5.1 billion, respectively, in total available borrowing capacity.

12. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2014 and 2013. 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, 2014 and 2013, the NCUSIF's resources in budgetary accounts were $11.7 billion and $11.3 billion, and undelivered orders were $4.2 million and $848.2 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.

13. 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% of the credit union's insured shares. Under Section 202(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 insured member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.00% contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2014 and 2013, contributed capital owed to the NCUSIF totaled $649.0 thousand and $0, respectively. As of December 31, 2014 and 2013, contributed capital due to insured credit unions was $0 and $1.4 million, respectively.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the *Helping Families Save Their Homes Act of 2009*, 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% and does not reduce the current available assets ratio below 1.00%.

Pursuant to the FCU Act, the NCUSIF calculated equity ratio, 1.29%, was below the normal operating level of 1.30%; therefore, NCUSIF did not estimate or record a distribution as of December 31, 2014. In 2013, the NCUSIF calculated and initiated distributions to the TCCUSF in the estimated amount of $95.3 million, which was recognized as a payable as of December 31, 2013, and paid in March 2014. Thus, the NCUSIF's calculated equity ratio after distribution as of December 31, 2013 was 1.30%, based on estimated total insured shares as of December 31, 2013 of $866.3 billion. Total contributed capital as of December 31, 2014 and 2013 was $8.9 billion and $8.7 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, 2014 and 2013 was 1.27% and 1.26%, based on total estimated insured shares as of December 31, 2014 and 2013 of $903.0 billion and $866.3 billion, respectively. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF (including the distribution payable to the TCCUSF) and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c) of the FCU Act, to (B) the aggregate amount of the insured shares in all insured credit unions.

14. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the basic financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, *Accounting for Fiduciary Activities*.
The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Schedule of Fiduciary Activity	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
(Dollars in thousands)		
Fiduciary Net Liabilities, beginning of year	$ (973,044)	$ (974,820)
Net Realized Losses upon Liquidation	(40,188)	(60,349)
Revenues		
Interest on Loans	11,124	12,207
Other Fiduciary Revenues	1,338	1,973
Expenses		
Professional & Outside Services Expenses	(7,354)	(8,006)
Compensation and Benefits	(1,760)	(2,892)
Other Expenses	(2,287)	(2,375)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	56,354	3,509
Net Gain/(Loss) on Real Estate Owned	3,416	(2,055)
Other, Net Gain/(Loss)	(15,302)	5,319
Decrease/(Increase) in Fiduciary Net Liabilities	5,341	(52,669)
Write off of Fiduciary Liabilities for Cancelled Charters	9,195	54,445
Fiduciary Net Liabilities, end of year	**$ (958,508)**	**$ (973,044)**

Comparing 2014 activity for the year in the schedule of fiduciary activity with 2013, the increase in fiduciary net liabilities line item improved by $14.5 million overall, including a decrease in fiduciary net liabilities of $5.3 million and cancelled charters write-offs of $9.2 million. The primary drivers were with the net realized losses upon liquidation, net change in recovery value of assets and liabilities, and cancelled charters. The net realized losses upon liquidation decreased by $20.2 million due, in part, to fewer credit union liquidations in 2014. The net change in recovery value of assets and liabilities line item increased by $37.7 million due to rising net realizable values of assets managed. Charter cancellation write-offs decreased by $45.2 million corresponding with fewer credit union charter cancellations in 2014.

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

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2014	As of December 31, 2013
(Dollars in thousands)		
Fiduciary Assets		
Loans	$ 97,780	$ 110,098
Real Estate Owned	8,387	18,972
Other Fiduciary Assets	7,773	17,713
Total Fiduciary Assets	113,940	146,783
Fiduciary Liabilities		
Insured Shares	9,315	10,841
Accrued Liquidation Expenses	16,551	15,494
Unsecured Claims	1,561	5,727
Uninsured Shares	4,257	4,478
Due to NCUSIF (Note 7)	1,040,764	1,083,287
Total Fiduciary Liabilities	1,072,448	1,119,827
Total Fiduciary Net Assets/(Liabilities)	**$ (958,508)**	**$ (973,044)**

15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

Reconciliation of Net Cost of Operations to Budget	**As of December 31, 2014**	**As of December 31, 2013**
(Dollars in thousands)		
Resources Provided to Finance Activities:		
Budgetary Resources Obligated		
Budgetary Obligations Incurred	$ 367,310	$ 393,165
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(804,988)	(842,852)
Net Obligations	(437,678)	(449,687)
Other Resources:		
Net Unrealized (Gain)/Loss	(135,413)	356,761
Total Resources Provided to Finance Activities	(573,091)	(92,926)
Resources Provided to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	(3,306)	(154)
Resources that Fund Expenses Recognized in Prior Periods	5	-
Costs Capitalized on the Balance Sheet	417,917	458,993
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	332,732	(221,001)
Total Resources Provided to Fund Items Not Part of the Net Cost of Operations	747,348	237,838
Resources Generated to Finance the Net Cost of Operations	174,257	144,912
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	3,298	(41,054)
AME Receivable Bad Debt Expense (Reduction)	(45,138)	(7,584)
Increase in Exchange Revenue	(67)	(1,150)
Components not Requiring or Generating Resources		
Other Expenses	(5)	-
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(41,912)	(49,788)
Net Cost of Operations	$ 132,345	$ 95,124

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

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through February 13, 2015, 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, 2014.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2014 and 2013, the aggregate outstanding insured shares of the insured credit unions were estimated at $903.0 billion and $866.3 billion, respectively. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, to the extent the TCCUSF's obligations exceed the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no direct relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was $178.3 million and $220.7 million as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the general reserves were $172.6 million and $208.2 million, respectively. At December 31, 2014 and 2013, the specific reserves resulting from insured credit unions' expected failures were $5.7 million and $12.5 million, respectively.

The NCUSIF's contingent liability decreased by $42.4 million from 2013 to 2014, and decreased by $191.8 million from 2012 to 2013. The credit union industry improved during 2014 as reflected by the reduction in assets in CAMEL 3, 4 and 5 rated credit unions as compared to 2013. Assets in CAMEL 3, 4 and 5 rated credit unions dropped to $106.9 billion at the end of 2014, versus $122.4 billion at the end of 2013. Improvements were also seen with the system-wide net worth ratio; this ratio increased to 11.0% from 10.7%. These improvements, as well as other trends, helped contribute to a reduction in amounts for the Insurance and Guarantee Program Liabilities on the NCUSIF Balance Sheets.

Fees and Premiums

During 2014 and 2013, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF.

Sensitivity, Risks and Uncertainties of the Assumptions

During 2013, NCUA implemented the use of the econometric reserve model to improve the precision of the future loss forecast. As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures by evaluating imminent failures and using an internal model that applies estimated failure and loss rates based on an econometric model that takes into account the historical loss history, CAMEL ratings, credit union level financial ratios, and macroeconomic conditions to all insured credit unions. The effectiveness of the reserving methodology is evaluated by applying analytical techniques to review variances between projected losses and actual losses and adjustments are made accordingly. Actual losses will largely depend on future economic and market conditions and could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2014.

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

The internal model provides a range of losses. The minimum in the range of losses is the 50 percent confidence level forecast and the upper bound is the 90 percent confidence level forecast. The NCUSIF general reserve is sensitive to assumptions made about the loss rates under various scenarios. For example, changing the assumptions to exclude staticial outliers for calculating loss rates results in a change in the range of losses. Additionally, management's judgment is used to select a point in the range of projected losses to record probable contingent liabilities in compliance with SFFAS No. 5, which was $172.6 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2014. In selecting the point in the range of the forecasts, management considers overall credit union economic trends and system-wide risk factors, such as increasing levels of consumer debt, bankruptcies and delinquencies.

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