NCUA 2011
FINANCIAL STATEMENT AUDITS
FOR

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

For the year ended December 31, 2011

Audited Financial Statements	Audit Report Number
Operating Fund	OIG-12-01
Share Insurance Fund	OIG-12-02
Central Liquidity Facility	OIG-12-03
Community Development Revolving Loan Fund	OIG-12-04

February 16, 2012

William A. DeSarno

William A. DeSarno
Inspector General

EXECUTIVE SUMMARY

PURPOSE AND SCOPE The National Credit Union Administration (NCUA) Office of Inspector General contracted with the independent public accounting firm of KPMG LLP to perform the financial statement audits of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund for the year ended December 31, 2011.

The purpose of the audits is to express an opinion on whether the financial statements are fairly presented. The independent firm also reviewed the internal control structure and evaluated compliance with laws and regulations, as part of their audit.

The audits were performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The Inspector General contracted with KPMG LLP in June 2009 to perform the financial statement audits mentioned above. The contract was for 2009, with options for 2010 and 2011. The Inspector General was the contracting officer for this contract.

AUDIT RESULTS KPMG LLP expressed unqualified opinions, stating that the financial statements present fairly, in all material respects, the financial position of the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Fund at December 31, 2011, and the results of operations for the year then ended.

Although KPMG LLP did not express an overall opinion of the Funds' compliance with laws and regulations, their testing of compliance did not disclose any significant deviations. The financial statement audit for the Temporary Corporate Credit Union Stabilization Fund will be issued in a separate report in the near future.

National Credit Union Administration Operating Fund

Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

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

Independent Auditors' Report on Financial Reporting

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

We have audited the accompanying balance sheets of the National Credit Union Administration Operating Fund (OF) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in fund balance, and cash flows (hereinafter referred to as " financial statements") for the years then ended. These financial statements are the responsibility of the OF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2011 and 2010, and its operations, changes in fund balance, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 14, 2012, on our consideration of the OF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 14, 2012

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS (Note 4)	$36,982	$32,645
DUE FROM NATIONAL CREDIT UNION SHARE INSURANCE FUND (Note 8)	1,182	2,857
EMPLOYEE ADVANCES	43	50
OTHER ACCOUNTS RECEIVABLE (Note 8)	885	349
PREPAID EXPENSES AND OTHER ASSETS	1,015	1,371
ASSETS HELD FOR SALE (Note 7)	397	696
FIXED ASSETS — Net of accumulated depreciation of $25,231 and $23,330 as of December 31, 2011 and 2010, respectively (Note 5)	31,760	31,673
INTANGIBLE ASSETS — Net of accumulated amortization of $8,333 and $6,441 as of December 31, 2011 and 2010, respectively (Note 6)	7,367	5,945
TOTAL	$79,631	$75,586
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable and accrued other liabilities	$7,074	$5,043
Obligations under capital leases (Note 9)	58	24
Accrued wages and benefits	9,295	8,581
Accrued annual leave	12,699	11,401
Accrued employee travel	628	532
Notes payable to National Credit Union Share Insurance Fund (Note 8)	15,756	17,097
Total liabilities	45,510	42,678
COMMITMENTS AND CONTINGENCIES (Notes 8, 9, 12 & 13)		
FUND BALANCE	34,121	32,908
TOTAL	$79,631	$75,586

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
REVENUES:		
Operating fees	$ 86,197	$ 86,754
Interest	18	63
Other	1,200	1,234
Total revenues	87,415	88,051
EXPENSES, NET (Note 8):		
Employee wages and benefits	62,194	59,379
Travel	9,809	9,163
Rent, communications, and utilities	1,936	1,773
Contracted services	6,326	6,194
Depreciation and amortization	4,695	5,154
Administrative	1,242	782
Total expenses	86,202	82,445
EXCESS OF REVENUES OVER EXPENSES	1,213	5,606
FUND BALANCE—Beginning of year	32,908	27,302
FUND BALANCE—End of year	$ 34,121	$ 32,908

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollars in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 1,213	$ 5,606
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	4,695	5,154
Provision for loss on disposal of employee residences held for sale	305	244
Loss on fixed asset retirements	2	380
(Increase) decrease in assets:		
Due from National Credit Union Share Insurance Fund	1,675	(599)
Employee advances	7	116
Other accounts receivable	(536)	(75)
Prepaid expenses and other assets	356	(361)
(Decrease) increase in liabilities:		
Accounts payable	2,031	2,007
Accrued wages and benefits	714	1,472
Accrued annual leave	1,298	1,479
Accrued employee travel	96	353
Net cash provided by operating activities	11,856	15,776
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(6,146)	(5,649)
Purchases of employee residences held for sale	(1,197)	(1,386)
Proceeds from sale of employee residences held for sale	1,192	941
Net cash used in investing activities	(6,151)	(6,094)
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	(27)	(17)
Net cash used in financing activities	(1,368)	(1,358)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,337	8,324
CASH AND CASH EQUIVALENTS—Beginning of year	32,645	24,321
CASH AND CASH EQUIVALENTS—End of year	$ 36,982	$ 32,645
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES -		
Acquisition of equipment under capital lease	$ 61	$ -
CASH PAYMENTS FOR INTEREST	$ 344	$ 397

See accompanying notes to financial statements.

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the "Fund") was created by the Federal credit union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of providing administration and service to the Federal credit union system.

A significant majority of the Fund's revenue is comprised of operating fees paid by Federal credit unions. Each Federal credit union is required to pay this fee based on its prior year asset balances and rates set by the NCUA Board.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Related Parties – The Fund exists within NCUA and is one of five funds managed by the NCUA Board. The other funds managed by the Board, deemed related parties, are:

a) The National Credit Union Share Insurance Fund (NCUSIF)
b) The National Credit Union Administration Temporary Corporate Credit Union Stabilization Fund (TCCUSF)
c) The National Credit Union Administration Central Liquidity Facility (CLF)
d) The National Credit Union Administration Community Development Revolving Loan Fund (CDRLF).

The Fund supports these related parties by providing office space, information technology services, and supplies, as well as paying employees' salaries and benefits. Certain types of support are reimbursed to the Fund by NCUSIF and CLF based on allocation formulas, as described in Note 8.

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 2011 and 2010 were cash equivalents and are stated at cost, which approximates fair value.

Fixed and Intangible Assets – Buildings, furniture, equipment, computer software, and leasehold improvements are recorded at cost. Computer software includes the cost of labor incurred by both external and internal programmers, and other personnel in the development of the software. Capital leases are recorded at the present value of the future minimum lease payments. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of buildings, furniture, equipment, and computer software, and the shorter of either the estimated useful life or lease term for leasehold improvements and capital leases. Estimated useful lives are 40 years for the building and three to ten years for the furniture, equipment, computer software, and leasehold improvements.

Long-lived Assets/Impairments – Fixed and intangible assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset or asset group is not recoverable, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third party independent appraisals, as considered necessary.

For impairments, the Fund's policy is to identify assets that are no longer in service, obsolete, or need to be written down, and perform an impairment analysis based on FASB Accounting Standards Codification (ASC) 360-10-35, *Property, Plant, and Equipment*, requirements. Subsequent adjustment to individual asset values are made to correspond with any identified changes in useful lives.

Assets Held for Sale – The Fund holds certain real estate held for sale. Such held for sale assets are ready for immediate sale in their present condition. Real estate held for sale is recorded at the fair value less cost to sell. If an asset's fair value less cost to sell—based on a review of available financial information including but not limited to appraisals, markets analyses, etc.—is less than its carrying amount, the carrying value of the asset is adjusted to its fair value.

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 travel advances, amounts due from the NCUSIF and CLF, as well as a non-recurring $381,000 rent incentive associated with an office lease in Alexandria, Virginia. Amounts are stated at face value, as there have been no historical losses and there are no anticipated losses.

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 12.

Accrued Benefits – The Fund incurs expenses for retirement plans, employment taxes, workers compensation, transportation subsidies, and other benefits mandated by law. Corresponding liabilities recorded contain both short-term and long-term liabilities, including liabilities under the Federal Employees' Compensation Act (FECA). This act provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease.

Operating Fees – Each federally chartered credit union is assessed an annual fee based on their assets as of the preceding 31st day of December. The fee is designed to cover the costs of providing administration and service to the Federal credit union system. The Fund recognizes this operating fee revenue ratably over the calendar year.

Revenue Recognition – Interest revenue and other revenue relating to Freedom of Information Act (FOIA) fees, sales of publications, parking income, and rental income is recognized when earned.

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

Leases – Operating leases are entered into for the acquisition of office space and equipment as part of administering NCUA's program. The cost of operating leases is recognized on the straight-line method over the life of the lease and includes, if applicable, any reductions resulting from incentives such as rent holidays. The same method is used to recognize income from operating leases. Certain office space for which NCUA is a lessee is subject to escalations in rent, as described in Note 9.

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, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate their respective fair values.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses incurred during the reporting period. Significant estimates include the determination of the FECA liability, certain intangible asset values, and if there is any determination of a long-lived asset impairment, the related measurement of the impairment charges.

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

Advertising Costs – Per FASB ASC 720-35-50, *Other Expenses - Advertising Costs* consist primarily of radio and Internet advertisements. Advertising costs are expensed as incurred. The Fund enters into certain contracts for the purpose of advertising. In 2011 and 2010, advertising expenses amounted to approximately $248,000 and $1,434,000, respectively.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In January 2010, FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosure (Topic 820): Improving Disclosures about Fair Value Measurements* to improve disclosures related fair value measurements. The update requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of level 1 and level 2 fair value measurements, and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of level 3 fair value measurements. The accounting standard update is effective for reporting periods beginning after December 15, 2009, except for level 3 reconciliation disclosures, which are effective for periods beginning after December 15, 2010. Adoption of the accounting standard update as it relates to level 1 and level 2 fair value disclosures impacted the Fund's financial statements. Level 3 fair value adjustments occur for assets held for sale, which represents homes from relocated employees. This adoption did not have a material impact on the Fund's balance sheets or statements of operation.

In July 2010, FASB issued Accounting Standards Update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, providing amendments to ASC Topic 310, *Receivables*. The objective of these amendments is for an entity to provide disclosures that facilitate financial statement user's evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivable, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and 3) the changes and reasons for those changes in the allowance for credit losses. The existing disclosures are amended to require disclosures about an entity's financing receivables on a disaggregated basis. The amendments also require additional disclosures about financing receivables. This adoption did not have a material impact on the Fund's balance sheets or statements of operation.

In 2011, the Fund adopted the ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards*, to the accounting standards on *Fair Value Measurements and Disclosures* (FASB ASC Topic 820). The amendment requires common fair value measurement and disclosure in GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and disclosing information about fair value measurements. ASU 2011-04 will be effective for the Fund's financial statements as of and for the year ended December 31, 2012. This adoption will not have a material impact on the Fund's balance sheets or statements of operation.

4. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as of December 31, 2011 and 2010 are as follows (in thousands):

	2011	**2010**
Deposit with U.S. Treasury	$ 240	$ 104
U.S. Treasury Overnight Investments	36,742	32,541
Total	$ 36,982	$ 32,645

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

5. FIXED ASSETS

Fixed assets, including furniture and equipment, are comprised of the following as of December 31, 2011 and 2010 (in thousands):

	2011	**2010**
Office building and land	$ 46,336	$ 45,039
Furniture and equipment	9,394	8,996
Leasehold improvements	376	-
Equipment under capital leases	99	141
Total	56,205	54,176
Less accumulated depreciation	(25,231)	(23,330)
Assets under construction	786	827
Fixed assets — net	$ 31,760	$ 31,673

Depreciation expense for the years ended December 31, 2011 and 2010 totaled $2,407,000 and $2,076,000, respectively.

Assets under construction primarily represent costs incurred related to building improvements to the King Street NCUA headquarters office space.

6. INTANGIBLE ASSETS

Intangible assets are comprised of the following as of December 31, 2011 and 2010 (in thousands).

	2011	2010
Internal-Use software	$ 13,187	$ 10,276
Less accumulated amortization	(8,333)	(6,441)
Total	4,854	3,835
Internal-Use software-in development	2,513	2,110
Intangible assets — net	$ 7,367	$ 5,945

Internal-use software is computer software that is either acquired externally or developed internally. Amortization expense for the years ended December 31, 2011 and 2010 totaled $2,288,000 and $3,078,000, respectively.

Internal-use software that is in development represents costs incurred from the customization of software purchased from external vendors for internal use as well as the cost of software that is developed in-house. This includes upgrades to NCUA's online 5300 data call report system as well as the exam system AIRES, among other software developments.

7. ASSETS HELD FOR SALE

Real estate available for sale purchased by the Fund is from employees enrolled in the agency's home purchase program who are unable to sell their homes in a specified time period. It is the agency's intent to dispose of these properties as quickly as possible. Sales of homes are generally expected to occur within one year, pending market forces. Currently, the Fund owns three homes. Ongoing costs to maintain properties are expensed as incurred. The balance of real estate available for sale as of December 31, 2011 and 2010 was $397,000 and $696,000, respectively, net of impairment charges of $133,000 and $164,000 as of December 31, 2011 and December 31, 2010, respectively.

8. RELATED PARTY TRANSACTIONS

(a) Transactions with NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 100% of the expenses of the Office of Corporate Credit Unions to the extent that it exceeds the actual operating fees paid by Federal corporate credit unions, plus 58.9% of all other expenses to NCUSIF for 2011 and 57.2% for 2010. The cost of the services allocated to NCUSIF, which totaled $129,985,000 and $113,584,000 for 2011 and 2010, respectively, is reflected as a reduction of the corresponding expenses in the accompanying financial statements. These transactions are settled monthly. As of December 31, 2011 and 2010, amounts due from NCUSIF, under this allocation method, totaled $1,182,000 and $2,857,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a 30-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a building in 1993. Interest costs incurred were $344,000 and $397,000 for 2011 and 2010, respectively. The notes payable balances as of December 31, 2011 and 2010 were $15,756,000 and $17,097,000, respectively. The current portion of the long term debt is $1,341,000 for both December 31, 2011 and 2010, respectively.

The variable rate on the note is equal to NCUSIF's prior-month yield on investments. The average interest rates during 2011 and 2010 were 2.10% and 2.24%, respectively. The interest rates as of December 31, 2011 and 2010 were 2.01% and 2.14 %, respectively.

The secured term note requires principal repayments as of December 31, 2011 as follows (in thousands):

Years Ending December 31	**Secured Term Note**
2012	$ 1,341
2013	1,341
2014	1,341
2015	1,341
2016	1,341
Thereafter	9,051
Total	$ 15,756

(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 $637,000 and $483,000 for December 31, 2011 and 2010, respectively, and are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

Other accounts receivable include $171,000 and $183,000 of amounts due from the CLF as of December 31, 2011 and 2010, respectively.

(c) Support of CDRLF

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

For the years ending December 31, 2011 and 2010, administrative support to CDRLF is estimated at (in thousands):

	2011	2010
Personnel	$ 331	$ 387
Other	20	16
Total	$ 351	$ 403

(d) Support of TCCUSF

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

For the years ending December 31, 2011 and 2010, administrative support to TCCUSF is estimated at (in thousands):

	2011	2010
Personnel	$ 3,674	$ 5,716
Other	104	142
Total	$ 3,778	$ 5,858

(e) Federal Financial Institutions Examination Council (FFIEC)

NCUA is one of the five Federal agencies that fund FFIEC operations. Under FFIEC's charter, NCUA's Chairman is appointed as a Member and currently serves as its Chairman. FFIEC was established on March 10, 1979 as a formal inter-agency body empowered to prescribe uniform principles, standards, and report forms for the Federal examination of financial institutions by NCUA, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, and the State Liaison Committee. FFIEC was also established to make recommendations to promote uniformity in the supervision of financial institutions. Additionally, FFIEC provides training to staff employed by Member agencies; the Member agencies are charged for these trainings based on use. For the years ended December 31, 2011 and 2010, FFIEC assessments totaled $828,000 and $873,000, respectively. FFIEC's 2012 budgeted assessments to NCUA total $886,000.

(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 7.

9. LEASE COMMITMENTS

Description of Leasing Agreements - The Fund has entered into lease agreements with vendors for the rental of office space and office equipment, which includes laptops, printers, monitors, and copiers.

Operating Leases – The Fund leases a portion of NCUA's office space under lease agreements that will continue through 2015. Office rental charges amounted to approximately $1,129,000 and $566,000, of which approximately $665,000 and $324,000 were reimbursed by NCUSIF for 2011 and 2010, respectively. In addition, the Fund leases laptop computers and other office equipment under operating leases with lease terms that will continue through 2016.

Capital Leases – The Fund leases copier equipment under lease agreements that run through 2016. Amounts presented in the table below include $8,000 of imputed interest.

The future minimum lease payments to be paid over the next five years as of December 31, 2011, before reimbursements, are as follows (in thousands):

Years Ending December 31	**Operating Leases**	**Capital Leases**
2012	$ 1,663	$ 20
2013	1,448	14
2014	995	14
2015	508	13
2016	-	5
Thereafter	-	-
Total	$ 4,614	$ 66

Based on the allocation factor approved by the NCUA Board for 2012, NCUSIF is expected to reimburse the Fund for approximately 59.3% of the future operating lease payments.
The Fund, as a lessor, holds operating lease agreements with three tenants, each of whom rents a portion of the Fund's building for retail space. The leases carry five year terms with escalating rent payments. The last of these leases is set to expire in 2015.

The future minimum lease payments to be received from these non-cancelable operating leases at December 31, 2011 are as follows (amounts in thousands):

Years Ending December 31	**Rent Payments**
2012	$ 562
2013	576
2014	518
2015	72
2016	-
Thereafter	-
Total	$ 1,728

10. RETIREMENT PLANS

Eligible employees of the Fund are covered by Federal Government retirement plans—either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of an employee's gross pay. Under the

Savings Plan, employees may also elect additional contributions up to $16,500 in 2011, and the Fund will match up to 5% of the employee's gross pay. In 2011 and 2010, the Fund's contributions to the plans were approximately $18,211,000 and $15,775,000, respectively, of which approximately $10,726,000 and $9,024,000, respectively, was allocated to NCUSIF.

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

11. FAIR VALUE MEASUREMENTS

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

The accounting standards established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

The following table presents the carrying amounts and established fair values (in thousands) of the Fund's assets held for sale as of December 31, 2011 and 2010. The impairment charges are recorded within the statement of revenues, expenses and changes in fund balance and represent non-recurring fair value measures.

	2011			2010		
	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges	Amortized Cost Basis	Aggregate Fair Value	Total Impairment Charges
Assets held for sale	$ 397	$ 397	$ 133	$ 696	$ 696	$ 164

Assets held for sale – Assets held for sale represents residences from relocating employees and is presented at fair value. 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 an estimated 10 percent reduction in the fair value to recognize expenses associated with closing costs. The Fund believes that these measurements fairly reflect the most current valuation of the assets. Accordingly, the Fund uses level 3 inputs to measure the fair value of these investments.

The carrying values approximate the fair values of certain financial instruments as of December 31, 2011 and 2010, were as follows (in thousands):

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$36,982	$36,982	$32,645	$32,645
Due from NCUSIF	1,182	1,182	2,857	2,857
Employee advances	43	43	50	50
Obligation under capital lease	58	58	24	24
Notes payable to NCUSIF	15,756	15,756	17,097	17,097

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

Due from NCUSIF – The carrying amounts for the due from NCUSIF financial instruments approximates fair value, as the amount is scheduled to be paid is within the first quarter of fiscal year 2012.

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 2012.

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.

12. CONTINGENCIES

NCUA recognizes contingent liabilities when a past event or transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. NCUA is party to various routine administrative proceedings, legal actions, and claims brought against it, which has or may ultimately result in settlements or decisions against the agency. For those matters where an estimate is possible and the loss is probable, such amount has been accrued in other liabilities as of December 31, 2011.

13. COLLECTIVE BARGAINING AGREEMENT

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

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2012 which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Operating Fund (OF) as of December 31, 2011 and 2010 and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 14, 2012.

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

The management of the OF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the OF's internal control over financial reporting by obtaining an understanding of the OF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OF's internal control over financial reporting. 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 over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Exhibit I presents the status of prior year significant deficiency.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 14, 2012

Exhibit I

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

STATUS OF PRIOR YEAR FINDING

2010 Finding	Deficiency Type	2011 Status
Improvements Needed in Financial Accountings and Reporting Process	Significant Deficiency	Closed

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

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Operating Fund (OF) as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund balance, and cash flows (hereinafter referred to as " financial statements") for the years then ended, and have issued our report thereon dated February 14, 2012.

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

The management of the OF is responsible for complying with laws, regulations and contracts applicable to the OF. As part of obtaining reasonable assurance about whether the OF's financial statements are free of material misstatement, we performed tests of the OF's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the OF. 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 described in the preceding paragraph of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 14, 2012

National Credit Union Share Insurance Fund

Financial Statements as of and for the Years Ended December 31, 2011 and 2010

NATIONAL CREDIT UNION SHARE INSURANCE FUND

TABLE OF CONTENTS

KPMG

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

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2011 and 2010, and the related statements of net cost and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the NCUSIF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 15, 2012, on our consideration of the NCUSIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 15, 2012

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS
As of December 31, 2011 and 2010
(Dollars in thousands)

	2011	2010
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ 423	$ 1,551
Investments, Net - U.S. Treasury Securities (Note 3)	11,392,576	10,848,272
Accounts Receivable - Note due from the National Credit Union Administration Operating Fund (Note 4)	15,756	17,097
Accounts Receivable - Other	10	-
Accrued Interest Receivable (Note 3)	81,707	72,359
Total Intragovernmental Assets	11,490,472	10,939,279
PUBLIC		
Accounts Receivable - Capitalization Deposits from Insured Credit Unions, Net (Note 4)	30	183
Accounts Receivable - Premium Assessments from Insured Credit Unions, Net (Note 4)	73	2,036
General Property, Plant, and Equipment, Net	18	38
Capital Note Receivable, Net (Note 5)	70,000	-
Accrued Interest Receivable - Capital Note (Note 5)	150	-
Other - Receivables from Asset Management Estates (AMEs), Net (Note 6)	114,741	143,278
Total Public Assets	185,012	145,535
TOTAL ASSETS	$ 11,675,484	$ 11,084,814
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the Temporary Corporate Credit Union Stabilization Fund	$ -	$ 194
Accounts Payable - Due to the National Credit Union Administration Operating Fund (Note 9)	1,182	2,857
Other - Distribution Payable to the Temporary Corporate Credit Union Stabilization Fund (Note 8)	278,641	-
Total Intragovernmental Liabilities	279,823	3,051
PUBLIC		
Accounts Payable	166	433
Other - Insurance and Guarantee Program Liabilities (Note 7)	606,617	1,225,281
Total Public Liabilities	606,783	1,225,714
TOTAL LIABILITIES	886,606	1,228,765
Commitments and Contingencies (Note 7)		
NET POSITION		
Contributed Capital (Note 12)	7,805,718	7,485,159
Cumulative Result of Operations	2,983,160	2,370,890
Total Net Position	10,788,878	9,856,049
TOTAL LIABILITIES AND NET POSITION	$ 11,675,484	$ 11,084,814

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, 2011 and 2010
(Dollars in thousands)

	2011	2010
GROSS COSTS		
Operating Expenses (Note 9)	$ 132,358	$ 117,004
Interest Expense on Borrowings (Note 9)	-	41,227
Fee on Early Retirement of Borrowings from the National Credit Union Administration Central Liquidity Fund (Note 9)	-	7,599
Provision for Insurance Losses		
Reserve Expense (Reduction) (Note 7)	(525,678)	737,596
AME Receivable Bad Debt Expense (Reduction) (Note 6)	(6,730)	(2,034)
Total Gross Costs	(400,050)	901,392
LESS EARNED REVENUES		
Interest Revenue on Note Receivable from the National Credit Union Administration Operating Fund (Note 4)	(344)	(397)
Interest Revenue on Capital Note (Note 5)	(150)	-
Interest Revenue on Loans (Note 9)	-	(41,227)
Fee on Early Retirement of Loans to Corporates (Note 9)	-	(7,599)
Insurance and Guarantee Premium Revenue (Note 9)	(543)	(929,952)
Total Earned Revenues	(1,037)	(979,175)
TOTAL NET COST/(INCOME) OF OPERATIONS	$ (401,087)	$ (77,783)

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, 2011 and 2010
(Dollars in thousands)

	2011	2010
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 2,370,890	$ 1,967,147
BUDGETARY FINANCING SOURCES		
Non-Exchange Revenue		
Interest Revenue - Investments (Note 3)	226,011	216,921
Other		
Distribution to the Temporary Corporate Credit Union Stablization Fund (Note 8)	(278,641)	-
OTHER FINANCING SOURCES		
Non-Exchange Revenue		
Net Unrealized Gain/(Loss) - Investments (Note 3)	263,813	109,039
Total Financing Sources	211,183	325,960
Net Income from/(Cost of) Operations	401,087	77,783
Net Change	612,270	403,743
CUMULATIVE RESULTS OF OPERATIONS	2,983,160	2,370,890
CONTRIBUTED CAPITAL (Note 12)		
Beginning Balances	7,485,159	7,067,139
Change in Contributed Capital	320,559	418,020
CONTRIBUTED CAPITAL	7,805,718	7,485,159
NET POSITION	$ 10,788,878	$ 9,856,049

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, 2011 and 2010
(Dollars in thousands)

	2011	2010
BUDGETARY RESOURCES (Notes 9, 10, 11 & 14)		
Unobligated Balance, brought forward, January 1	$ 10,430,194	$ 9,190,828
Budget Authority:		
Spending Authority from Offsetting Collections:		
Collected	705,451	11,628,115
Change in Receivables from Federal Sources	9,358	1,305
Anticipated Nonexpenditure Transfer	(278,641)	-
TOTAL BUDGETARY RESOURCES	$ 10,866,362	$ 20,820,248
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: Reimbursable	$ 413,154	$ 10,390,054
Unobligated Balance: Exempt from Apportionment	10,453,208	10,430,194
TOTAL STATUS OF BUDGETARY RESOURCES	$ 10,866,362	$ 20,820,248
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, net:		
Unpaid Obligations, brought forward, January 1	$ 4,279	$ 62,321
Uncollected Customer Payments from Federal Sources, brought forward, January 1	(72,359)	(71,054)
Total, Unpaid Obligated Balance, brought forward, January 1	(68,080)	(8,733)
Obligations Incurred, Net	413,154	10,390,054
Gross Outlays	(415,723)	(10,448,096)
Change in Uncollected Customer Payments from Federal Sources	(9,358)	(1,305)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	$ (80,007)	$ (68,080)
OBLIGATED BALANCE, NET, END OF PERIOD		
Unpaid Obligations, end of period	$ 1,710	$ 4,279
Uncollected Customer Payments from Federal Sources, end of period	(81,717)	(72,359)
TOTAL, UNPAID OBLIGATED BALANCE, NET, END OF PERIOD	$ (80,007)	$ (68,080)
NET OUTLAYS		
Gross Outlays	$ 415,723	$ 10,448,096
Offsetting Collections	(705,451)	(11,628,115)
TOTAL NET OUTLAYS	$ (289,728)	$ (1,180,019)

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 of Directors (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 NCUSIF with the ability to identify insured natural person credit unions experiencing financial difficulties that may require assistance from the NCUSIF.

Assistance from the NCUSIF may be in the form of a waiver of statutory reserve requirements, liquidity assistance in the form of a guaranteed line of credit pursuant to Section 208 of the FCU Act, permanent cash assistance in the form of a subordinated note pursuant to Section 208 of the FCU Act or other such form. In some cases, a merger partner for the credit union may be sought. Mergers between financially troubled credit unions and stronger credit unions may also require the 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 (primarily loans). When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the NCUSIF will liquidate the credit union, pay members' shares up to the maximum insured amount, and dispose of its 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 1.0 percent of its insured shares. The NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act.

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

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

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

Basis of Presentation

The NCUSIF's financial statements have been prepared from its accounting records in accordance with the FASAB SFFAS. FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the Federal Government. The format of the financial statements and notes is in accordance with the form and content guidance provided in Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised October 27, 2011.

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 applies Financial Accounting Standards Board (FASB) guidance for instances where no applicable FASAB guidance is available (e.g. securities classified as available-for-sale).

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. Section 661e (a) (1)).

Use of Estimates

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

- Reported amounts of assets and liabilities
- Disclosure of contingent assets and liabilities at the date of the financial statements
- 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; and (iii) allowance amounts established for loan loss related to permanent cash assistance provided to insured credit unions. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Fund Balance with Treasury

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

Investments

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

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

The NCUSIF reviews all U.S. Treasury securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). The NCUSIF evaluates its U.S. Treasury securities on a monthly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, and previous OTTI. To determine whether impairment is OTTI, the NCUSIF takes into consideration whether it has the intent to sell the security. The NCUSIF also considers available evidence to assess whether it more likely than not will be required to sell the debt security before the recovery of its amortized cost basis. If the NCUSIF intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis, OTTI shall be considered to have occurred.

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

Accounts Receivable

Accounts receivable represent the NCUSIF's claims for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts as further discussed below. The NCUSIF's accounts receivable has two components: Intragovernmental and Public. Intragovernmental accounts receivable represent receivables between the NCUSIF and another reporting entity within the Federal Government. Public accounts receivable represent accounts receivable between the NCUSIF and a non-federal entity.

Capitalization Deposits from Insured Credit Unions
Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.0 percent of its insured shares. A receivable and associated non-exchange revenue is 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 1.3 percent. When the NCUA Board projects that the equity ratio will, within six months, fall below 1.2 percent, the NCUA Board shall establish and implement a restoration plan within 90 days, which meets the statutory requirements and any further conditions that the NCUA Board determines appropriate. In order to meet statutory requirements, the plan must provide that the equity ratio will meet or exceed the minimum amount specified (1.2 percent) before the end of the 8-year period beginning upon the implementation of the plan (or such longer period as the NCUA Board may determine to be necessary due to extraordinary circumstances).

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

Allowance for Doubtful Accounts
An allowance for doubtful accounts is the NCUSIF's best estimate of the amount of losses in an existing receivable. Based on an assessment of collectability, the NCUSIF calculates an allowance on an individual account basis for public accounts receivable. An account may be impaired or written off if it is probable that the NCUSIF will not collect all principal and interest contractually due. No allowance is calculated for intragovernmental accounts receivable, as these are deemed to be fully collectible.

Accrued Interest Receivable

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

Capital Note Receivable

Capital note receivables represent loans to insured credit unions as authorized by the NCUA Board under Section 208 of the FCU Act. Any related allowance for loss represents the difference between the funds disbursed and the expected repayment from the insured credit unions.

Other - Receivables from Asset Management Estates

Receivables from AMEs include claims to recover payments made by the NCUSIF to satisfy obligations to insured shareholders and to recoup administrative expenses paid on behalf of AMEs. Any related allowance for loss represents the difference between the funds disbursed and obligations incurred and the expected repayment from the AMEs pursuant to the liquidation payment priorities set forth in 12 Code of Federal Regulations (CFR) Section 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 to the extent a receivable is due for share payout obligations and administrative expenses.

The allowance for losses on receivables from AMEs are based on asset recovery rates, and come from several sources including:

- Actual or pending AME asset disposition data
- Asset valuation data based upon the performance, quality, and type of the assets in the portfolio
- Estimated liquidation costs based on information from similar recently failed credit unions
- Estimated AME specific administrative expenses based upon complexity and expected duration of the AME.

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

Distribution Payable

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

Insurance and Guarantee Program Liabilities

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

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

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

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

Net Position and Contributed Capital

Each insured credit union pays and maintains with the NCUSIF a capitalization deposit in the amount equal to 1.0 percent of its insured shares. The NCUSIF reports the capitalization deposits from member credit unions as contributed capital. This amount is included in the NCUSIF's Balance Sheets and Statements of Changes in Net Position.

Revenue Recognition

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

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

Each insured credit union pays to and maintains with the NCUSIF a capitalization deposit amount equal to 1.0 percent of its insured shares. This amount is recognized as non-exchange revenue upon receipt. In accordance with SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," interest revenue on investments in U.S. Treasury securities is recognized as non-exchange revenue because the main source of funds for investments comes from capital deposits. Additionally, unrealized holding gains and losses on investments in U.S. Treasury securities are excluded from net costs and reported as a component of non-exchange revenue.

Tax-Exempt Status

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

Reclassification

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

2. FUND BALANCE WITH TREASURY

FBWT balances and status at December 31, 2011 and 2010, consisted of the following (in thousands):

	2011	2010
Total Fund Balance with Treasury: Revolving Funds	$ 423	$ 1,551
Status of Fund Balance with Treasury:		
Unobligated Balance - Available	$ 10,453,208	$ 10,430,194
Obligated Balances Not Yet Disbursed	1,710	4,279
Non-Budgetary FBWT Accounts	(10,651,420)	(10,360,563)
Non-FBWT Budgetary Accounts	196,925	(72,359)
Total	$ 423	$ 1,551

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

During 2011, the FBWT account was increased by maturing investments in U.S. Treasury securities. The FBWT account was decreased by purchases of U.S. Treasury securities and amounts expended for the purposes of the share insurance program. As of December 31, 2011, there were no unreconciled differences between U.S. Treasury records and balances reported on the NCUSIF's general ledger.

3. INVESTMENTS

The FCU Act, Section 203(c), as amended, provides guidance regarding U.S. Treasury security investments. All investments at the NCUSIF pertain to marketable (available-for-sale) U.S. Treasury securities of varying maturities and non-marketable (held to maturity) U.S. Treasury daily overnight securities. Premiums or discounts on available-for-sale securities are amortized using the effective interest method.

As of December 31, 2011 and 2010, 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, 2011:						
Available-for-Sale	$ 10,560,623	$ (177,145)	$ 81,707	$ 10,120,000	$ 450,200	$ 10,833,678
Held to Maturity	558,898	n/a	-	558,898	n/a	558,898
Total	$ 11,119,521	$ (177,145)	$ 81,707	$ 10,678,898	$ 450,200	$ 11,392,576
As of December 31, 2010:						
Available-for-Sale	$ 10,127,327	$ (135,992)	$ 72,359	$ 9,720,000	$ 186,387	$ 10,177,722
Held to Maturity	670,550	n/a	-	670,550	n/a	670,550
Total	$ 10,797,877	$ (135,992)	$ 72,359	$ 10,390,550	$ 186,387	$ 10,848,272

Maturities of U.S. Treasury securities as of December 31, 2011 and 2010 were as follows:

(Dollars in thousands)	2011 Fair value	2010 Fair value
Held to Maturity (Overnights)	$ 558,898	$ 670,550
Available-for-sale:		
Due prior to one year	1,627,172	1,627,609
Due after one year through five years	7,785,740	7,190,675
Due after five years through ten years	1,420,766	1,359,438
	$ 11,392,576	$ 10,848,272

There were no realized gains or losses in 2011 and 2010.

The following table presents 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, 2011 and 2010.

	Duration of Losses - Less than 12 months		
(Dollars in thousands)	Unrealized Losses	Unrealized Gains	Fair Value
As of December 31, 2011:			
Available-for-sale:			
U.S. Treasury securities	$ (72)	$ 450,272	$ 10,833,678
As of December 31, 2010:			
Available-for-sale:			
U.S. Treasury securities	$ (50,119)	$ 236,506	$ 10,177,722

4. ACCOUNTS RECEIVABLE

Intragovernmental – Accounts Receivable

Note Due from the NCUA Operating Fund
In 1992, the NCUSIF lent approximately $42 million to the NCUA Operating Fund, pursuant to a 30-year note secured by the NCUA premises in Alexandria, Virginia. Interest income recognized was approximately $344 thousand and $397 thousand for 2011 and 2010, respectively. The note receivable balance as of December 31, 2011 and 2010 was approximately $15.8 million and $17.1 million, respectively.

The variable rate on the note is equal to the NCUSIF's prior-month yield on investments. The average interest rate during 2011 and 2010 was 2.10 percent and 2.24 percent respectively. The interest rate as of December 31, 2011 and 2010 was 2.01 percent and 2.14 percent, respectively.

As of December 31, 2011, the above note requires principal repayments as follows (in thousands):

Years Ending December 31	**Secured Term Note**
2012	$ 1,341
2013	1,341
2014	1,341
2015	1,341
2016	1,341
Thereafter	9,051
Total	$ 15,756

Public – Accounts Receivable

Capitalization Deposits from Insured Credit Unions
As of December 31, 2011 and 2010, the capitalization deposits due from insured credit unions were $30 thousand and $183 thousand, respectively.

Premium Assessments from Insured Credit Unions
As of December 31, 2011 and 2010, assessments due from insured credit unions were $73 thousand and $2.0 million, respectively.

As none of these amounts were deemed uncollectible, the allowance for doubtful accounts on public accounts receivable as of December 31, 2011 and 2010 was zero.

5. CAPITAL NOTE RECEIVABLE

As of December 31, 2011, the NCUSIF had two outstanding capital notes due from insured credit unions. The capital note receivables totaled $80.0 million and the related allowance for loss was $10.0 million, for a net capital note receivable of $70.0 million as of December 31, 2011. These capital notes are subordinated to all shareholders, creditors, and any other such financial obligations.

Per the terms of the capital notes, principal shall be the original value of the notes. Accrued interest on the notes is due and payable on a semi-annual basis, until the notes are paid in full. Interest on these notes have fixed and variable terms. There were no outstanding capital notes as of December 31, 2010.

As of December 31, 2011, the accrued interest receivable for the capital notes totaled $150 thousand.

6. OTHER – RECEIVABLES FROM ASSET MANAGEMENT ESTATES

As of December 31, 2011 and 2010, the receivable from AMEs was $932.0 million and $920.9 million, and the related allowance for loss was $817.3 million and $777.6 million, for a net receivable from AMEs of $114.7 million and $143.3 million, respectively.

(Dollars in thousands)	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Gross Receivable from AME	$ 932,061	$ 920,848
Allowance for Loss beginning balance	777,570	516,414
AME Receivable Bad Debt Expense (Reduction)	(6,730)	(2,034)
Increase in Allowance from Transfers	80,955	223,134
Charges, Net	-	40,056
Write-off of Cancelled Charters	(34,474)	-
Allowance for Loss ending balance	817,321	777,570
Receivable from AME, Net	$ 114,740	$ 143,278

7. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

NCUA identifies 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 supervised credit unions. NCUA also evaluates overall economic trends and monitors potential system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess an insured credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. For general reserve requirements, risk profile categories are established based on the CAMEL ratings of problem credit unions, and probable failure and loss rates are applied based on historical data. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions. The total reserves for both identified and anticipated losses resulting from supervised credit union failures were $606.6 million and $1.23 billion as of December 31, 2011 and 2010, respectively.

In exercising its supervisory function, the NCUSIF will occasionally extend guarantees of assets (primarily loans) to third-party purchasers or existing credit unions in order to facilitate mergers. The NCUSIF would be obligated upon borrower nonperformance. No such guarantees were outstanding during 2011 and 2010, or as of December 31, 2011 and 2010.

In addition, the NCUSIF may grant a guaranteed line-of-credit to a third-party lender, such as a corporate credit union or bank, if a particular credit union were to have a current or immediate liquidity concern and the third-party lender refuses to extend credit without a guarantee. The NCUSIF would thereby be obligated if the insured credit union failed to perform. Total line-of-credit guarantees of credit unions as of December 31, 2011 and 2010 were approximately $115.0 million and $75.5 million, respectively. The insured credit unions borrowed $15.4 million and zero, from the third-party lender, under these line-of-credit guarantees as of December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the NCUSIF reserved $2.1 million and $1.4 million, respectively, for these guaranteed lines-of-credit. The guarantees expire in March 2012.

On rare occasions, the NCUSIF may provide indemnifications as part of a merger assistance or purchase and assumption agreement to acquiring credit unions. Such indemnifications make the NCUSIF contingently liable based on the outcome of any legal actions. There were no such indemnification contingencies as of December 31, 2011 and 2010, respectively.

The activity in the Insurance and Guarantee Program Liabilities from supervised credit unions and AMEs for the years ended December 31, 2011 and 2010 was as follows:

(Dollars in thousands)	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Beginning balance	$ 1,225,281	$ 715,846
Reserve Expense (Reduction)	(525,678)	737,596
Insurance losse claims paid	(105,099)	(277,801)
Net Estimated Recovery/Claim on AMEs	12,113	49,640
Ending balance	$ 606,617	$ 1,225,281

The Insurance and Guarantee Program Liabilities at December 31, 2011 and 2010, were comprised of the following:

- Specific reserves were $16.4 million and $173.5 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 $590.2 million and $1,051.8 million, respectively.

In addition to these recorded contingent liabilities, additional adverse performance in the financial services industry could result in additional losses to the NCUSIF. The ultimate losses for insured credit unions will largely depend upon future economic and market conditions, and accordingly, could differ significantly from these estimates.

8. OTHER LIABILITIES – DISTRIBUTION PAYABLE

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

- (i) any loans to the NCUSIF from the Federal Government, and any interest on those loans, have been repaid;
- (ii) the NCUSIF's equity ratio exceeds the normal operating level of 1.3 percent; and
- (iii) the NCUSIF's available assets ratio exceeds 1.0 percent.

The amount of share distribution should equal the maximum possible amount that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.3 percent, and does not reduce the NCUSIF's available assets ratio below 1.0 percent.

At the end of any calendar year in which the TCCUSF or the NCUSIF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions described in Section 202(c)(3) of the FCU Act. As of December 31, 2011, the TCCUSF had an outstanding advance from the U.S. Treasury. In lieu of the distribution described in that section, the NCUSIF shall 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 1.3 percent and does not reduce the NCUSIF's available assets ratio below 1.0 percent.

As of December 31, 2011, the NCUSIF recorded an estimate for the distribution payable due to the TCCUSF totaling approximately $278.6 million, thereby bringing the equity ratio down to its normal operating level of 1.3 percent. As of December 31, 2011, the NCUSIF's available assets ratio was 1.32 percent. The equity ratio and available assets ratio calculations are discussed in Note 12. The amount is expected to be paid in the first half of 2012, upon receipt of certification of certain insured share information from insured credit unions.

9. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

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

Intragovernmental Costs and Exchange Revenue		**For the Year Ended December 31, 2011**		**For the Year Ended December 31, 2010**
(Dollars in thousands)				
Intragovernmental Costs	$	129,985	$	162,410
Public Costs (Reduction)		(530,035)		738,982
Total		(400,050)		901,392
Intragovernmental Exchange Revenue		(344)		(397)
Public Exchange Revenue		(693)		(978,778)
Total		(1,037)		(979,175)
Net Cost/(Income)	$	(401,087)	$	(77,783)

Certain administrative services are provided to the NCUSIF by the NCUA Operating Fund. The NCUSIF is charged by the NCUA Operating Fund for these services based upon an annual allocation factor approved by the NCUA Board and derived from a study of actual usage. The allocation factor was 58.9 percent and 57.2 percent to the NCUSIF for 2011 and 2010, respectively. The cost of the services allocated to the NCUSIF, which totaled approximately $130.0 million and $113.6 million for 2011 and 2010, respectively, is reflected as an expense in the Statements of Net Cost. These transactions are settled monthly. As of December 31, 2011 and 2010, amounts due to the NCUA Operating Fund for allocated administrative expenses were $1.2 million and $2.9 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, 2011**		**For the Year Ended December 31, 2010**
(Dollars in thousands)				
Employee Salaries	$	73,271	$	64,218
Employee Benefits		20,996		17,931
Employee Travel		15,313		12,912
Contracted Services		9,107		8,294
Administrative Costs		8,518		7,855
Rent, Communications, and Utilities		2,780		2,374
Total Services Provided by the NCUA Operating Fund	$	129,985	$	113,584

10. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

The NCUSIF shares $6.0 billion in borrowing authority from the U.S. Treasury with the TCCUSF. As of December 31, 2011, the TCCUSF had $3.5 billion in borrowing outstanding from the U.S. Treasury. As a result, the NCUSIF had $2.5 billion 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, 2011 and 2010, the CLF had $10.0 billion and $35.0 billion available capacity to borrow under its current promissory notes, respectively, and such funds are available through March 31, 2012 and 2011, respectively. The borrowing authority amounts are referenced to subscribed capital stock of the CLF. This continued level of borrowing authority is dependent on the outcome of several future events, including the decisions about the resolution of the U.S. Central Bridge Corporate Federal Credit Union (USC Bridge).

At December 31, 2011 and 2010, the NCUSIF had $12.5 billion and $41.0 billion, respectively, in total available borrowing authority under promissory notes with the U.S Treasury and through the available CLF capacity.

11. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The Statements of Budgetary Resources discloses total budgetary resources available to the NCUSIF, and the status of resources as of December 31, 2011 and 2010. 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, 2011 and 2010, the NCUSIF's resources in budgetary accounts were $10.9 billion and $20.8 billion and undelivered orders were $362 thousand and $795 thousand, respectively. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities, because they are contingent liabilities and do not require budgetary resources until the liabilities are no longer contingent. All obligations incurred by the NCUSIF are reimbursable. The NCUSIF is exempt from OMB apportionment control.

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

12. CONTRIBUTED CAPITAL

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the NCUSIF's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the NCUSIF a deposit in an amount equaling 1.0 percent of the credit union's insured shares. Under Section 1782(c) of the FCU Act, the amount of each insured credit union's deposit is adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than $50.0 million; and (ii) semi-annually, in the case of an insured credit union with total assets of $50.0 million or more. The annual and semi-annual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1.0 percent contribution is returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the NCUSIF are transferred from the NCUA Board. As of December 31, 2011 and 2010, contributed capital owed to the NCUSIF totaled $30 thousand and $183 thousand respectively. As of December 31, 2011 and 2010, contributed capital due to insured credit unions was zero.

Beginning in 2000, the CUMAA mandated that distributions to insured credit unions are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, distributions associated with insured shares at year-end are declared and paid in the subsequent year. This was updated with the passage of the Helping Families Act of 2009 which states that at the end of any calendar year in which the TCCUSF has an outstanding advance from the U.S. Treasury, the NCUSIF is prohibited from making the distribution to insured credit unions as described above. In lieu of the distribution, the NCUSIF shall make a distribution to the TCCUSF for the maximum amount possible that does not reduce the NCUSIF's equity ratio below the normal operating level of 1.3 percent and does not reduce the current available assets ratio below 1.0 percent.

Pursuant to the FCU Act, the NCUSIF calculated and initiated a distribution to the TCCUSF in the estimated amount of $278.6 million, which is recognized as a payable as of December 31, 2011. Thus, the NCUSIF's calculated equity ratio as of December 31, 2011 and 2010 was 1.30 percent and 1.28 percent, based on an estimated total insured shares as of December 31, 2011 and actual insured shares as of December 31, 2010, of $795.3 billion and $757.9 billion, respectively. Total contributed capital as of December 31, 2011 and 2010 was $7.8 billion and $7.5 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, 2011 was 1.32 percent based on total estimated insured shares as of December 31, 2011 of $795.3 billion. The NCUSIF available assets ratio, as defined by the FCU Act, is calculated as the ratio of (A) the amount determined by subtracting (i) direct liabilities of the NCUSIF (including the distribution payable to the TCCUSF) and contingent liabilities for which no provision for losses has been made, from (ii) the sum of cash and the market value of unencumbered investments authorized under Section 203(c), to (B) the aggregate amount of the insured shares in all insured credit unions.

13. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, management, protection, accounting, investment, and disposition by an AME of cash and other assets, in which non-federal individuals or entities have an ownership interest. Fiduciary assets are not assets of the Federal Government. Fiduciary activities are not recognized on the financial statements, but are reported on schedules in the notes to the financial statements in accordance with SFFAS No. 31, "Accounting for Fiduciary Activities."

The NCUA Board, as liquidating agent of the AMEs, disburses obligations owed by and collects money due to the liquidating credit unions through AMAC.

Schedule of Fiduciary Activity	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
(Dollars in thousands)		
Fiduciary Net Liabilities, beginning of year	$ (781,264)	$ (516,414)
Revenues		
Interest on Loans	7,535	8,545
Other Fiduciary Revenues	1,691	1,835
Expenses		
Professional & Outside Services Expenses	(7,501)	(7,906)
Compensation and Benefits	(1,729)	(2,989)
Other Expenses	336	(3,099)
Net Change in Recovery Value of Assets and Liabilities		
Net Gain/(Loss) on Loans	(25,144)	(281,294)
Net Gain/(Loss) on Real Estate Owned	712	3,574
Other, Net Gain/(Loss)	(52,705)	16,484
Decrease/(Increase) in Fiduciary Net Liabilities	(76,805)	(264,850)
Write off of Fiduciary Liabilities for Cancelled Charters	34,475	-
Fiduciary Net Liabilities, end of year	**$ (823,594)**	**$ (781,264)**

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

Schedule of Fiduciary Net Assets/Liabilities	As of December 31, 2011	As of December 31, 2010
(Dollars in thousands)		
Fiduciary Assets		
Loans	$ 96,755	$ 120,271
Real Estate Owned	31,687	36,798
Other Fiduciary Assets	7,954	7,720
Total Fiduciary Assets	**136,396**	**164,789**
Fiduciary Liabilities		
Insured Shares	8,595	2,510
Secured Claims	1,400	-
Accrued Liquidation Expenses	7,290	5,957
Unsecured Claims	7,793	12,851
Uninsured Shares	2,851	3,887
Due to NCUSIF	932,061	920,848
Total Fiduciary Liabilities	**959,990**	**946,053**
Total Fiduciary Net Assets/(Liabilities)	**$ (823,594)**	**$ (781,264)**

14. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of December 31, 2011 and 2010, 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, 2011	As of December 31, 2010
(Dollars in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Budgetary Obligations Incurred	$ 413,154	$ 10,390,054
Less: Spending Authority from Offsetting Collections and Change in Receivables from Federal Sources	(714,809)	(11,629,420)
Net Obligations	(301,655)	(1,239,366)
Other Resources:		
Net Unrealized Gain/(Loss)	(263,813)	(109,039)
Total Resources Used to Finance Activities	(565,468)	(1,348,405)
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services Not Yet Received	432	(32,531)
Resources that Fund Expenses Recognized in Prior Periods	(2,136)	(23,993)
Change in Uncollected Customer Payments	-	(1,305)
Change in Capital Deposit Receivable from Insured Credit Unions	153	17,628
Change in Contributed Capital	320,559	418,020
Capital Deposits in Transit at Beginning of Year	-	(17,570)
Resources that Finance the Acquisition of Assets	2,508	(5,358)
Change in Accounts Receivable from the Operating Fund	1,341	1,341
Change in Liability for Advances and Prepayments	-	(2,257)
Change in Premium Receivable from Insured Credit Unions	1,963	10,865
Change in Receivables from Asset Management Estates	28,537	61,161
Capital Note Receivable	(70,000)	-
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	413,986	109,039
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	697,343	535,040
Resources Used to Finance the Net Cost of Operations	131,875	(813,365)
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Provision for Insurance Losses		
Reserve Expense (Reduction)	(525,678)	737,596
AME Receivable Bad Debt Expense (Reduction)	(6,730)	(2,034)
Increase in Exchange Revenue	(574)	-
Components not Requiring or Generating Resources		
Depreciation Expense	20	20
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	(532,962)	735,582
Net Cost/ (Income) from Operations	$ (401,087)	$ (77,783)

15. SUBSEQUENT EVENTS

Subsequent events have been evaluated from the Balance Sheet date through February 15, 2012, 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, 2011.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Risk Assumed Information

Insurance and Guarantee Program Liabilities

As of December 31, 2011, the aggregate outstanding insured shares of the insured credit unions were approximately $795.3 billion. This amount represents the maximum potential future guarantee payments that the NCUSIF could be required to make under the share insurance program, without consideration of any possible recoveries. Additionally, pursuant to Section 217 (b)(2)(A) of the FCU Act, to the extent that the required funding for the guarantee obligations exceeds the funds available in the TCCUSF, the NCUSIF will provide the necessary funds. These amounts bear no relationship to the NCUSIF's anticipated losses.

As discussed previously herein, NCUA identifies credit unions at risk of failure through the supervisory and examination process, and estimates losses based upon economic trends and credit unions' financial condition and operations. NCUA also evaluates overall economic trends and monitors potential credit union system-wide risk factors, such as increasing levels of consumer debt, bankruptcies, and delinquencies. NCUA applies the CAMEL rating system to assess a credit union's financial condition and operations. The CAMEL rating system is a tool to measure risk and allocate resources for supervisory purposes. NCUA periodically reviews the CAMEL rating system to respond to continuing economic and regulatory changes in the credit union industry. The aggregate amount of reserves recognized for credit unions at risk of failure was $606.6 million and $1.23 billion as of December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the general reserves were $590.2 million and $1,051.8 million, respectively. At December 31, 2011 and 2010, the specific reserves resulting from supervised credit unions' failures were $16.4 million and $173.5 million, respectively.

While certain risk factors remain elevated, as compared to pre-2009, the decrease in the NCUSIF's aggregate reserve of $618.7 million from 2010 to 2011 is partly attributable to certain improving metrics, specifically a declining trend in the number of credit union failures, resolution of certain troubled credit unions, a reduction in assets in credit unions with the highest risk ratings, and lower delinquencies and charge-offs. The trend in 2011 contrasts with the trend in 2010 when the NCUSIF's aggregate reserve increased by $466.5 million due to the slow pace of economic recovery and concerns with real estate values, a negative trend in credit union CAMEL codes, the potential for a larger number of failures, and concern with the cost of failures.

Fees and Premiums

During 2011, the NCUA Board did not assess premiums to insured credit unions from the NCUSIF. During 2010, the NCUA Board assessed a premium of $930.0 million on the insured credit unions for the NCUSIF to restore its equity ratio to the normal operating level of 1.3 percent.

Sensitivity, Risks and Uncertainties of the Assumptions

As discussed previously herein, the NCUA estimates the anticipated losses resulting from insured credit union failures using an internal model that applies failure and loss rates based on historical data to troubled credit unions identified through the CAMEL rating system under various scenarios. Historical trends are not indicative of future performance. Actual losses could differ materially from the anticipated losses recorded by the NCUSIF as of December 31, 2011.

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

The NCUSIF general reserve is sensitive to assumptions made about the failure and loss rates under various scenarios in the Monte Carlo simulation. Changing our assumptions for observed variations in failure rates and loss rates results in a wide range of losses, as compared to $590.2 million in anticipated losses recognized on the NCUSIF's balance sheet at December 31, 2011. The assumptions used to estimate the anticipated losses will require continued calibration and refinement.

Liquidity Risk and Capital Resources

As discussed previously herein, the NCUSIF has multiple sources of funding including (1) deposits contributed by the insured credit unions, as provided by the FCU Act, (2) cumulative earnings retained by the NCUSIF, (3) premium assessments on the insured credit unions, as necessary, as provided by the FCU Act, (4) borrowings from the U.S. Treasury, and (5) borrowings from the CLF. The NCUSIF's status as a revolving fund in the U.S. Treasury ensures access to sufficient funds in meeting the NCUSIF's obligation under the Insurance and Guarantee Program for the insured credit unions.

Contributed Capital
Each insured credit union is required to deposit and maintain in the NCUSIF 1.0 percent of its insured shares. At December 31, 2011, the NCUSIF had total contributed capital from insured credit unions of $7.8 billion based on the total insured shares of $782.5 billion as of June 30, 2011.

At December 31, 2011, the total insured shares were estimated to be approximately $795.3 billion, subject to reporting of the insured share amounts by the insured credit unions to NCUA. We expect that the NCUSIF will receive additional deposits of approximately $147.1 million from the insured credit unions in early 2012, pursuant to the FCU Act.

Cumulative Earnings and Distribution Payable to the TCCUSF
In addition to the contributed capital, the NCUSIF has retained approximately $3.0 billion in cumulative earnings, primarily from earnings on its U.S. Treasury securities investments, at December 31, 2011.

As discussed previously herein, as the result of the NCUSIF's equity ratio being greater than its normal operating level of 1.30 percent and available assets ratio being greater than 1.0 percent, the NCUSIF recorded a distribution payable to the TCCUSF as of December 31, 2011. The NCUSIF's distribution was estimated at $278.6 million based on the best information available as of December 31, 2011. The amount is expected to be paid in the first half of 2012, upon receipt of certification of certain insured share information from insured credit unions.

The information used to develop the distribution amount included the total estimated insured shares of $795.3 billion at December 31, 2011. However, the corresponding estimated increase in contributed capital of approximately $147.1 million was not included in deriving the distribution amount due to the TCCUSF necessary to bring the equity ratio to 1.3 percent, as mandated by the FCU Act. Additional deposits from the insured credit unions may result in the NCUSIF's equity ratio exceeding the normal operating level of 1.3 percent in early 2012. This could lead to additional distribution from the NCUSIF to the TCCUSF in early 2012.

Premium Assessments
As previously discussed herein, the NCUA Board may also assess premiums to all insured credit unions, as provided by the FCU Act. During the year ended December 31, 2011, the NCUA Board did not assess any premiums on the insured credit unions for the NCUSIF.

Borrowing Authority from the U.S. Treasury
As previously discussed herein, the NCUSIF has $6.0 billion in borrowing authority, shared with the TCCUSF, from the U.S. Treasury. On July 27, 2011, the TCCUSF borrowed $3.5 billion from the U.S. Treasury. At December 31, 2011, the NCUSIF, together with the TCCUSF, had $2.5 billion in additional borrowing authority available from the U.S. Treasury. The TCCUSF was established in 2009 to accrue the losses of the corporate credit union system and, over time, assess the insured credit union system for such losses. 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, and consequently, the NCUSIF may not have any available borrowing authority from the U.S. Treasury.

Borrowing Authority from the CLF
As previously discussed herein, the NCUSIF also has the ability to borrow from the CLF as provided in the FCU Act. At December 31, 2011, the NCUSIF did not have any outstanding borrowing from the CLF.

The CLF is authorized by statute to borrow, from any source, an amount not to exceed twelve times its subscribed capital stock and surplus. The CLF borrows exclusively from FFB. As of December 31, 2011, the CLF had borrowing capacity under its note purchase agreement with the FFB of $10.0 billion, and such funds are available through March 2012.

At December 31, 2011, approximately $2.0 billion of the CLF's capital stock is held by USC Bridge on behalf of its member corporate credit unions. The NCUA Board formed USC Bridge and three other bridge corporate credit unions as chartered private enterprises to purchase selected assets, including CLF capital stock held by U.S. Central Federal Credit Union, and assume liabilities and member shares of the liquidated corporate credit unions in order to provide uninterrupted services to the natural person credit unions that were members of the now failed corporate credit unions.

As a part of the Corporate System Resolution Plan, the NCUA Board had been actively pursuing a credit union system-led resolution to the Bridge Corporates to facilitate a number of transitions, including the CLF agent-member structure. As of December 31, 2011, neither USC's members nor NCUA was able to secure the transition of USC's products and services to a successor entity, thereby leading to the agency's decision to wind-down USC's operations in 2012. Accordingly, it is likely that USC Bridge would discontinue its role as the agent group representative for CLF and thereby redeem its capital stock by providing a formal notice to redeem its shares as provided for under the Act. In such an event, during the withdrawal period and subsequent thereto, redemption by CLF of its capital stock from USC Bridge would materially reduce members' equity and, as a result, the borrowing capacity of CLF, and consequently the NCUSIF's available borrowing authority from the CLF.

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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2011 and 2010 and the related statements of net cost and changes in net position, and statement of budgetary resources (hereinafter referred to as "the financial statements") for the years then ended, and have issued our report thereon dated February 15, 2012.

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

The management of the NCUSIF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the NCUSIF's internal control over financial reporting by obtaining an understanding of the NCUSIF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCUSIF's internal control over financial reporting. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 15, 2012

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

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheet of the National Credit Union Share Insurance Fund (NCUSIF) as of December 31, 2011 and 2010, and the related statements of net cost and changes in net position, and statement of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 15, 2012.

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

The management of the NCUSIF is responsible for complying with laws, regulations, and contracts applicable to the NCUSIF. As part of obtaining reasonable assurance about whether the NCUSIF's financial statements are free of material misstatement, we performed tests of the NCUSIF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the NCUSIF. 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 described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, NCUSIF's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 15, 2012

National Credit Union Administration Central Liquidity Facility

Financial Statements as of and for the Years Ended
December 31, 2011 and 2010, and
Independent Auditors’ Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
As of and For the Years Ended December 31, 2011 and 2010

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

Independent Auditors' Report on Financial Reporting

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

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2011 and 2010, and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CLF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2011 and 2010, and its operations, members' equity, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 13, 2012, on our consideration of the CLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 13, 2012

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
As of December 31, 2011 and 2010
(Dollars in thousands, except share data)

BALANCE SHEETS

	2011	2010
ASSETS		
Cash and cash equivalents (notes 4 and 7)	$ 1,989,641	$ 1,905
Accounts receivable (notes 5 and 7)	1,000	-
Investments held to maturity (Net of $622 and $4,306 unamortized premium, fair value of $109,957 and $1,982,533 as of 2011 and 2010, respectively) (notes 6 and 7)	108,872	1,977,556
Accrued interest receivable (note 7)	145	500
TOTAL	$ 2,099,658	$ 1,979,961
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accounts payable (note 7)	$ 219	$ 239
Other liabilities (notes 7 and 8)	12,310	-
Dividends payable (note 7)	366	1,479
Member deposits (notes 7 and 10)	322	329
Total Liabilities	13,217	2,047
MEMBERS' EQUITY		
Capital stock – required ($50 per share par value authorized: 82,403,220 and 78,236,318 shares; issued and outstanding: 41,201,610 and 39,118,159 shares as of 2011 and 2010, respectively) (notes 8 and 9)	2,060,081	1,955,908
Retained earnings	26,360	22,006
Total members' equity	2,086,441	1,977,914
TOTAL	$ 2,099,658	$ 1,979,961

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Years Ended December 31, 2011 and 2010
(Dollars in thousands)

STATEMENTS OF OPERATIONS

	2011	2010
REVENUE:		
Investment income	$ 8,101	$ 14,135
Interest on loans	-	45,610
Total revenue	8,101	59,745
EXPENSES: (note 13)		
Personnel services	437	344
Personnel benefits	111	83
Other general and administrative expenses	89	56
Total operating expenses	637	483
Interest – Federal Financing Bank notes payable (note 12)	-	45,610
Interest – liquidity reserve	1	2
Total expenses	638	46,095
NET INCOME	$ 7,463	$ 13,650

See accompanying notes to financial statements.

(Dollars in thousands, except share data)

STATEMENTS OF MEMBERS' EQUITY

	Capital Stock			
	Shares	Amount	Retained Earnings	Total
BALANCE – December 31, 2009	36,374,558	$ 1,818,728	$ 14,124	$ 1,832,852
Issuance of required capital stock	2,784,248	139,212		139,212
Redemption of required capital stock (note 8)	(40,647)	(2,032)		(2,032)
Dividends declared ($0.15/share) (notes 9 and 10)			(5,768)	(5,768)
Net income			13,650	13,650
BALANCE – December 31, 2010	39,118,159	1,955,908	22,006	1,977,914
Issuance of required capital stock	2,378,097	118,905		118,905
Redemption of required capital stock (note 8)	(294,646)	(14,732)		(14,732)
Dividends declared ($0.08/share) (notes 9 and 10)			(3,109)	(3,109)
Net income			7,463	7,463
BALANCE – December 31, 2011	41,201,610	$ 2,060,081	$ 26,360	$ 2,086,441

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY
For the Years Ended December 31, 2011 and 2010
(Dollars in thousands)

STATEMENTS OF CASH FLOWS

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,463	$ 13,650
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Amortization of premiums	4,927	(1,840)
Decrease in accrued interest receivable	355	23,091
Decrease in accounts payable	(20)	(23,492)
Increase in other liabilities	272	-
Net cash provided by operating activities	12,997	11,409
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,685,858)	(1,220,885)
Proceeds from maturing investments	3,548,615	1,074,000
Loan principal repayments/(disbursements) - net	-	18,312,751
Net cash provided by investing activities	1,862,757	18,165,866
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of required capital stock	118,905	139,212
Dividends paid (notes 9 and 10)	(4,222)	(5,664)
Redemption of required capital stock	(2,694)	(2,032)
Withdrawal of member deposits	(1,114)	(901)
Additions to member deposits	1,107	866
(Repayments of)/proceeds from FFB borrowings - net	-	(18,312,751)
Net cash provided by/(used in) financing activities	111,982	(18,181,270)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,987,736	(3,995)
CASH AND CASH EQUIVALENTS– beginning of year	1,905	5,900
CASH AND CASH EQUIVALENTS – end of year	$ 1,989,641	$ 1,905
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION – cash paid during the year for interest	$ -	$ 69,173

See accompanying notes to financial statements.

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration (NCUA) Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (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 9 and 12 for further information about the capital stock and the CLF's borrowing authority.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **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.

(b) **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.

(c) **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.

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

(e) **Investments –** By statute, CLF investments are restricted to obligations of the U.S. Government and its agencies, deposits in federally insured financial institutions, and shares and deposits in credit unions. All investments are classified as held-to-maturity under FASB Accounting Standards Codification (ASC) topic 320-10-25-1, *Classification of Investment Securities*, as CLF has the intent and ability to hold these investments until maturity. Accordingly, CLF reports investments at amortized cost. Amortized cost is the face value of the securities plus the unamortized premium or less the unamortized discount.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity investment as an adjustment to yield using the effective interest method. Such amortization and accretion is included in the “investment income” line item in the Statement of Operations.

CLF records investment transactions when they are made.

(f) **Loans and Allowance for Loan Losses –** Loans, when made to members, are on a short-term or long-term basis. Loans are recorded at the amount disbursed and bear interest at the higher of the Federal Financing Bank Advance Rate or the Federal Reserve Bank Discount Window Primary Credit Rate. By regulation, Member *Liquidity Needs* Loans are made on a fully secured basis. CLF obtains a security interest in the assets of the member equal to at least 110 percent of all amounts due. CLF does not currently charge additional fees for its lending activities.

CLF has form documents in place that reflect the repayment, security, and credit reporting terms applicable to all CLF loans. CLF makes loan disbursements through the corporate credit union network and relies on members of the corporate network to service loans it has made. CLF currently relies on the U.S. Central Bridge Corporate Federal Credit Union (USC Bridge) (in conservatorship) as its agent group representative and master servicer for all loans. USC Bridge relies on the appropriate corporate credit union as its agent to service loans owed by its natural person credit union members. See Note 9 for further information about USC Bridge. CLF requires each corporate credit union acting as a loan servicer to subordinate any claims it might have in the collateral owned by natural person credit unions that may have been pledged to secure an advance from the corporate credit union.

CLF management reviews the allowance for loan losses annually. In determining the allowance for loan losses, when applicable, CLF evaluates the collectability of its loans to members through examining the financial condition of the individual borrowing credit unions and the credit union industry in general.

A loan is considered impaired if it is probable that CLF will not collect all principal and interest actually due. The impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate. CLF does not accrue interest when a loan is considered impaired. When ultimate collectability of the principal balance of the impaired loan is in doubt, all cash receipts on the impaired loan are applied to reduce the principal of such loan until the principal has been recovered, and are recognized as interest income thereafter. Impairment losses are charged against the allowance, and increases in the allowance are charged as bad debt expense.

Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. There was no allowance and no past due loans as of December 31, 2011 and 2010, and there were no write-offs for fiscal years (FY) 2011 and 2010. CLF management considers write-offs remote because all member loans must be collateralized by assets with a minimum of 110 percent of the outstanding loan amount.

CLF recognizes loans when they are issued and related repayments when they are received.

(g) **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.

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

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

(j) **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.

(k) **Related Parties –** CLF exists within NCUA and is managed by the NCUA Board. NCUA Operating Fund (OF) provides CLF with information technology, support services, and supplies. In addition, NCUA OF pays CLF's employees' salaries and benefits, as well as CLF's portion of monthly building operating costs. The allocation formula to calculate these expenses is based on the number of full-time employees of the respective entities and the estimated amount of time CLF employees spend performing CLF functions.

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In 2011, CLF adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, providing amendments to ASC Topic 820, *Fair Value Measurements and Disclosures*. These amendments require new disclosures pertaining to activity in Level 3 fair value measurements. This adoption did not have a material impact on its balance sheets or statements of operation.

In 2011, CLF adopted FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, providing amendments to ASC Topic 310, *Receivables*. The objective of these amendments is for an entity to provide disclosures that facilitate financial statement user's evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivable, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and 3) the changes and reasons for those changes in the allowance for credit losses. The existing disclosures are amended to require disclosures about an entity's financing receivables on a disaggregated basis. The amendments also require additional disclosures about financing receivables. This adoption did not have a material impact on its balance sheets or statements of operation.

(Dollars in thousands, except share data)

In 2011, CLF adopted the ASU 2011-04*, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards*, to the accounting standards on *Fair Value Measurements and Disclosures* (FASB ASC Topic 820). The amendment requires common fair value measurement and disclosure in GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and disclosing information about fair value measurements. ASU 2011-04 will be effective for the Fund's financial statements as of and for the year ended December 31, 2012. This adoption will not have a material impact on its balance sheets or statements of operation.

4. CASH AND CASH EQUIVALENTS

CLF's cash and cash equivalents consisted of the following:

	As of December 31, 2011	As of December 31, 2010
U.S. Treasury Securities	$ 1,988,905	$ 1,778
USC Bridge Daily Transaction Share Account	447	110
PNC Bank	289	17
Total	$ 1,989,641	$ 1,905

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

5. ACCOUNTS RECEIVABLE

At December 31, 2011, CLF recognized $1,000 in accounts receivable for the pending receipt of a matured U.S. Treasury Note. The security matured on December 31, 2011 and was removed from investments, but proceeds were not received until January 2012. The allowance for doubtful accounts related to this receivable was zero because U.S. Treasury securities are deemed to be fully collectible.

(Dollars in thousands, except share data)

6. INVESTMENTS

The carrying amount, gross unrealized holding gains, gross unrealized losses, and the fair value of held-to-maturity debt securities as of December 31, 2011 and 2010 were as follows:

	Carrying Amount	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of December 31, 2011				
U.S. Treasury Securities:	$ 108,872	1,085	-	109,957
As of December 31, 2010				
U.S. Treasury Securities:	$ 1,977,556	4,977	-	1,982,533

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

	As of December, 31 2011		**As of December 31, 2010**	
	Net Carrying Amount	**Aggregate Fair Value**	**Net Carrying Amount**	**Aggregate Fair Value**
Due in one year or less	$98,849	$ 99,050	$ 1,868,391	$ 1,873,003
Due after one year through five years	5,009	5,286	104,183	104,416
Due after five years through ten years	5,014	5,621	4,982	5,114
Total	$108,872	$109,957	$ 1,977,556	$ 1,982,533

7. FAIR VALUE MEASUREMENTS

FASB ASC 820-10-05, *Fair Value Measurements*, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements for fair value measurements. The standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

(Dollars in thousands, except share data)

The following table presents the carrying amounts and established fair values of CLF's financial instruments as of December 31, 2011 and 2010. 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.

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

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

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

Member Deposits – Funds maintained with CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand; therefore, carrying amounts approximate the fair value.

Other – Accrued interest receivable, accounts payable, other liabilities, and dividends payable are recorded at book values, which approximate the respective fair values because of the short maturity of these instruments.

The carrying values and approximate fair values of financial instruments are as follows:

	As of December 31, 2011		**As of December 31, 2010**	
Financial Instruments	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$1,989,641	$1,989,641	$ 1,905	$ 1,905
Accounts receivable	1,000	1,000	-	-
Investments held to maturity	108,872	109,957	1,977,556	1,982,533
Accrued interest receivable	145	145	500	500
Accounts payable	219	219	239	239
Other liabilities	12,310	12,310	-	-
Dividends payable	366	366	1,479	1,479
Member deposits	322	322	329	329

8. OTHER LIABILITIES

Other liabilities include pending redemptions of capital stock and advance deposits from a future member credit union. CLF reclassified $12,038 of capital stock to other liabilities in 2011 to reflect the pending redemption of 240,753 shares of required capital stock at the request of a regular (non-agent) member credit union. Capital stock is redeemable upon demand by members, subject to certain conditions as set out in the Act and NCUA regulations. The redemption will occur in 2012. Dividends are paid on these shares until they are redeemed. As of December 31, 2011, other liabilities also include $272 in advance deposits from a credit union that will become a member in 2012. As of December 31, 2010, there were no pending redemptions or advance deposits.

9. CAPITAL STOCK

Membership in CLF is voluntary and is open to all credit unions that purchase a prescribed amount of capital stock. CLF capital stock is non-voting and shares have a par value of $50. There are two types of membership—regular (natural person credit unions) and agent (through corporate credit unions). Natural person credit unions may borrow from CLF directly as a regular member or indirectly through an agent member.

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

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

A member of CLF whose capital stock account constitutes less than five percent of the total capital stock outstanding may withdraw from membership in CLF six months after notifying the NCUA Board of its intention. A member whose capital stock account constitutes five percent or more of the total capital stock outstanding may withdraw from membership in CLF two years after notifying the NCUA Board of its intention. As of December 31, 2011, CLF had one member withdrawal request pending totaling $12,038. As of December 31, 2010, 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.

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

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

To facilitate the resolution process, the NCUA Board chartered four bridge corporate credit unions (Bridge Corporates) including USC Bridge. The Bridge Corporates were established to function in a temporary capacity and were formed by the NCUA Board as chartered private enterprises to purchase selected assets, including CLF capital stock held by USC, and assume liabilities and member shares of the five liquidated corporate credit unions in order to provide uninterrupted services to the natural person credit unions that were members of the now failed corporate credit unions. As of December 31, 2011 and 2010, $1,995,670 and $1,885,176 of CLF capital stock was held by USC Bridge (in conservatorship), respectively, on behalf of its member corporate credit union members.

As a part of the CSRP, the NCUA Board had been actively pursuing a credit union system-led resolution to the Bridge Corporates to facilitate a number of transitions, including the CLF agent-member structure. As of December 31, 2011, neither USC's members nor NCUA was able to secure the transition of USC's products and services to a successor entity, thereby leading to the agency's decision to wind-down USC's operations in 2012. Accordingly, it is likely that USC Bridge would discontinue its role as the agent group representative for CLF and thereby redeem its capital stock by providing a formal notice to redeem its shares as provided for under the Act. In such an event, during the withdrawal period and subsequent thereto, redemption by CLF of its capital stock from USC Bridge would materially reduce members' equity and, as a result, the borrowing capacity of CLF. The ultimate outcome of the CSRP may include future NCUA Board action. Capital stock redemptions are funded through a reduction of cash. CLF investment decisions in 2011 were managed with the goal of preserving maximum liquidity to meet any redemption requests during a period of uncertainty resulting from changes caused by the CSRP. CLF, per the Act, has between six and 24 months to fulfill/fund any redemption requests from members depending on their capital stock account.

(Dollars in thousands, except share data)

CLF's capital stock accounts were composed of the following as of December 31, 2011 and 2010:

	As of December 31, 2011		As of December 31, 2010	
	Shares	**Amount**	**Shares**	**Amount**
Regular members	1,288,203	$ 64,411	1,414,633	$ 70,732
Agent members	39,913,407	1,995,670	37,703,526	1,885,176
Total	41,201,610	$ 2,060,081	39,118,159	$ 1,955,908

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

10. 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.

11. CONCENTRATION OF CREDIT RISK

In January 2009, the NCUA Board announced two additional actions, which provided immediate enhancement to the corporate credit union system's liquidity and capital positions. One of these actions was a temporary NCUSIF guarantee of member shares in corporate credit unions. The guarantee covers all shares through December 31, 2012 and included CLF's deposit in the USC Daily Transaction Share Account.

12. 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. Until October 1, 2008, Congress, through the appropriations process, placed a limit on gross obligations at $1,500,000. However, effective October 1, 2008, under Public Law 110-329, *Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009*, Congress took action to remove the annual borrowing limitation of $1,500,000 to enable CLF to borrow up to its full statutory authority. As of December 31, 2011 and 2010, CLF's statutory borrowing authority was $49,758,251 and $47,205,862, respectively.

As described above, the borrowing authority amounts are referenced to subscribed capital stock of the CLF. This continued level of borrowing authority is likely to be materially reduced, and this change, if any, is dependent on the outcome of several future events, including the decisions about the USC Bridge (in conservatorship) agent-member arrangement.

CLF borrows exclusively from Federal Financing Bank (FFB). NCUA maintains a note purchase agreement with FFB on behalf of CLF. Under the terms of its agreement, CLF borrows from FFB as needed. Under terms prescribed by the note purchase agreement, CLF executes promissory notes in amounts as necessary and renews them annually. Advances made under the current promissory notes cannot exceed $10,000,000 and cannot mature later than March 31, 2013. During 2010, CLF borrowed amounts totaling $5,000 from FFB under one loan agreement, which CLF then loaned to a member credit union. During 2011, CLF did not borrow any funds from FFB. As of December 31, 2011 and 2010, CLF had $10,000,000 and $35,000,000 available capacity to borrow under its current promissory notes, respectively, and such funds are available through March 31, 2012 and 2011, respectively.

As of December 31, 2011, CLF was in compliance with its borrowing authority.

13. 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 $637 and $483, respectively, for December 31, 2011 and 2010. Accounts payable includes approximately $171 and $183, respectively, for December 31, 2011 and 2010, due to NCUA OF for services provided.

14. SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred after December 31, 2011 through February 13, 2012, which is the date CLF issued these financial statements.

Two regular members merged with an agent member (continuing credit union). CLF received notice on January 18, 2012 from the continuing credit union of its intent to withdrawal the two regular members’ capital stock which was valued at $873 and $119, respectively, as of December 31, 2011.

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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Fund (CLF) as of December 31, 2011 and 2010 and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 13, 2012.

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

The management of the CLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the CLF's internal control over financial reporting by obtaining an understanding of the CLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLF's internal control over financial reporting. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 13, 2012

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

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December31, 2011 and 2010, and the related statements of operations, members' equity, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 13, 2011.

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

The management of the CLF's is responsible for complying with laws, regulations and contracts, applicable to the CLF. As part of obtaining reasonable assurance about whether the CLF's financial statements are free of material misstatement, we performed tests of the CLF's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the CLF. 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 described in the preceding paragraph of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 13, 2012

National Credit Union Administration Community Development Revolving Loan Fund

Financial Statements as of and for the
Years Ended December 31, 2011 and 2010, and
Independent Auditors' Reports

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 on Financial Statements

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

We have audited the accompanying balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2011 and 2010, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the CDRLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDRLF as of December 31, 2011 and 2010, and its results of operations, changes in fund balance, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 13, 2012, on our consideration of the CDRLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

February 13, 2012

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Cash Equivalents (Notes 4 and 8)	$ 14,371,893	$ 11,566,056
Loans Receivable (Notes 6, 7, and 8)	2,756,164	5,482,614
Interest Receivable (Note 8)	6,772	12,984
Total	$ 17,134,829	$ 17,061,654
LIABILITIES AND FUND BALANCE		
Liabilities — Accrued Technical Assistance (Note 8)	$ 1,513,828	$ 2,194,094
Fund Balance:		
Fund Capital (Note 5)	13,565,689	13,387,777
Accumulated Earnings	2,055,312	1,479,783
Total Fund Balance	15,621,001	14,867,560
Total	$ 17,134,829	$ 17,061,654

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
SUPPORT AND REVENUES:		
Interest on Cash Equivalents	$ 2,681	$ 6,497
Interest on Loans	41,761	72,925
Appropriation Revenue (Note 5)	1,069,588	1,250,000
Total Support and Revenues	1,114,030	1,329,422
EXPENSES:		
Technical Assistance (Note 2)	1,153,780	1,394,720
Cancellation of Aged Technical Assistance (Note 2)	(615,339)	-
Provision for Loan Losses	60	48
Total Expenses	538,501	1,394,768
NET INCOME/(LOSS)	$ 575,529	$ (65,346)

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Fund Capital				
	For Loans	For Technical Assistance	Total Fund Capital	Accumulated Earnings	Total Fund Balance
December 31, 2009	$ 13,387,777	$ 1,250,000	$ 14,637,777	$ 1,545,129	$ 16,182,906
Appropriations Received (Note 5)	-	-	-	-	-
Appropriations Expended	-	(1,250,000)	(1,250,000)	-	(1,250,000)
Appropriations Expired	-	-	-	-	-
Net Loss	-	-	-	(65,346)	(65,346)
December 31, 2010	13,387,777	-	13,387,777	1,479,783	14,867,560
Appropriations Received (Note 5)	-	1,250,000	1,250,000	-	1,250,000
Appropriations Expended	-	(1,069,588)	(1,069,588)	-	(1,069,588)
Appropriations Expired	-	-	-	-	-
Appropriation Rescission	-	(2,500)	(2,500)	-	(2,500)
Net Income	-	-	-	575,529	575,529
December 31, 2011	$ 13,387,777	$ 177,912	$ 13,565,689	$ 2,055,312	$ 15,621,001

See accompanying notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$ 575,529	$ (65,346)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Used in Operating Activities:		
Appropriations Expended	(1,069,588)	(1,250,000)
Changes in Assets and Liabilities:		
Decrease in Interest Receivable	6,212	6,209
(Decrease)/Increase in Accrued Technical Assistance	(680,266)	590,030
Other	60	-
Net Cash Used in Operating Activities	(1,168,053)	(719,107)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan Principal Repayments	2,726,390	3,607,388
Loan Disbursements	-	(271,515)
Net Cash Provided by Investing Activities	2,726,390	3,335,873
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received 2011/2012	1,250,000	-
Appropriation Rescission	(2,500)	-
Net Cash Provided by Financing Activities	1,247,500	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,805,837	2,616,766
CASH AND CASH EQUIVALENTS — Beginning of Year	11,566,056	8,949,290
CASH AND CASH EQUIVALENTS — End of Year	$ 14,371,893	$ 11,566,056

See accompanying notes to 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 2011 and 2010 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 – Historically, per regulation, CDRLF loans were limited to a maximum amount of $300,000 per credit union with a fixed annual percentage rate of not more than 3% and not less than 1%. Per NCUA policy, loans issued after January 1, 2002, carried a fixed rate of 1%. Interest and principal were repaid on a semiannual basis beginning six months and one year, respectively, after the initial distribution of the loan. The maximum term of each loan was five years. Loan demand was very low and CDRLF did not issue any new loans in 2011.

During its October 2011 board meeting, the NCUA Board approved changes to Rule 705. The changes update the rule to increase transparency, and are intended to improve its organization, structure and ease of use by credit unions consistent with the mission of CDRLF, including increasing loan demand. The final rule became effective December 2, 2011, and eliminates specific reference to the range of interest rates that may be charged on a loan from the Fund. Instead, it references the CDRLF's Interest Rate Policy, which is located on NCUA's website. It provides greater flexibility regarding matching requirements as the mandatory requirement was removed. The update also allows loan amounts in excess of $300,000 to be considered. Implementation of revised Rule 705 will take place in 2012.

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 or recovered. 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, 2011 and 2010. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Accrued Technical Assistance - CDRLF issues technical assistance grants to low-income credit unions. Technical assistance expense is recognized when CDRLF makes a formal commitment to the recipient credit union for technical assistance and other grants. Starting in 2011, CDRLF performed a manual review of long term unspent grant awards (e.g. outstanding awards past the period of eligibility) and completed formal steps to rescind substantially all of these grants. As a result $615,339 was recognized as Cancellation of Aged Technical Assistance in the statement of operations. These technical assistance awards were originally awarded from the accumulated earnings and reverted back to accumulated earnings upon rescission.

The monies cancelled from multiyear funds will be returned to U. S. Treasury if appropriated and subject to a cancellation period, usually five years after being appropriated.

Overhead Expenses – NCUA provides certain general and administrative support to CDRLF, including 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 expense is recognized. Total appropriation revenues will differ from total technical assistance expenses because not all technical assistance is funded by appropriations. Interest income on cash and cash equivalents and on loans is recognized when earned.

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

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

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

3. NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In 2011, CDRLF adopted the Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards,* to the accounting standards on *Fair Value Measurements and Disclosures* (FASB ASC Topic 820). The amendment requires common fair value measurement and disclosure in GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and disclosing information about fair value measurements. ASU 2011-04 will be effective for the Fund's financial statements as of and for the year ended December 31, 2012. This adoption will not have a material impact on its balance sheets or statements of operation.

In January 2010, ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, provided an amendment to ASC Topic 820, *Fair Value Measurements and Disclosures*. These amendments require new disclosures pertaining to activity in Level 3 fair value measurements. This adoption did not have a material impact on its balance sheets or statements of operation.

In July 2010, ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, provided an amendment to ASC Topic 310, *Receivables*. The objective of these amendments is for an entity to provide disclosures that facilitate financial statement user's evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivable, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and 3) the changes and reasons for those changes in the allowance for credit losses. The existing disclosures are amended to require disclosures about an entity's financing receivables on a disaggregated basis. The amendments also require additional disclosures about financing receivables. This adoption did not have a material impact on its balance sheets or statements of operation as the outstanding loans are fairly homogeneous in their nature and risk characteristics.

4. CASH AND CASH EQUIVALENTS

CDRLF's cash and cash equivalents as of December 31, 2011 and December 31, 2010 are as follows:

	2011	2010
Deposit U.S. Treasury	$ 4,371,893	$ 5,566,056
U.S. Treasury Overnight Investments	10,000,000	6,000,000
	$14,371,893	$ 11,566,056

5. GOVERNMENT REGULATIONS

CDRLF is subject to various Federal laws and regulations. Assistance, which includes lending and technical assistance, 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 program.

Since inception, Congress has appropriated $13.4 million 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, 2011, CDRLF received appropriations for technical assistance in the amount of $1,250,000 for Federal fiscal years (FY) 2011-2012. Of the $1,250,000 appropriation, $1,069,588 was expended as of December 31, 2011. These amounts were designated to be used for technical assistance, and no amounts were designated to be used as revolving loans. The appropriations for technical assistance for FY 2011-2012 are not yet subject to cancellation as it expires on September 30, 2012.

CDRLF received no appropriation in 2010 as it was received from Congress in December of 2009.

In 2011, $2,500 of the Federal FY 2011–2012 appropriation was rescinded.

No appropriations were remitted to the U.S. Treasury in 2010 upon expiration for the year of FY 2005.

6. LOANS RECEIVABLE

Receivables consisted of the following as of December 31, 2011 and 2010.

	2011	2010
Balance as of beginning of year	$ 5,482,614	$ 8,818,487
Add: Loans disbursed	-	271,515
Less: Loan repayments	(2,726,390)	(3,607,388)
Less: Other	(60)	-
Loans receivable as of end of year	$ 2,756,164	$ 5,482,614
Changes in the allowance for loan losses consisted of the following:		
Balance as of beginning of year	$ -	$ -
Decrease (increase) in allowance	-	-
Accounts for loan losses as of end of year	$ -	$ -
Loans receivable, net as of end of year	$ 2,756,164	$ 5,482,614

Loans outstanding as of December 31, 2011, are scheduled to be repaid during the following subsequent years:

	2011
2012	$ 1,690,615
2013	521,912
2014	491,909
2015	51,728
2016	-
Loans Outstanding	2,756,164
Allowance for loan losses	-
Total Loans Receivable	$ 2,756,164

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

7. CONCENTRATION OF CREDIT RISK

As of December 31, 2011 and December 31, 2010, there are no significant geographic or individual counterparty concentrations of credit risk in the loan portfolio. As discussed in Note 1, CDRLF provides loans to credit unions that serve predominantly low-income communities.

NCUA Rules and Regulations Section 705.7 permits 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), a related party. The aggregate amount of uninsured loans totaled $0 and $7,021 as of December 31, 2011 and 2010, respectively.

8. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

The 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.

Loans Receivable – Fair value is estimated using an income approach by 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 yearly on December 31, 2011.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance approximate fair value because of the short maturity of these instruments.

The following table presents the carrying value amounts and established fair values of CDRLF's financial instruments as of December 31, 2011 and 2010.

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 14,371,893	$ 14,371,893	$ 11,566,056	$ 11,566,056
Loans receivable	2,756,164	2,776,792	5,482,614	5,496,833
Interest receivable	6,772	6,772	12,984	12,984
Liabilities:				
Accrued technical assistance	1,513,828	1,513,828	2,194,094	2,194,094

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, printing, and postage).

For the years ending December 31, 2011 and 2010, NCUA, through the OF, paid the following overhead expenses on
behalf of CDRLF:

	2011	2010
Employee	$ 330,651	$ 387,233
Other	19,989	15,519
Total	$ 350,640	$ 402,752

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2012, which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

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

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2011 and 2010 and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 13, 2012.

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

The management of the CDRLF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the CDRLF's internal control over financial reporting by obtaining an understanding of the CDRLF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control over financial reporting. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 13, 2012

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

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the balance sheets of the National Credit Union Administration Community Development Revolving Loan Fund (CDRLF) as of December 31, 2011 and 2010, and the related statements of operations, changes in fund balance, and cash flows (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated February 13, 2012.

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

The management of the CDRLF is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the CDRLF. As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free of material misstatement, we performed tests of the CDRLF's compliance with certain provisions of laws, regulations, contracts, grant agreements, and noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the CDRLF. 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 other tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

This report is intended solely for the information and use of the addressees, the fund's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 13, 2012