Tab E – Attachments

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Attachment 1 – Excerpts from Agency Financial Reports

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Pension Benefit Guaranty Corporation 2011 Annual Report[1]

Excerpt from Financial Statement Highlights

Estimates of Reasonably Possible Contingencies

- At year-end, PBGC's estimate of its single-employer reasonably possible exposure totaled approximately $227 billion, a significant increase from $170 billion in FY 2010. This exposure increased primarily due to the growth in the number of companies meeting the reasonable possible criteria and the decrease in the interest rate used for valuing liabilities.
- PBGC's estimate of its multiemployer reasonably possible exposure increased from $20 billion in 2010 to $23 billion in FY 2011, due primarily to new data received for the larger plans with deteriorating funding levels; and the decrease in interest rates for valuing liabilities.

Excerpt from Note 2: Significant Accounting Policies

Present Value of Future Benefits (PVFB)

The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trusteed plans and the net liability for plans pending termination and trusteeship. The PVFB liability (including trusteed plans as well as plans pending termination and trusteeship) is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of plans pending termination and trusteeship as of the date of the financial statements. PBGC also includes the estimated liabilities attributable to plans classified as probable terminations as a separate line item in the PVFB (net of estimated recoveries and plan assets). PBGC uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PVFB. PBGC's benefit payments to participants reduce the PVFB liability.

The values of the PVFB are particularly sensitive to changes in underlying estimates and assumptions. These estimates and assumptions could change and the impact of these changes may be material to PBGC's financial statements (see Note 6).

(1) Trusteed Plans–represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal year-end. Assets are shown separately from liabilities for trusteed plans.

(2) Pending Termination and Trusteeship–represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans for which termination action has been initiated and/or completed prior to fiscal year-end. Unlike trusteed plans, the liability for plans pending termination and trusteeship is shown net of plan assets.

(3) Settlements and Judgments–represents estimated liabilities related to settled litigation.

(4) Net Claims for Probable Terminations–In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC recognizes net claims for probable terminations with $50 million or more of underfunding, which represent PBGC's best estimate of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans

[1] Available online at http://www.pbgc.gov/res/annual-reports.html; last accessed June 4, 2012.

Pension Benefit Guaranty Corporation 2011 Annual Report (contd.)

Excerpt from Note 2: Significant Accounting Policies (contd.)

that are likely to terminate in the future. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the loss. Criteria used for classifying a specific plan as a probable termination include, but are not limited to, one or more of the following conditions: the plan sponsor is in liquidation or comparable state insolvency proceeding with no known solvent controlled group member; sponsor has filed or intends to file for distress plan termination and the criteria will likely be met; or PBGC is considering the plan for involuntary termination. In addition, management takes into account other economic events and factors in making judgments regarding the classification of a plan as a probable termination. These events and factors may include, but are not limited to: the plan sponsor is in bankruptcy or has indicated that a bankruptcy filing is imminent; the plan sponsor has stated that plan termination is likely; the plan sponsor has received a going concern opinion from its independent auditors; or the plan sponsor is in default under existing credit agreement(s).

In addition, a reserve for small unidentified probable losses and incurred but not reported (IBNR) claims is recorded based on an actuarial loss development methodology (ratio method) (see Note 6).

(5) PBGC identifies certain plans as high-risk if the plan sponsor is in Chapter 11 proceedings or the sponsor's senior unsecured debt is rated CCC+/Caa1 or lower by S&P or Moody's respectively. PBGC specifically reviews each plan identified as high-risk and classifies those plans as probable if, based on available evidence, PBGC concludes that plan termination is likely (based on criteria described in (4) above). Otherwise, high-risk plans are classified as reasonably possible.

(6) In accordance with Section 450, PBGC's exposure to losses from plans of companies that are classified as reasonably possible is disclosed in the footnotes. In order for a plan sponsor to be specifically classified as reasonably possible, it must first have $5 million or more of underfunding, as well as meet additional criteria. Criteria used for classifying a company as reasonably possible include, but are not limited to, one or more of the following conditions: the plan sponsor is in Chapter 11 reorganization; funding waiver pending or outstanding with the Internal Revenue Service; sponsor missed minimum funding contribution; sponsor's bond rating is below-investment-grade for Standard & Poor's (BB+) or Moody's (Ba1); or sponsor has no bond rating but the Dun & Bradstreet Financial Stress Score is below the threshold considered to be investment grade (see Note 9).

Present Value of Nonrecoverable Future Financial Assistance

In accordance with Title IV of ERISA, PBGC provides financial assistance to multiemployer plans, in the form of loans, to enable the plans to pay guaranteed benefits to participants and reasonable administrative expenses. These loans, issued in exchange for interest-bearing promissory notes, constitute an obligation of each plan.

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 7).

A liability for a particular plan is included in the "Present Value of Nonrecoverable Future Financial Assistance" when it is determined that the plan is currently, or will likely become in the future, insolvent and will require assistance to pay the participants their guaranteed benefit. Determining insolvency requires considering several complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status.

Pension Benefit Guaranty Corporation 2011 Annual Report (contd.)

Excerpt from Note 2: Significant Accounting Policies (contd.)

Each year, PBGC analyzes insured multiemployer plans to identify those plans that are at risk of becoming claims on the insurance program. Regulatory filings with PBGC and the other ERISA agencies are important to this analysis and determination of risk. For example, a multiemployer plan that no longer has contributing employers files a notice of termination with PBGC. In general, if a terminated plan's assets are less than the present value of its liabilities, PBGC considers the plan a probable risk of requiring financial assistance in the future.

PBGC also analyzes ongoing multiemployer plans (i.e., plans that continue to have employers making regular contributions for covered work) to determine whether any such plans may be probable or possible claims on the insurance program. In conducting this analysis each year, PBGC examines plans that are chronically underfunded, have poor cash flow trends, a falling contribution base, and that may lack a sufficient asset cushion to weather temporarily income losses. A combination of these factors, or any one factor that is of sufficient concern, leads to a more detailed analysis of the plan's funding and the likelihood that the contributing employers will be willing and able to maintain the plan.

Note 7: Multiemployer Financial Assistance

Note 7: Multiemployer Financial Assistance

PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. Since these loans are not generally repaid, an allowance is set up to the extent that repayment of these loans is not expected.

NOTES RECEIVABLE MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, 2011	September 30, 2010
Gross balance at beginning of year	$484	$387
Financial assistance payments - current year	115	97
Write-offs related to settlement agreements	0	0
Subtotal	599	484
Allowance for uncollectible amounts	(599)	(484)
Net balance at end of year	$ 0	$ 0

The losses from financial assistance reflected in the Statements of Operations and Changes in Net Position include period changes in the estimated present value of nonrecoverable future financial assistance.

As of September 30, 2011, the corporation expects 135 multiemployer plans will exhaust plan assets and need financial assistance from PBGC to pay guaranteed benefits and plan administrative expenses. The present value of nonrecoverable future financial assistance for these 135 plans is $4.475 billion. The 135 plans fall into three categories – plans currently receiving financial assistance; plans that have terminated but have not yet started receiving financial assistance from PBGC; and ongoing plans (not terminated) that the corporation expects will require financial assistance in the future.

Pension Benefit Guaranty Corporation 2011 Annual Report (contd.)

Note 7: Multiemployer Financial Assistance (contd.)

MULTIEMPLOYER FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, 2011 Number of Plans	September 30, 2011 Net Liability	September 30, 2010 Number of Plans	September 30, 2010 Net Liability
Plans currently receiving financial assistance	41	$1,232	41	$1,179
Plans that have terminated but have not yet started receiving financial assistance	60	1,487	51	1,067
Ongoing plans (not terminated) that the corporation expects will require financial assistance in the future	34	1,756	29	784
Total	135	$4,475	121	$3,030

Of the 135 plans:

- 41 have exhausted plan assets and are currently receiving financial assistance payments from PBGC. The present value of future financial assistance payments for these insolvent 41 plans is $1.232 billion.
- 60 plans have terminated but have not yet started receiving financial assistance payments from PBGC. Terminated multiemployer plans no longer have employers making regular contributions for covered work, though some plans continue to receive withdrawal liability payments from withdrawn employers. In general, PBGC records a loss for future financial assistance for any underfunded multiemployer plan that has terminated. The present value of future financial assistance payments to these 60 terminated plans is $1.487 billion.
- 34 plans are ongoing (i.e., have not terminated), but PBGC expects these plans will exhaust plan assets and need financial assistance within 10 years. In this analysis, PBGC takes into account the current plan assets, future income to the plan, the statutory funding rules, and the possibility for future increases in contributions. The present value of future financial assistance payments for these 34 ongoing plans is $1.756 billion.

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE AND LOSSES FROM FINANCIAL ASSISTANCE

(Dollars in millions)	September 30, 2011	September 30, 2010
Balance at beginning of year	$3,030	$ 2,296
Changes in allowance:		
Losses (credits) from financial assistance	1,560	831
Financial assistance granted (previously accrued)	(115)	(97)
Balance at end of year	$4,475	$ 3,030

Pension Benefit Guaranty Corporation 2011 Annual Report (contd.)

Note 9: Reasonably Possible Contingencies

Note 9: Reasonably Possible Contingencies

Single-employer plans sponsored by companies whose credit quality is below investment grade pose a greater risk of being terminated. In addition, there are some multiemployer plans that may require future financial assistance. The estimated unfunded vested benefits exposure amounts disclosed below represent the Corporation's estimates of the reasonably possible exposure to loss in these plans given the inherent uncertainties about these plans.

In accordance with the FASB Accounting Standards Codification Section 450, *Contingencies*, PBGC classified a number of these companies as reasonably possible rather than probable terminations as the sponsors' financial condition and other factors did not indicate that termination of their plans was likely. This classification was done based upon information about the companies as of September 30, 2011.

The estimate of unfunded vested benefits exposure to loss for the single-employer plans of these companies was measured as of December 31, 2010. The reasonably possible exposure to loss in these plans was $227 billion for FY 2011. This is an increase of $57 billion from the reasonably possible exposure of $170 billion in FY 2010. This reasonably possible exposure increased primarily due to the growth in the number of companies meeting the reasonable possible criteria (see Note 2), and the decrease in the interest rate used for valuing liabilities. Although high asset returns for calendar year 2010 partially offset the increase in liabilities, the net result was an increase in unfunded liabilities.

The estimate of unfunded vested benefits exposure to loss is not based on PBGC-guaranteed benefit levels, since data is not available to determine an estimate at this level of precision. PBGC calculated this estimate, as in previous years, by using the most recent data available from filings and submissions to the Corporation for plan years ended on or after December 31, 2009. The Corporation adjusted the value reported for liabilities to December 31, 2010, using a select rate of 3.93% for the first 20 years and 4.33% thereafter and applying the expense load as defined in 29 CFR Part 4044, Appendix C. The rates were derived in conjunction with the 1994 Group Annuity Mortality Static Table (with margins) projected to 2020 using Scale AA to approximate annuity prices as of December 31, 2010. The underfunding associated with these plans could be substantially different at September 30, 2011, because of the economic conditions that existed between December 31, 2010 and September 30, 2011. The Corporation did not adjust the estimate for events that occurred between December 31, 2010, and September 30, 2011.

The following table by industry itemizes the single-employer reasonably possible exposure to loss:

REASONABLY POSSIBLE EXPOSURE TO LOSS BY INDUSTRY (PRINCIPAL CATEGORIES)

(Dollars in millions)	FY 2011	FY 2010
Manufacturing *	**$120,690**	$101,888
Transportation, Communication and Utilities **	**50,133**	30,178
Services	**25,879**	15,356
Wholesale and Retail Trade	**12,218**	12,844
Health Care	**8,818**	3,985
Finance, Insurance, and Real Estate	**5,953**	2,840
Agriculture, Mining, and Construction	**3,426**	2,653
Total	**$227,117**	$169,744

* Primarily automobile/auto parts and primary and fabricated metals

** Primarily airline

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require

Pension Benefit Guaranty Corporation 2011 Annual Report (contd.)

Note 9: Reasonably Possible Contingencies (contd.)

future financial assistance in the amount of $23 billion, due primarily to two large plans. PBGC obtained an independent actuarial analysis of the solvency of these two large plans in both FY 2010 and FY 2011.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable (see Note 7), or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2011, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2011. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts required consideration of many complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

Note 10: Commitments

Note 10: Commitments

PBGC leases its office facility under a commitment that began on January 1, 2005, and expires December 10, 2019. This lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2014. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2011, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS

(Dollars in millions)

Years Ending September 30,	Operating Leases
2012	$ 18.8
2013	18.0
2014	17.7
2015	17.6
2016	17.0
Thereafter	39.0
Minimum lease payments	$128.1

Lease expenses were $18.3 million in 2011 and $18.4 million in 2010.

Note 16: Litigation

Note 16: Litigation

Legal challenges to PBGC's policies and positions continued in 2011. At the end of the fiscal year, PBGC had 40 active cases in state and federal courts and 459 bankruptcy and state receivership cases.

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates with a degree of certainty that possible losses of up to $68 million could be incurred in the event that PBGC does not prevail in these matters.

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Excerpt from Balance Sheet

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in Millions)	**2011**	2010	**2011**	2010	**2011**	2010
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	**$91,718**	$ 88,021	**$1**	$ 1	**$91,719**	$ 88,022
Plans pending termination and trusteeship	**346**	501	**0**	0	**346**	501
Settlements and judgments	**56**	55	**0**	0	**56**	55
Claims for probable terminations	**833**	1,445	**0**	0	**833**	1,445
Total present value of future benefits, net	**92,953**	90,022	**1**	1	**92,954**	90,023
Present value of nonrecoverable future financial assistance (Note 7)						
Insolvent plans	**0**	0	**1,232**	1,179	**1,232**	1,179
Probable insolvent plans	**0**	0	**3,243**	1,851	**3,243**	1,851
Total present value of nonrecoverable future financial assistance	**0**	0	**4,475**	3,030	**4,475**	3,030
Payables, net:						
Derivative contracts (Note 4)	**173**	67	**0**	0	**173**	67
Due for purchases of securities	**4,079**	3,076	**0**	0	**4,079**	3,076
Payable upon return of securities loaned	**4,587**	5,427	**0**	0	**4,587**	5,427
Unearned premiums	**366**	364	**31**	31	**397**	395
Accounts payable and accrued expenses (Note 8)	**68**	101	**2**	2	**70**	103
Total payables	**9,273**	9,035	**33**	33	**9,306**	9,068
Total liabilities	**102,226**	99,057	**4,509**	3,064	**106,735**	102,121
Net position	**(23,266)**	(21,594)	**(2,770)**	(1,436)	**(26,036)**	(23,030)
Total liabilities and net position	**$78,960**	$ 77,463	**$1,739**	$1,628	**$80,699**	$ 79,091

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

Federal Deposit Insurance Corporation 2011 Annual Report[2]

Note 7: Liabilities Due to Resolutions

7. Liabilities Due to Resolutions

As of December 31, 2011 and 2010, the DIF recorded liabilities totaling $32.7 billion and $30.4 billion to resolution entities representing the agreed-upon value of assets transferred from the receiverships, at the time of failure, to the acquirers/bridge institutions for use in funding the deposits assumed by the acquirers/bridge institutions. Ninety-one percent of these liabilities are due to failures resolved under whole-bank purchase and assumption transactions, most with an accompanying SLA. The DIF satisfies these liabilities either by directly sending cash to the receivership to fund shared-loss and other expenses or by offsetting receivables from resolutions when the receivership declares a dividend.

In addition, there was $80 million in unpaid deposit claims related to multiple receiverships as of December 31, 2011 and 2010. The DIF pays these liabilities when the claims are approved.

[2] Available online at http://www.fdic.gov/about/strategic/report/; last accessed June 4, 2012.

Federal Deposit Insurance Corporation 2011 Annual Report (contd.)

Note 8: Contingent Liabilities

8. Contingent Liabilities for:

ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The DIF records a contingent liability and a loss provision for DIF-insured institutions that are likely to fail, absent some favorable event such as obtaining additional capital or merging, when the liability is probable and reasonably estimable. The contingent liability is derived by applying expected failure rates and loss rates to institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

The banking industry continued recovering in 2011. The industry recorded total net income of $119.5 billion for all of 2011, an increase of nearly 40 percent from 2010 net income. The improvement in industry earnings continued to be driven by declining loan loss provisions, with full-year provisions at their lowest level in four years. At the same time, the pace of U.S. economic growth slowed, unemployment remained at historically high levels, and real estate markets exhibited ongoing weaknesses in many parts of the country. These factors have slowed the improvement in asset quality and contributed to keeping the number of problem institutions and failures well above historic norms. Notwithstanding these challenges, the losses to the DIF from failures that occurred in 2011 fell short of the amount reserved at the end of 2010, as the aggregate number and size of institution failures in 2011 were less than anticipated. The removal from the reserve of banks that did fail in 2011, as well as projected favorable trends in bank supervisory downgrade and failure rates and the smaller size of institutions that remain troubled, all contributed to a decline by $11.2 billion to $6.5 billion in the contingent liability for anticipated failures of insured institutions at the end of 2011.

In addition to these recorded contingent liabilities, the FDIC has identified risk in the financial services industry that could result in additional losses to the DIF should potentially vulnerable insured institutions ultimately fail. As a result of these risks, the FDIC believes that it is reasonably possible that the DIF could incur additional estimated losses of up to $10.2 billion for year-end 2011 as compared to $24.5 billion for year-end 2010. The actual losses, if any, will largely depend on future economic and market conditions and could differ materially from this estimate.

During 2011, 92 banks failed with combined assets at the date of failure of $36.6 billion. Supervisory and market data suggest that while the financial performance of the banking industry should continue to improve over the coming year, ongoing asset quality problems and limited opportunities for earnings growth will continue to result in an elevated level of stress for the industry. The FDIC continues to evaluate the ongoing risks to affected institutions in light of the existing economic and financial conditions, and the extent to which such risks will continue to put stress on the resources of the insurance fund.

LITIGATION LOSSES

The DIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. During 2011, the contingent liability declined by $299 million to $1 million due primarily to a payment of $276 million for a judgment of one legal case for which an allowance was previously recorded. As of December 31, 2011 and 2010, the FDIC has determined that there are no reasonably possible losses from unresolved cases.

OTHER CONTINGENCIES

IndyMac Federal Bank Representation and Indemnification Contingent Liability

On March 19, 2009, the FDIC as receiver of IndyMac Federal Bank (IMFB) and certain subsidiaries (collectively, sellers) sold substantially all of the assets of IMFB and the respective subsidiaries, including mortgage loans and mortgage loan servicing rights, to OneWest Bank and its affiliates. To maximize sale returns, the sellers

Federal Deposit Insurance Corporation 2011 Annual Report (contd.)

Note 8: Contingent Liabilities (contd.)

made certain representations customarily made by commercial parties regarding the assets and agreed to indemnify the acquirers for losses incurred as a result of breaches of such representations, losses incurred as a result of the failure to obtain contractual counterparty consents to the sale, and third party claims arising from pre-sale acts and omissions of the sellers or the failed bank. Although the representations and indemnifications were made by or are obligations of the sellers, the FDIC, in its corporate capacity, guaranteed the receivership's indemnification obligations under the sale agreements. The representations relate generally to ownership of and right to sell the assets; compliance with applicable law in the origination of the loans; accuracy of the servicing records; validity of loan documents; and servicing of the loans serviced for others. Until the periods for asserting claims under these arrangements have expired and all indemnification claims quantified and paid, losses could continue to be incurred by the receivership and, in turn, the DIF, either directly, as a result of the FDIC corporate guaranty of the receivership's indemnification obligations, or indirectly, as a result of a reduction in the receivership's assets available to pay the DIF's claims as subrogee for insured accountholders. The acquirers' rights to assert claims to recover losses incurred as a result of breaches of loan seller representations extend out to March 19, 2019 for the Fannie Mae and Ginnie Mae reverse mortgage servicing portfolios (unpaid principal balance of $16.7 billion at December 31, 2011 compared to $21.7 billion at December 31, 2010), and March 19, 2014 for the Fannie Mae, Freddie Mac and Ginnie Mae mortgage servicing portfolios (unpaid principal balance of $38.5 billion at December 31, 2011 compared to $45.3 billion at December 31, 2010). The acquirers' rights to assert claims to recover losses incurred as a result of other third party claims (including due to pre-March 19, 2009 acts or omissions) and breaches of servicer representations, including liability with respect to the Fannie Mae, Ginnie Mae and Freddie Mac portfolios as well as the private mortgage servicing portfolio and whole loans (unpaid principal balance of $62.0 billion at December 31, 2011 compared to $74.2 billion at December 31, 2010) expired on March 19, 2011. As of the expiration date of this claim period, notices relating to potential defects were received, but they require review to determine whether a valid defect exists and, if so, the identification and costing of possible cure actions. It is highly unlikely that all of these potential defects will result in losses.

As of December 31, 2011, the IndyMac receivership has paid $5 million in approved claims and has accrued an additional $2 million liability for claims asserted but unpaid. Alleged breaches of origination and servicing representations exist, and review and evaluation is in process for approximately $275 to $345 million in reasonably possible liabilities. In addition, potential losses relating to origination and servicing representations, which currently cannot be determined, may be incurred under other agreements with investors.

The FDIC believes it is likely that additional losses will be incurred, however quantifying the contingent liability associated with the representations and the indemnification obligations is subject to a number of uncertainties, including (1) borrower prepayment speeds; (2) the occurrence of borrower defaults and resulting foreclosures and losses; (3) the assertion by third party investors of claims with respect to loans serviced for them; (4) the existence and timing of discovery of breaches and the assertion of claims for indemnification for losses by the acquirer; (5) the compliance by the acquirer with certain loss mitigation and other conditions to indemnification; (6) third party sources of loss recovery (such as title companies and insurers); (7) the ability of the acquirer to refute claims from investors without incurring reimbursable losses; and (8) the cost to cure breaches and respond to third party claims. Because of these and other uncertainties that surround the liability associated with indemnifications and the quantification of possible losses, the FDIC has determined that, while additional losses are probable, the amount is not estimable.

Federal Deposit Insurance Corporation 2011 Annual Report (contd.)

Note 8: Contingent Liabilities (contd.)

Purchase and Assumption Indemnification

In connection with purchase and assumption agreements for resolutions, the FDIC in its receivership capacity generally indemnifies the purchaser of a failed institution's assets and liabilities in the event a third party asserts a claim against the purchaser unrelated to the explicit assets purchased or liabilities assumed at the time of failure. The FDIC in its corporate capacity is a secondary guarantor if a receivership is unable to pay. These indemnifications generally extend for a term of six years after the date of institution failure. The FDIC is unable to estimate the maximum potential liability for these types of guarantees as the agreements do not specify a maximum amount and any payments are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. During 2011 and 2010, the FDIC in its corporate capacity made no indemnification payments under such agreements, and no amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

FDIC Guaranteed Debt of Structured Transactions

The FDIC as receiver uses three types of structured transactions to dispose of certain performing and non-performing residential mortgage loans, commercial loans, construction loans, and mortgage-backed securities held by the receiverships. The three types of structured transactions are 1) limited liability companies (LLCs), 2) securitizations, and 3) structured sale of guaranteed notes (SSGNs).

LLCs

Under the LLC structure, the FDIC in its receivership capacity contributes a pool of assets to a newly-formed LLC and offers for sale, through a competitive bid process, some of the equity in the LLC. The day-to-day management of the LLC is transferred to the highest bidder along with the purchased equity interest. In many instances, the FDIC in its corporate capacity guarantees notes issued by the LLCs. In exchange for a guarantee, the DIF receives a guarantee fee in either 1) a lump-sum, up-front payment based on the estimated duration of the note or 2) a monthly payment based on a fixed percentage multiplied by the outstanding note balance. The terms of these guarantee agreements generally stipulate that all cash flows received from the entity's collateral be used to pay, in the following order, 1) operational expenses of the entity, 2) the FDIC's contractual guarantee fee, 3) the guaranteed notes (or, if applicable, fund the related defeasance account for payoff of the notes at maturity), and 4) the equity investors. If the FDIC is required to perform under these guarantees, it acquires an interest in the cash flows of the LLC equal to the amount of guarantee payments made plus accrued interest thereon. Once all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments, the equity holders receive any remaining cash flows.

Since 2009, private investors purchased a 40- to 50-percent ownership interest in the LLC structures for $1.6 billion in cash and the LLCs issued notes of $4.4 billion to the receiverships to partially fund the purchase of the assets. The receiverships hold the remaining 50- to 60-percent equity interest in the LLCs and, in most cases, the guaranteed notes. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the notes. The terms of the note guarantees extend until the earlier of 1) payment in full of the notes or 2) two years following the maturity date of the notes. The note with the longest term matures in 2020. In the event of note payment default, the FDIC as guarantor is entitled to exercise or cause the exercise of certain rights and remedies including: 1) accelerating the payment of the unpaid principal amount of the notes; 2) selling the assets held as collateral; or 3) foreclosing on the equity interests of the debtor.

Federal Deposit Insurance Corporation 2011 Annual Report (contd.)

Note 8: Contingent Liabilities (contd.)

Securitizations and SSGNs

Securitizations and SSGNs (collectively, "trusts") are transactions in which certain assets or securities from failed institutions are pooled and transferred into a trust structure. The trusts issue 1) senior and/or subordinated debt instruments and 2) owner trust or residual certificates collateralized by the underlying mortgage-backed securities or loans.

Since 2010, private investors purchased the senior notes issued by the trusts for $5.3 billion in cash. The receiverships hold 100 percent of the subordinated debt instruments and owner trust or residual certificates. The FDIC in its corporate capacity guarantees the timely payment of principal and interest due on the senior notes, the latest maturity of which is 2050. In exchange for the guarantee, the DIF receives a monthly payment based on a fixed percentage multiplied by the outstanding note balance. These guarantee agreements generally stipulate that all cash flows received from the entity's collateral be used to pay, in the following order, 1) operational expenses of the entity, 2) the FDIC's contractual guarantee fee, 3) interest on the guaranteed notes, 4) principal of the guaranteed notes, and 5) the holders of the subordinated notes and owner trust or residual certificates. If the FDIC is required to perform under its guarantees, it acquires an interest in the cash flows of the trust equal to the amount of guarantee payments made plus accrued interest thereon. Once all expenses have been paid, the guaranteed notes have been satisfied, and the FDIC has been reimbursed for any guarantee payments, the subordinated note holders and owner trust or residual certificates holders receive the remaining cash flows.

All Structured Transactions with FDIC Guaranteed Debt

Through December 31, 2011, the receiverships have transferred a portfolio of loans with an unpaid principal balance of $16.4 billion and mortgage-backed securities with a book value of $7.7 billion to 14 LLCs and 8 trusts. The LLCs and trusts subsequently issued notes guaranteed by the FDIC in an original principal amount of $9.7 billion. To date, the DIF has collected guarantee fees totaling $203 million and recorded a receivable for additional guarantee fees of $106 million, included in the "Interest receivable on investments and other assets, net" line item on the Balance Sheet. All guarantee fees are recorded as deferred revenue, included in the "Accounts payable and other liabilities" line item, and recognized as revenue primarily on a straight-line basis over the term of the notes. At December 31, 2011, the amount of deferred revenue recorded was $134 million. The DIF records no other structured-transaction-related assets or liabilities on its balance sheet.

The estimated loss to the DIF from the guarantees is derived from an analysis of the discounted present value of the expected guarantee payments by the FDIC, reimbursements to the FDIC for guarantee payments, and guarantee fee collections. Under both a base case and a more stressful modeling scenario, the cash flows from the LLC or trust assets provide sufficient coverage to fully pay the debts. Therefore, the estimated loss to the DIF from these guarantees is zero. To date, the FDIC in its corporate capacity has not provided, and does not intend to provide, any form of financial or other type of support to a trust or LLC that it was not previously contractually required to provide.

As of December 31, 2011, the maximum loss exposure is $3.7 billion for LLCs and $3.9 billion for trusts, representing the sum of all outstanding debt guaranteed by the FDIC in its corporate capacity. Some transactions have established defeasance accounts to pay off the notes at maturity. A total of $2.2 billion has been deposited into these accounts.

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Note 12: Provision for Insurance Losses

12. Provision for Insurance Losses

Provision for insurance losses was negative $4.4 billion for 2011, compared to negative $848 million for 2010. The negative provision for 2011 primarily resulted from a reduction in the contingent loss reserve due to the improvement in the financial condition of institutions that were previously identified to fail and a reduction in the estimated losses for institutions that have failed in prior years. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31
DOLLARS IN THOUSANDS

	2011	2010
Valuation Adjustments		
Closed banks and thrifts	$6,786,643	$25,483,252
Other assets	(1,024)	(4,406)
Total Valuation Adjustments	**6,785,619**	**25,478,846**
Contingent Liabilities Adjustments		
Anticipated failure of insured institutions	(11,176,248)	(26,326,689)
Litigation	(23,000)	0
Total Contingent Liabilities Adjustments	**(11,199,248)**	**(26,326,689)**
Total	**$(4,413,629)**	**$(847,843)**

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Note 14: Commitments and Off-Balance-Sheet Exposure

14. Commitments and Off-Balance-Sheet Exposure

COMMITMENTS:

Leased Space

The FDIC's lease commitments total $199 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The DIF recognized leased space expense of $56 million and $45 million for the years ended December 31, 2011 and 2010, respectively.

Leased Space Commitments
DOLLARS IN THOUSANDS

2012	2013	2014	2015	2016	2017/ THEREAFTER
$52,773	$44,950	$32,294	$25,807	$22,679	$20,918

OFF-BALANCE-SHEET EXPOSURE:

Deposit Insurance

As of December 31, 2011, estimated insured deposits for the DIF were $7.0 trillion. This estimate is derived primarily from quarterly financial data submitted by IDIs to the FDIC. This estimate represents the accounting loss that would be realized if all IDIs were to fail and the acquired assets provided no recoveries. Included in this estimate was approximately $1.4 trillion of noninterest-bearing transaction deposits that exceeded the basic coverage limit of $250,000 per account, which received coverage under the Dodd-Frank Act beginning on December 31, 2010 to the end of 2012.

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Note 16: Systemic Risk Transactions

16. Systemic Risk Transactions

Pursuant to a systemic risk determination, the FDIC established the TLGP for IDIs, designated affiliates and certain holding companies on October 14, 2008, in an effort to counter the system-wide crisis in the nation's financial sector. The program is codified in part 370 of title 12 of the Code of Federal Regulations.

The FDIC received fees in exchange for guarantees issued under the TLGP and set aside, as deferred revenue, all fees for potential TLGP losses. At inception of the guarantees, the DIF recognized a liability for the non-contingent fair value of the obligation the FDIC assumed over the term of the guarantees. In accordance with FASB ASC 460, *Guarantees*, this non-contingent liability was measured at the amount of consideration received in exchange for issuing the guarantee. As systemic risk expenses are incurred, the DIF will reduce deferred revenue and recognize an offsetting amount as systemic risk revenue. Not later than the end of the guarantee period (December 31, 2012), any deferred revenue not absorbed by losses during the guarantee period will be recognized as revenue to the DIF.

At its inception, the TLGP consisted of two components: 1) the Transaction Account Guarantee Program (TAG) and 2) the Debt Guarantee Program (DGP). The TAG provided unlimited coverage for noninterest-bearing transaction accounts held by IDIs on all deposit amounts exceeding the fully insured limit of $250,000 through December 31, 2010. During its existence, the FDIC collected TAG fees of $1.2 billion. Total subrogated claims arising from obligations to depositors with noninterest-bearing transaction accounts were $8.8 billion, with estimated losses of $2.2 billion.

The DGP permitted participating entities to issue FDIC-guaranteed senior unsecured debt through October 31, 2009. The FDIC's guarantee for all such debt expires on the earliest of the conversion date for mandatory convertible debt, the stated date of maturity, or December 31, 2012. Through the end of the debt issuance period,

Federal Deposit Insurance Corporation 2011 Annual Report (contd.)

Note 16: Systemic Risk Transactions (contd.)

the DIF collected $8.3 billion of guarantee fees and fees of $1.2 billion from participating entities that elected to issue senior unsecured non-guaranteed debt. The fees are included in the "Cash and investments - restricted - systemic risk" line item and recognized as "Deferred revenue - systemic risk" on the Balance Sheet.

Additionally, the FDIC holds $800 million (liquidation amount) of Citigroup TruPs on behalf of the Treasury (and any related interest) as security in the event payments are required to be made by the DIF for guaranteed debt instruments issued by Citigroup or any of its affiliates under the TLGP (see Note 5). At December 31, 2011, the fair value of these securities totaled $796 million, and was determined using the valuation methodology described in Note 15 for other Citigroup TruPs held by the DIF. There is an offsetting liability in the "Deferred revenue -systemic risk" line item, representing amounts to be transferred to the Treasury or, if necessary, paid for guaranteed debt instruments issued by Citigroup or its affiliates under the TLGP. Consequently, there is no impact on the fund balance of the DIF.

The FDIC's payment obligation under the DGP is triggered by a payment default. In the event of default, the FDIC will continue to make scheduled principal and interest payments under the terms of the debt instrument through its maturity, or in the case of mandatory convertible debt, through the mandatory conversion date. The debtholder or representative must assign to the FDIC the right to receive any and all distributions on the guaranteed debt from any insolvency proceeding, including the proceeds of any receivership or bankruptcy estate, to the extent of payments made under the guarantee.

Since inception of the program, $618.0 billion in total guaranteed debt has been issued. Through December 31, 2011, the FDIC has paid $35 million in claims for principal and/or interest arising from the default of guaranteed debt obligations of six debt issuers. Fifty-nine financial entities (33 IDIs and 26 affiliates and holding companies) had $167.4 billion in guaranteed debt outstanding at December 31, 2011. This compares to $267.1 billion in guaranteed debt outstanding at December 31, 2010. Reported outstanding debt is derived from data submitted by debt issuers.

At December 31, 2011, the DIF recognized a liability of $117 million for debt guarantee obligations that were paid in early 2012 as scheduled under the terms of the debt instruments. This liability is presented in the "Debt Guarantee Program liabilities – systemic risk" line item. The DIF has also recorded a contingent liability of $2 million in the "Contingent liability for systemic risk" line item for probable additional guaranteed debt obligations. The FDIC believes that it is also reasonably possible that additional estimated losses of approximately $93 million could be incurred under the DGP.

The DIF may recognize revenue before the end of the guarantee period for the portion of guarantee fees that was determined to exceed amounts needed to cover potential losses. During 2011, the DIF recognized revenue of $2.6 billion for a portion of DGP guarantee fees previously held as systemic risk deferred revenue (see Note 10). The $2.6 billion relates to fees on debt guarantees that have expired. In addition, the DIF transferred an equal amount of "Cash and investments - restricted - systemic risk" to the DIF's cash and investments. In the unforeseen event a debt default occurs greater than the remaining amount held as deferred revenue, to the extent needed, any amount previously recognized as revenue to the DIF will be returned to the TLGP.

Because of uncertainties surrounding the outlook for the economy and financial markets, there remains a possibility that the TLGP could incur a loss that would absorb some or all of the remaining guarantee fees. Therefore, it is appropriate to continue the practice of deferring revenue recognition for the remaining $5.7 billion of "Deferred revenue - systemic risk" (which excludes the liability of $925 million to Treasury for the fair value and related interest of the Citigroup TruPs).

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Note 16: Systemic Risk Transactions (contd.)

Systemic Risk Activity at December 31, 2011
DOLLARS IN THOUSANDS

	CASH AND INVESTMENTS - RESTRICTED - SYSTEMIC RISK[1]	RECEIVABLES AND OTHER ASSETS - SYSTEMIC RISK	DEFERRED REVENUE - SYSTEMIC RISK	DEBT GUARANTEE PROGRAM LIABILITIES - SYSTEMIC RISK	CONTINGENT LIABILITY - SYSTEMIC RISK	REVENUE/ EXPENSES - SYSTEMIC RISK
Balance at 01-01-11	$6,646,968	$2,269,422	$(9,054,541)	$(29,334)	$(119,993)	
TAG fees collected	41,419	(50,235)	8,816			
DGP assessments collected	3		(3)			
Receivable for TAG fees						
Receivable for TAG accounts at failed institutions		(424,628)				
Dividends and overnight interest on TruPs held for UST		64,029	(64,029)			
Fair value adjustment on TruPs held for UST		(30,413)	30,413			
Estimated losses for TAG accounts at failed institutions		119,976	(119,976)			$(119,976)
Realized losses not yet paid			117,027	(87,693)		87,693
Provision for DGP losses			(147,111)		117,777	(117,777)
Guaranteed debt obligations paid	(27,433)		27,433			27,433
Transfer of excess TLGP funds to the DIF	(2,569,579)		2,569,579			
U.S. investment interest collected	66,640		(66,640)			
Interest receivable on U.S. Treasury obligations	55,880		(55,880)			
Amortization of U.S. Treasury obligations	(71,262)		71,262			
Accrued interest purchased	(43,983)		43,983			
Unrealized gain on U.S. Treasury obligations	439		(439)			
TLGP operating expenses			152			(8,514)
Receipts of receivership's dividends	728,227					
Totals	**$4,827,319**	**$1,948,151**	**$(6,639,954)**	**$(117,027)**	**$(2,216)**	**$(131,141)**

(1) As of December 31, 2011, the fair value of investments in U.S. Treasury obligations held by TLGP was $3.1 billion. An unrealized gain of $439 thousand is reported in the "Deferred revenue - systemic risk" line item.

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Federal Deposit Insurance Corporation
Deposit Insurance Fund Balance Sheet at December 31
DOLLARS IN THOUSANDS

	2011	2010
Assets		
Cash and cash equivalents	$3,277,839	$27,076,606
Cash and investments - restricted - systemic risk (Note 16) *(Includes cash/cash equivalents of $1,627,073 at December 31, 2011 and $5,030,369 at December 31, 2010)*	4,827,319	6,646,968
Investment in U.S. Treasury obligations, net (Note 3)	33,863,245	12,371,268
Trust preferred securities (Note 5)	2,213,231	2,297,818
Assessments receivable, net (Note 9)	282,247	217,893
Receivables and other assets - systemic risk (Note 16)	1,948,151	2,269,422
Interest receivable on investments and other assets, net	488,179	259,683
Receivables from resolutions, net (Note 4)	28,548,396	29,532,545
Property and equipment, net (Note 6)	401,915	416,065
Total Assets	**$75,850,522**	**$81,088,268**
Liabilities		
Accounts payable and other liabilities	$374,164	$514,287
Unearned revenue - prepaid assessments (Note 9)	17,399,828	30,057,033
Liabilities due to resolutions (Note 7)	32,790,512	30,511,877
Debt Guarantee Program liabilities - systemic risk (Note 16)	117,027	29,334
Deferred revenue - systemic risk (Note 16)	6,639,954	9,054,541
Postretirement benefit liability (Note 13)	187,968	165,874
Contingent liabilities for:		
Anticipated failure of insured institutions (Note 8)	6,511,321	17,687,569
Systemic risk (Note 16)	2,216	119,993
Litigation losses (Note 8)	1,000	300,000
Total Liabilities	**64,023,990**	**88,440,508**
Commitments and off-balance-sheet exposure (Note 14)		
Fund Balance		
Accumulated Net Income (Loss)	11,560,990	(7,696,428)
Accumulated Other Comprehensive Income		
Unrealized gain on U.S. Treasury investments, net (Note 3)	47,697	26,698
Unrealized postretirement benefit loss (Note 13)	(33,562)	(18,503)
Unrealized gain on trust preferred securities (Note 5)	251,407	335,993
Total Accumulated Other Comprehensive Income	**265,542**	**344,188**
Total Fund Balance	**11,826,532**	**(7,352,240)**
Total Liabilities and Fund Balance	**$75,850,522**	**$81,088,268**

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

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National Credit Union Share Insurance Fund (NCUSIF)

Excerpt from Note 1: Summary of Significant Accounting Policies

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.

Note 7: Other Liabilities – Insurance and Guarantee Program Liabilities

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

[3] Available online at http://www.ncua.gov/Legal/RptsPlans/AnnRpts/Pages/annualrpt.aspx; last accessed July 30, 2012.

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Note 7: Other Liabilities – Insurance and Guarantee Program Liabilities (contd.)

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.

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Note 11: Disclosures Related to the Statements of Budgetary Resources

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.

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Required Supplementary Information

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

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Required Supplementary Information (contd.)

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.

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Required Supplementary Information (contd.)

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.

National Credit Union Administration NCUSIF 2011 Annual Report (contd.)

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 Administration 2011 Financial Statements[4]
Temporary Corporate Credit Union Stabilization Fund (TCCUSF)

Note 8: Other Liabilities – Insurance and Guarantee Program Liabilities

8. OTHER LIABILITIES – INSURANCE AND GUARANTEE PROGRAM LIABILITIES

The NCUA, in its role as the guarantor, is exposed to the risk of loss from various guarantees extende to the creditors of both the AMEs and the NGN Trusts. The estimates and expectations regarding the contingent liabilities recorded on the TCCUSF's Balance Sheet related to these guarantees are based o our current assumptions about the future performance of Legacy Assets collateralizing the NGNs issu through the NGN Trusts and the recovery value of other assets held by the AMEs. Actual results coul differ materially from our current estimates and expectations.

During 2011 and 2010, the TCCUSF was principally responsible for four initiatives and related guarantees to stabilize the CCU system: TCCUSGP, TCCULGP, Promissory Notes, and NGN issuances. The NCUA's guarantees on the Promissory Notes and NGNs were new initiatives in 2010 and are a direct result of the NCUA's implementation of the CSRP.

The NCUA uses both internal and external models, as well as external valuations to some extent, to estimate contingent liabilities associated with the four guarantees, as discussed herein. As shown in th table below, the TCCUSF recorded contingent liabilities on the TCCUSF's Balance Sheet of approximately $2.9 billion and $7.8 billion as of December 31, 2011 and 2010, respectively. Pursuan to the FCU Act, the NCUA is authorized to assess insured credit unions for the recovery of such losse during the life of the TCCUSF.

For the Years Ended December 31, 2010 and 2011	TCCUSGP	TCCULGP	Promissory Notes	NGNs	TOTAL
(Dollars in thousands)					
Beginning Balance, 1/1/2010	$ 6,365,500	$ -	$ -	$ -	$ 6,365,500
Provision for Losses	(6,318,311)	2,402,447	4,768,897	614,513	1,467,546
Insurance losses (Claims) paid	-	-	-	-	-
Recoveries/Claims on AMEs	-	-	-	-	-
Ending Balance, 12/31/2010	47,189	2,402,447	4,768,897	614,513	7,833,046
Provision for Losses	13,690	494,006	217,317	(614,513)	110,500
Insurance losses (Claims) paid	(26,611)	(13,125)	(5,679,041)	-	(5,718,777)
Recoveries/Claims on AMEs	26,611	-	692,827	-	719,438
Ending Balance, 12/31/2011	$ 60,879	$ 2,883,328	$ -	$ -	$ 2,944,207

A description of each TCCUSF initiative and the associated contingent liability is provided below.

[4] The TCCUSF Financial Statements are issued separately from NCUA's Annual Report that contains its other four funds. Available online at http://www.ncua.gov/about/Leadership/CO/OIG/Documents/OIG-12-07CorpStabilFundAudit.pdf; last accessed August 8, 2012.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Note 8: Other Liabilities – Insurance and Guarantee Program Liabilities (contd.)

Temporary Corporate Credit Union Share Guarantee Program

The TCCUSGP is a guarantee of shares (excluding paid-in-capital and membership capital accounts) at CCUs that began on January 28, 2009. The TCCUSGP protects the entire share account of credit unions that are members of CCUs, subject to certain limitations. On March 1, 2009, the guarantee became voluntary when CCUs were provided the option to participate in the TCCUSGP. Nearly all CCUs elected to participate. The initial expiry of the guarantee was set for December 31, 2010, however it has since been extended through December 31, 2012.

CCUs participating in the TCCUSGP do not pay a fee to the TCCUSF directly attributable to the guarantee. To fund any claims under this initiative, the TCCUSF is authorized to make special premium assessments of insured credit unions and, if necessary, draw on available borrowings from the U.S. Treasury. The TCCUSF's obligation to pay holders of guaranteed shares arises only upon the liquidation of the participating CCU.

As discussed herein, five CCUs were liquidated during 2010, which resulted in the establishment of four Bridge Corporates. Pursuant to the NCUA Board action, the participation of these Bridge Corporates in the TCCUSGP was approved. Each Bridge Corporate entered into a Letter of Understanding and Agreement with the NCUA to extend the TCCUSGP to the Bridge Corporates' shares that were assumed from the AMEs. Two Bridge Corporates were resolved through unassisted mergers with other CCUs in 2011. As of December 31, 2011, two of the Bridge Corporates remain in operation.

As a result, the TCCUSF is obligated for any liability arising from insured shares equal to the Standard Maximum Share Insurance Amount (SMSIA), as defined, and shares in excess of the SMSIA guaranteed under the TCCUSGP. To the extent that the liability exceeds the funds available from the TCCUSF, the NCUSIF will provide the needed funds.

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCUSGP as of December 31, 2011 and 2010 totaled approximately $60.9 million and $47.2 million, respectively. The expected losses from TCCUSGP is dependent upon the NCUA's expectations and assumptions about the Bridge Corporates' and other CCUs financial condition and projected operating cash flows and any expected recoveries after payment of a TCCUSGP liability. As of December 31, 2011 and 2010, the aggregate outstanding insured shares of the CCUs under the TCCUSGP were $34.0 billion and $80.0 billion, respectively. The aggregate outstanding insured shares of the CCUs represent the maximum potential, but not the expected, guarantee payments that the NCUA could be required to make under the terms of the TCCUSGP.

Temporary Corporate Credit Union Liquidity Guarantee Program

The TCCULGP was created in October 2008 to provide a guarantee on certain unsecured debt of participating CCUs. Under the terms of the TCCULGP, for a fee, the NCUA guarantees the timely payment of principal and interest on certain unsecured debt of participating CCUs, principally funded through the TCCUSF.

As of December 31, 2011 and 2010, the NCUA had made payments under the TCCULGP related to the AMEs' MTNs as described below.

Medium Term Notes
In 2009, US Central Federal Credit Union (USC) and Western Corporate Federal Credit Union issued MTNs to the public debt market. These MTNs are guaranteed by the NCUA under the TCCULGP. The MTNs were issued to fund the CCUs repayment of their loans from the NCUA Central Liquidity

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Note 8: Other Liabilities – Insurance and Guarantee Program Liabilities (contd.)

Facility (CLF) under the Credit Union System Investment Program (SIP) and the Credit Union Homeowners Affordability Relief Program (CU HARP).

As of December 31, 2011 and 2010, MTNs with principal amounts of $3.5 billion and $5.5 billion, respectively, were outstanding and guaranteed under the TCCULGP, as follows:

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

Coupon	Maturity Date	2011 Amount Outstanding	2010 Amount Outstanding
1.25%; Fixed	10/19/2011	$ -	$ 1,500,000
LIBOR; Floating	10/19/2011	-	500,000
1.90%; Fixed	10/19/2012	2,000,000	2,000,000
1.75%; Fixed	11/2/2012	1,500,000	1,500,000
		$ 3,500,000	$ 5,500,000

Credit Union System Investment Program
Under the SIP, participating creditworthy natural person credit unions borrowed from the CLF and invested the proceeds in participating CCUs. Natural person credit unions participating in this initiativ received a spread of 25 basis points between the borrowings from the CLF and the investment with participating CCUs. In March 2010, the SIP ended when all borrowings from the CLF were repaid by the participating natural person credit unions, whose corresponding CCU investments were repaid by the participating CCUs, primarily with proceeds from the CCUs' issuance of the MTNs.

Credit Union Homeowners Affordability Relief Program
The CU HARP was a two-year, $2.0 billion initiative to assist homeowners who are facing foreclosure on their mortgages. Under the CU HARP, participating creditworthy natural person credit unions borrow from the CLF and receive up to 100 basis points over the cost of borrowing from the CLF if they modify at-risk mortgages, primarily by lowering interest rates and corresponding monthly payments. The CU HARP program ended on December 30, 2010.

The TCCUSF's Insurance and Guarantee Program Liability associated with the TCCULGP as of December 31, 2011 and 2010 totaled approximately $2.9 billion and $2.4 billion, respectively. The TCCUSF's expected loss is based on the NCUA's assessment of the guarantee exposure on the aggregate outstanding amount of MTNs, net of expected recovery from the AMEs that reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets, as further discussed under fiduciary activities in Note 13.

The CU HARP and SIP ended in 2010 and therefore no related contingent liability was recorded as of December 31, 2011 and 2010 for these initiatives.

Promissory Notes

In accordance with the terms of each Promissory Note agreement between the AMEs and Bridge Corporates, each Promissory Note is guaranteed by the NCUA and primarily funded by the TCCUSF. To fund any claims under this initiative, the TCCUSF is authorized to make special premium assessments as discussed herein, and if necessary, to draw on available borrowings from the U.S. Treasury. As of December 31, 2011 and 2010, the NCUA had guarantees on the Promissory Notes with an aggregate outstanding principal balance of zero and $18.2 billion, respectively. During 2011, the NCUA applied funds primarily received from the issuance of NGNs, borrowings from U.S.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Note 8: Other Liabilities – Insurance and Guarantee Program Liabilities (contd.)

Treasury, and special premium assessments, to repay the Promissory Notes of $18.2 billion. This amount included $5.7 billion in guaranty payments made by the TCCUSF.

The TCCUSF's Insurance and Guarantee Program Liability attributed to the Promissory Notes totaled approximately $4.8 billion as of December 31, 2010. This expected loss was based on the NCUA's assessment of the guarantee exposure on the aggregate outstanding amount of $18.2 billion, net of expected recovery from the AMEs that reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets as further discussed under fiduciary activities in Note 13. As of December 31, 2011, the NCUA had no contingent liability against its guarantee of the Promissory Notes, as the program ended.

NCUA Guaranteed Notes

Beginning in October 2010, the NCUA Board, as liquidating agent of the AMEs, transferred Legacy Assets to NGN Trusts and re-securitized them through the issuance of a series of floating and fixed-rate NGNs. The NGNs have final maturities ranging from 2013 to 2021. As of December 31, 2011 and 2010, the outstanding principal balance of the NGNs was $24.7 billion and $17.3 billion, respectively. This amount represents the maximum potential, but not the expected, future guarantee payments that NCUA could be required to make.

The NCUA, principally through the TCCUSF, is obligated to make guarantee payments through the NGN Trusts to the NGN holders under certain conditions outlined in the respective indentures and related agreements with respect to timely payment of interest and ultimate principal on the NGNs, as well as any parity payments. As of a given payment date, parity payments are due when the unpaid principal balance of all Legacy Assets underlying a particular NGN Trust, after realized and implied losses, if applicable, is less than the remaining unpaid principal balance of the related NGNs after distribution of all cash collected on the Legacy Assets for such payment date.

At December 31, 2011, the estimated guarantee obligation and resultant reserve for probable losses for the guarantee of NGNs associated with 13 re-securitization transactions was zero. The gross estimated guarantee payments were approximately $5.5 billion. This is estimated to be offset in part by both: i) related reimbursements and interest from the legacy assets of the NGN Trusts received directly from contractual reimbursement rights pursuant to the NGN governing documents of approximately $3.9 billion and ii) indirectly by collections under CFR Section 709.5(b) from the AMEs' interests in Legacy Assets of approximately $1.6 billion that are estimated to remain after all obligations of the NGN Trusts are satisfied.

At December 31, 2010, the TCCUSF had an estimated guarantee obligation of approximately $0.6 billion associated with five NGN re-securitization transactions, which was comprised of approximately $3.4 billion in estimated guarantee payments, partially offset by estimated related reimbursements and interest from i) the aggregate remaining assets of all the NGN Trusts to be received directly from contractual reimbursement rights pursuant to the NGN governing documents of approximately $2.2 billion and ii) indirectly under CFR Section 709.5(b) from the AMEs' interest in Legacy Assets of approximately $0.6 billion that are estimated to remain after all obligations of the NGN trusts are satisfied.

Potential guarantor reimbursements by the NGN Trusts to the NCUA are subordinate to payments on the NGNs in accordance with the respective indentures. As such, reimbursements to the NCUA will not occur until the applicable NGN has been repaid in full. After the NGNs are repaid in full, any cash flows received on those Legacy Assets underlying the NGN Trusts are directed toward reimbursements until the NCUA is reimbursed in full. The NCUA earns interest on any guarantee payments not yet reimbursed by the NGN Trusts at a rate equal to the interest rate on the associated NGNs.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Note 8: Other Liabilities – Insurance and Guarantee Program Liabilities (contd.)

Guarantee fees are senior in the NGN Trust payment waterfall in accordance with the respective indentures. It is expected that the NCUA will receive a guarantee fee payment from the NGN Trusts on each NGN payment date. The guarantee fee amount due to the NCUA, at each monthly payment date is equal to 35 basis points per year on the outstanding NGN balance prior to the distribution of principal on the payment date.

The TCCUSF's Insurance and Guarantee Program Liability attributed to the NGNs as of December 31, 2011 and 2010 was zero and approximately $614.5 million, respectively. The TCCUSF's expected net guarantee obligation is based on the estimated guarantee payments, net of estimated guarantor reimbursements from the NGN Trusts and expected recoveries from the AMEs, as further discussed under fiduciary activities in Note 13.

The NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery value of the AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the indenture of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral that comprise the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgage loans and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rates and housing prices.

Excerpt from Note 12: Disclosures Related to the Statement of Budgetary Resources

Undelivered orders were $1.2 million at December 31, 2011 and $8.7 million at December 31, 2010. All liabilities are covered by budgetary resources, excluding the Insurance and Guarantee Program Liabilities. All obligations incurred by the TCCUSF are reimbursable, meaning that obligations will be ultimately reimbursed from the special premium assessments to insured credit unions and from other collections. The TCCUSF is exempt from OMB apportionment control.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Required Supplementary Information

Risk Assumed Information

Contingent Liability

As discussed previously herein, the purpose of the TCCUSF is to accrue the losses of the CCU system and, over time, assess insured credit unions for the recovery of such losses. The NCUA identifies CCUs at risk of failure through the supervisory and examination process, and estimates losses based upon macroeconomic trends and CCU's financial condition and operations.

The contingent liability for expected losses from the CCU system recognized by the TCCUSF pursuant to SFFAS No. 5 was approximately $2.9 billion and $7.8 billion at December 31, 2011 and 2010, respectively. As discussed in Note 8, the TCCUSF's contingent liability is related to four initiatives established by the NCUA to stabilize the CCU system consisting of the TCCUSGP, TCCULGP, the Promissory Notes, and NGN issuances.

At December 31, 2011 the TCCUSF had accrued for losses of the CCU system of approximately $7.9 billion consisting of approximately $2.9 billion in contingent liability and $5.0 billion in allowance for losses against receivables from the AMEs. At December 31, 2010, the TCCUSF had accrued for losses of the CCU system of approximately $7.8 billion, consisting solely of a contingent liability, as there was no receivable due from the AME in 2010 and therefore no associated allowance for loss.

As discussed in Notes 6 and 8, during 2011, the TCCUSF made guarantee payments of $5.7 billion related to the guarantee of the Promissory Notes. As of December 31, 2011, the TCCUSF had gross receivables from the AMEs of $5.6 billion, against which an allowance for losses of approximately $5.0 billion was established.

Fees and Premiums

Under the TCCULGP and NGN initiatives, the TCCUSF is entitled to guarantee fees on a monthly basis for providing associated guarantees as previously discussed in Notes 4 and 8. As of December 31, 2011, the estimated TCCUSF guarantee fees for the remaining term of the TCCULGP and the NGNs, which will lessen the expected losses recognized by TCCUSF, are $4.3 million and $380.8 million, respectively. As of December 31, 2010, the estimated value of TCCUSF guarantee fees for the remaining term of the TCCULGP and the NGNs, which will lessen the expected losses recognized by TCCUSF, are $11.2 million and $284.0 million, respectively.

In addition, the NCUA Board, under the FCU Act, may assess insured credit unions special premiums to cover payments for the conservatorship, liquidation, or threatened conservatorship or liquidation of

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Required Supplementary Information (contd.)

CCUs. The TCCUSF assessed a special premium of $2.0 billion and $1.0 billion in 2011 and 2010, respectively. The NCUA Board expects to assess additional special premiums on insured credit union periodically for the recovery of losses over the remaining term of the TCCUSF.

Sensitivity, Risks and Uncertainties of the Assumptions

As discussed in Note 8, the NCUA estimates the expected losses from the four initiatives using various methodologies including internal models, market information and external valuations such as appraisals, and internal and external models that incorporate the NCUA's expectations and assumptions about the financial condition and operations of the Bridge Corporates, CCUs and the AMEs, as well as the anticipated recovery value, if any, of the AMEs' assets and the Legacy Assets collateralizing the NGNs.

The development of assumptions for key input variables of the estimation models and external valuations is a highly subjective process that involves significant judgment. Future values are difficult to estimate, especially over longer timeframes. Key assumptions in the modeling include borrower status, prepayments, default, loss severity, discount rates, forward interest rate curves, house price appreciation forecasts, legal and regulatory changes, property locations, and unemployment expectations. Assumptions also vary by asset type and vintage. The assumptions developed for the estimation models are periodically evaluated by the NCUA to determine the reasonableness of those assumptions over time.

Temporary Corporate Credit Union Share Guarantee Program

The TCCUSF has insured CCU member shares totaling $34.0 billion and $80.0 billion as of December 31, 2011 and 2010, respectively. The expected loss of $60.9 million and $47.2 million at December 31, 2011 and 2010, respectively, is attributed to the Bridge Corporates and other CCUs, which is dependent upon the NCUA's expectations and assumptions about the Bridge Corporates' and other CCUs financial condition and projected operating cash flows and expected recoveries from liquidated CCUs after a payment under the TCCUSGP. These are dependent on the ultimate outcome of the credit union system-led resolution to the Bridge Corporates and completion of the CSRP. Actual resolution of the remaining Bridge Corporates and other CCUs experiencing financial difficulties, and the ultimate losses to be incurred by the TCCUSF could differ materially from the assumptions made as of December 31, 2011 and 2010.

Temporary Corporate Credit Union Liquidity Guarantee Program and the Promissory Notes

The expected losses from the guarantee under the TCCULGP and the Promissory Notes are largely dependent upon the expected recovery, if any, from the AMEs and reflect the NCUA's expectations and assumptions about the recovery value, if any, of the AMEs' assets as previously discussed under fiduciary activities in Note 13. As of December 31, 2011, the aggregate outstanding amount of the MTNs and the Promissory Notes was $3.5 billion and zero, respectively. As of December 31, 2010, the aggregate outstanding amount of the MTNs and the Promissory Notes was $5.5 billion and $18.2 billion, respectively.

As discussed in Note 8s and Note 13, the TCCUSF made guarantee payments of $5.7 billion in 2011. It is expected that the TCCUSF would make guarantee payments with respect to the remaining MTNs due in October and November 2012.

As discussed in Notes 8 and 13, in the event of a guarantee payment on the MTNs under the TCCULGP and the Promissory Notes, the TCCUSF is entitled to reimbursements from the AMEs, to the extent there are remaining assets, in accordance with the priority of payments specified in CFR Section 709.5(b). The amount and timing of reimbursements, if any, from the AMEs are based on the NCUA

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Required Supplementary Information (contd.)

Board's expectations and assumptions about its ability, as the liquidating agent, to liquidate the AME assets, such as loans, investments in credit union service organizations, buildings, fixtures, furniture, equipment, economic residual interests in the NGN Trusts, and other investments.

The expected recovery values of the AMEs' assets are derived using market information and external valuations, such as appraisals and internal and external models that incorporate the NCUA's assumptions about prepayments, defaults, loss severity and discount rates that differ by borrower status, asset types and other factors. In particular, the AMEs' economic residual interests in the NGN Trusts are sensitive to the assumptions made by the NCUA as further discussed below. Recovery amounts, if any, of the AME assets and ultimate gross claims to be paid by the TCCUSF, net of any reimbursements from the AMEs, could differ materially from the assumptions made as of December 31, 2011 and 2010.

NCUA Guaranteed Notes

As discussed in Note 8, the principal balance of the NGNs was $24.7 billion and $17.3 billion as of December 31, 2011 and 2010, respectively. This amount represents the maximum potential future guarantee payments that NCUA could be required to make without consideration of any possible recoveries under the terms of the guarantee or from the AMEs. The losses from the guarantee of NGNs are expected to be significantly less than the above maximum potential exposure, and such losses are based on the estimated guarantee payments, net of estimated guarantor reimbursements, if any, from the NGN Trusts and expected recoveries, if any, from the AMEs. The NCUA's estimate of the expected recovery from the AMEs reflects the NCUA's expectations and assumptions about the recovery value of the AMEs' assets as discussed above, which include AMEs' economic residual interests in the NGN Trusts.

As discussed in Note 8, the NCUA's estimated guarantee payments, guarantor reimbursements, and the recovery values, if any, of the AMEs' economic residual interests in the NGN Trusts are derived using an external model that distributes estimated cash flows of the Legacy Assets transferred to the NGN Trusts in the priority of payments pursuant to the governing documents of each NGN Trust. The estimated cash flows incorporate the NCUA's assumptions about discount rates.

The estimated cash flows of the Legacy Assets transferred to the NGN Trusts are also derived from the external model that incorporates the NCUA's expectations and assumptions about the estimated cash flows from the collateral underlying the Legacy Assets, and the priority of payments and estimated cash flows of the Legacy Assets pursuant to the governing documents for the respective Legacy Assets.

The external model produces estimated cash flows of collateral underlying the Legacy Assets by incorporating the NCUA's expectations and assumptions about prepayments, defaults and loss severity of the collateral consisting of residential and commercial mortgages and other assets. Assumptions about prepayments, defaults and loss severity are developed based on the characteristics and historical performance of the collateral, as well as assumptions about macroeconomic variables such as unemployment rate and housing prices, among other factors.

The tables below represent the composition of Legacy Assets collateralizing the 13 NGN Trusts with an aggregate unpaid principal balance of $34.3 billion and recovery value of approximately $24.5 billion as of December 31, 2011. As of December 31, 2010, the aggregate unpaid principal balance and recovery value of the Legacy Assets collateralizing the five NGN Trusts outstanding was $19.1 billion and $17.0 billion, respectively.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

Required Supplementary Information (contd.)

Asset Type and Credit Rating[1]		Based on Recovery Value				Based on Unpaid Principal Balance			
		2011		2010		2011		2010	
RMBS	AAA	71%	3%	68%	7%	79%	2%	68%	6%
	AA		7%		10%		4%		10%
	A		3%		7%		2%		7%
	BBB		5%		4%		3%		4%
	Below Investment Grade		82%		72%		88%		73%
	NA		0%		0%		0%		0%
CMBS	AAA	19%	16%	25%	18%	13%	17%	25%	18%
	AA		15%		19%		15%		19%
	A		44%		44%		44%		43%
	BBB		15%		17%		14%		17%
	Below Investment Grade		10%		1%		11%		1%
	NA		0%		2%		0%		2%
ABS[2]	AAA	6%	23%	7%	25%	5%	18%	7%	24%
	AA		18%		19%		15%		18%
	A		33%		29%		27%		29%
	BBB		7%		25%		6%		26%
	Below Investment Grade		19%		3%		34%		3%
	NA		0%		0%		0%		0%
Agency	Agency	3%	100%	NA	NA	2%	100%	NA	NA
Corporate	AAA	2%	0%	NA	NA	2%	0%	NA	NA
	AA		2%		NA		2%		NA
	A		27%		NA		21%		NA
	BBB		28%		NA		23%		NA
	Below Investment Grade		1%		NA		5%		NA
	NA		41%		NA		49%		NA

1 Credit rating is based on the lowest rating published by the Standard & Poor's, Moody's and Fitch, where available.

2 The collateral underlying the ABS included in the tables above is primarily student loans.

While certain parts of the credit market have seen recent improvements, the performance of asset- and mortgage-backed securities, such as the Legacy Assets remains uncertain. The longer-term outlook for borrower and loan performance is uncertain. Uncertainty around housing prices, interest and unemployment rates, legal and regulatory actions, and the relationship of these factors to prepayment, loss severity, default and delinquency rates will likely change over time. Legacy Asset performance continues to be challenging to predict, and the external model used to derive the expected losses to the TCCUSF from the guarantee of the NGNs is sensitive to assumptions made about Legacy Asset performance. For example, changing the assumptions for reasonably possible variations in certain macroeconomic factors such as a decline in housing prices from its most recent peak in the external model would have resulted in the NCUA's expected losses, net of estimated guarantor reimbursements and the economic residual interests in the NGN Trusts (but exclusive of the estimated guarantee fees for the remaining term of the NGNs) associated with 13 re-securitization transactions to be zero under one scenario, and approximately $1.3 billion in another scenario, as compared to no expected net losses on the NGN guarantees recognized on the TCCUSF's Balance Sheet as of December 31, 2011. The NCUA estimated the net expected losses associated with five re-securitization transactions to be zero under one scenario, and approximately $1.3 billion in another scenario, as compared to $614.5 million in expected losses on the NGN guarantees recognized on the TCCUSF's Balance Sheet as of December 31, 2010.

National Credit Union Administration TCCUSF 2011 Financial Statements (contd.)

NATIONAL CREDIT UNION ADMINISTRATION
TEMPORARY CORPORATE CREDIT UNION STABILIZATION FUND

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

	2011	2010
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	$ -	$ 500
Investments, Net - U.S. Treasury Securities (Note 3)	284,712	372,211
Accounts Receivable - Due from the National Credit Union Share Insurance Fund	-	194
Other - Distribution Receivable due from the National Credit Union Share Insurance Fund (Note 5)	278,641	-
Total Intragovernmental Assets	563,353	372,905
PUBLIC		
Accounts Receivable - Special Premium Assessments from Insured Credit Unions, Net (Note 4)	93	2
Accounts Receivable - Guarantee Fee on Temporary Corporate Credit Union Liquidity Guarantee Program, Net (Note 4)	446	635
Accounts Receivable - Guarantee Fee on National Credit Union Administration Guaranteed Notes, Net (Note 4)	4,465	3,233
Other - Receivables from Asset Management Estates, Net (Note 6)	626,678	-
Total Public Assets	631,682	3,870
TOTAL ASSETS	$ 1,195,035	$ 376,775
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable - Due to the National Credit Union Share Insurance Fund	$ 2	$ -
Debt - Borrowings from the U.S. Treasury (Note 7)	3,500,000	-
Other - Accrued Interest Payable to the U.S. Treasury (Note 7)	2,477	-
Total Intragovernmental Liabilities	3,502,479	-
PUBLIC		
Accounts Payable	1,423	1,410
Other Liabilities	1,031	-
Other - Insurance and Guarantee Program Liabilities (Note 8)	2,944,207	7,833,046
Total Public Liabilities	2,946,661	7,834,456
TOTAL LIABILITIES	6,449,140	7,834,456
Commitments and Contingencies (Note 8)		
NET POSITION		
Cumulative Result of Operations (Note 1)	(5,254,105)	(7,457,681)
Total Net Position	(5,254,105)	(7,457,681)
TOTAL LIABILITIES AND NET POSITION	$ 1,195,035	$ 376,775

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

Department of Agriculture FY 2011 Performance and Accountability Report[5]

Excerpt from Management's Discussion and Analysis

Future Demands, Risks, Uncertainties, Events, Conditions, and Trends

Farmers and food companies operate in highly competitive markets, both domestically and internationally. Rapid shifts in consumer demands associated with quality, convenience, taste, and nutrition dictate that farming and marketing infrastructures become more fluid and responsive.

National security is a significant, ongoing priority for the Department. USDA is working with the U.S. Department of Homeland Security to help protect agriculture from intentional and accidental acts that might impact America's food supply or natural resources.

External factors that challenge USDA's ability to achieve its goals include:

- Weather-related hardships and other uncontrollable events domestically and abroad;
- Domestic and foreign macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases, such as *avian influenza* and *bovine spongiform encephalopathy*, to move quickly across national and foreign boundaries;
- Potential exposure to hazardous substances, which may threaten human health and the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts;
- The risk of catastrophic fire, depending on weather, drought conditions, and the expanding number of communities in the wildland-urban interface; and
- Efforts to reduce hunger and improve dietary behaviors depend on strong coordination between USDA and a wide array of Federal, State, and local partners.

[5] Available online at http://www.ocfo.usda.gov/usdarpt/usdarpt.htm; last accessed June 4, 2012.

Department of Agriculture FY 2011 Performance and Accountability Report (contd.)

Excerpt from Note 1: Significant Accounting Policies

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Note 17: Commitments and Contingencies

Note 17. Commitments and Contingencies

The Department is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $1,237 million and $1,257 million has been accrued in the financial statements as of September 30, 2011 and 2010, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $747 million to $1,493 million as of September 30, 2011, compared to $2,136 million to $3,663 million as of September 30, 2010.

CRP rental payments are estimated to be $1,800 million annually through FY 2017. Commitments to extend loan guarantees are estimated to be $5,949 million and $4,802 million in FY 2011 and FY 2010, respectively.

Note 25: Undelivered Orders at the End of the Period

Note 25. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2011 and 2010 was $51,654 million and $54,799 million, respectively.

Required Supplementary Information

Risk Assumed Information (Unaudited)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $8,757 million and $7,546 million as of September 30, 2011 and 2010, respectively.

Farm Credit System Insurance Corporation 2011 Annual Report[6]

Excerpt from Supplemental Information

2. Detecting, evaluating, and managing insurance risk

Progress towards this program goal is measured by the extent to which emerging problems are promptly detected and insurance losses are minimized. Financial indicators are effectively used to monitor conditions and trends, and data are analyzed and reported before losses become likely.

In periods of probable or actual insurance claims, the ratio of estimated losses to actual losses is an indicator of the Corporation's ability to assess prospective loss exposure. As guidance, management uses criteria specified in FCSIC's allowance for loss procedure and the Financial Accounting Standards Board's Accounting Standards Topic 450, Contingencies. Timely evaluation of the Fund's risk exposure is critical to preserving the Fund's solvency. The Corporation uses Farm Credit Administration reports of examination to evaluate risks to the Insurance Fund. The Corporation may independently examine and require information from System institutions.

[6] Available online at http://www.fasab.gov/resources/federal-financial-reports/; last accessed July 31, 2012.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Excerpt from Discussion of "The Farm Credit System"

Additional Protections

The System has additional risk management tools to protect investors. One such tool is the Contractual Interbank Performance Agreement (CIPA). All System banks have entered into this agreement, which measures the financial condition and performance of each bank by using ratios that consider capital, asset quality, earnings, interest rate risk, and liquidity. The CIPA financially penalizes banks that do not meet performance standards.

The System banks and the Funding Corporation have also entered into the Market Access Agreement (MAA), which establishes conditions for each bank's continued participation in the debt market. If a bank fails to meet agreed-upon performance measures, including capital and collateral ratios, the bank may be restricted from issuing debt. The criteria used under the MAA are the CIPA scores and two capital ratios.

The System also has a common minimum liquidity standard. At December 31, 2011, the System standard required each bank to have enough liquidity to operate for at least 90 continuous days without access to the capital markets. For additional information, please see the discussion in the Risk Management section.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Discussion of "Risk Management"

Risk Management

The Corporation actively monitors and manages insurance risk to minimize the Fund's exposure to potential losses. Staff analyzes and evaluates the financial performance and condition of System institutions, maintains continual dialogue with FCA examiners, and reviews reports of examination. When necessary, the Corporation requests special examinations at System institutions of concern. On a quarterly basis, the Corporation screens all System institutions against key performance criteria to identify those that may pose increasing insurance risk.

The Corporation also assesses risk to the Insurance Fund by

- reviewing corporate actions (merger, restructuring, and other regulatory requirements) approved by FCA for System institutions;
- monitoring legislative, judicial, regulatory, and economic trends that could adversely affect the agricultural or financial services industries;
- using analytical models; and
- participating as a nonvoting member on FCA's Regulatory Enforcement Committee.

During 2011, risk management staff monitored and evaluated trends affecting agriculture and System institutions, including

- conditions in the nation's general economy, capital markets, and the agricultural and financial sectors;
- potential budget cuts to Government programs that support U.S. agriculture;
- the effects of commodity price volatility on agricultural operations and the sharp increases in farmland values in the midwestern U.S.;
- the effects of the housing crisis on agricultural real estate values in certain regions of the country;
- stress in several farm sectors affecting the quality of System institutions' loan portfolios, including the dairy, swine, poultry, forestry, nursery, and biofuels industries;
- negative trends at specific System institutions with declining Financial Institution Rating System (FIRS) ratings; and
- the consolidation of System institutions, including the merger of CoBank and U.S. AgBank, which reduced the number of System banks to four.

The Risk Environment in 2011

The effects of the 2007–2009 recession were still evident in 2011. Since mid-2009, the U.S. economy has been on a path of recovery, though the pace of growth has been slow and uneven. Economic output as measured by real gross domestic product increased by 3.0 percent in 2010, but growth decelerated to 1.7 percent in 2011. Employment conditions remained weak. While the unemployment rate has fallen from its peak of 10.1 percent in October of 2009, it remained high at 8.5 percent at year-end 2011. Weak consumer spending, falling housing prices, and reduced credit flow also continued to dampen economic recovery in 2011.

The U.S. banking sector improved despite the continued sluggish housing market and related high levels of delinquencies and foreclosures. FDIC-insured institutions reported the highest level of industry profits since 2007, primarily from lower expenses for loan-loss provisions. More than 96 percent of all FDIC-insured institutions, representing more than 99 percent of total industry assets were classified as well-capitalized institutions at year-end 2011. Nonetheless, 92 FDIC-insured institutions failed, and the list of problem banks (that is, those with CAMELS ratings of 4 and 5) remained high at 813 at year-end.

Interest rates have been maintained at very low levels since 2008 when the economy weakened. During 2011, the Federal Reserve announced

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Discussion of "Risk Management" (contd.)

that it expected to maintain this low interest rate environment during 2012 and 2013. The timing and magnitude of a change in the direction of interest rates may significantly affect the profitability of agricultural producers who use debt financing in their operations.

The agricultural sector remained strong in 2011 despite slow growth in the domestic economy. In February 2012, USDA forecast a record national net farm and cash income of $98.1 billion and $108.7 billion, respectively, for 2011, up 24 percent and 18 percent, respectively, from 2010. Record revenues from strong crop markets (especially corn, wheat, cotton, and soybeans), combined with sharp gains in livestock revenues, offset a smaller increase in input costs. Higher commodity prices were driven primarily by tighter stocks and a robust export market. The poultry, dairy, timber, nursery and biofuel sectors continued to experience some stress in 2011.

In August 2011, as a consequence of the Federal budget deficit trends, Standard and Poor's (S&P) downgraded the U.S. Government from a "AAA" rating to a "AA" rating. At the same time, the S&P also similarly downgraded the debt of select Government-related entities including the Farm Credit System banks.

Despite Standard and Poor's downgrade of System debt, investor demand for System insured obligations remained favorable across the maturity spectrum. In the very low interest rate environment that prevailed, System banks continued to call and refinance a significant amount of their debt obligations. This contributed to another strong year of Systemwide earnings as interest spreads and margins widened throughout the year.

Credit quality improved in 2011. System loans classified under FCA's Uniform Loan Classification System as Acceptable or Other Assets Especially Mentioned as a percentage of total loans increased to 96.2 percent in 2011 from 95.4 percent in 2010. The improvement in institution FIRS ratings (see figure 11) reflects the better asset quality and its effect on institutions' earnings and capital levels. The primary source of credit quality weakness remained in the livestock, biofuel, and housing-related sectors. Institutions with performance-related issues continued to receive higher examination scrutiny and supervisory attention from FCA.

During 2011, System banks continued to strengthen the quality of their respective liquidity portfolios by purchasing and holding enough high-quality liquid assets, including cash, cash equivalents, and Treasury securities with maturities of less than 3 years, to cover 15 days of maturing debt. The banks also agreed that the next 30 days of liquidity would come from investments in excess of those that qualify for the 15-day bucket. These investments consist of U.S. Government-guaranteed instruments and top-rated commercial paper and Fed funds that mature in 45 days or less.

The Federal Government's fiscal situation became a significant uncertainty during the year. Federal farm programs which have provided large benefits to certain agricultural producers in recent years are at risk of curtailment or modification that may change the level and direction of Government support to the agricultural sector. Another aspect of the Federal budget deficit is taxation. Federal Government revenues have been sharply lower over the past several years and are seen as a major issue in the 2012 elections. Federal tax policy for the bioenergy sector was tightened at the end of 2011 when the ethanol tax credit program was allowed to expire. How the budget may be reformed through spending or tax changes remains to be seen, and may not be resolved until after the 2012 election cycle.

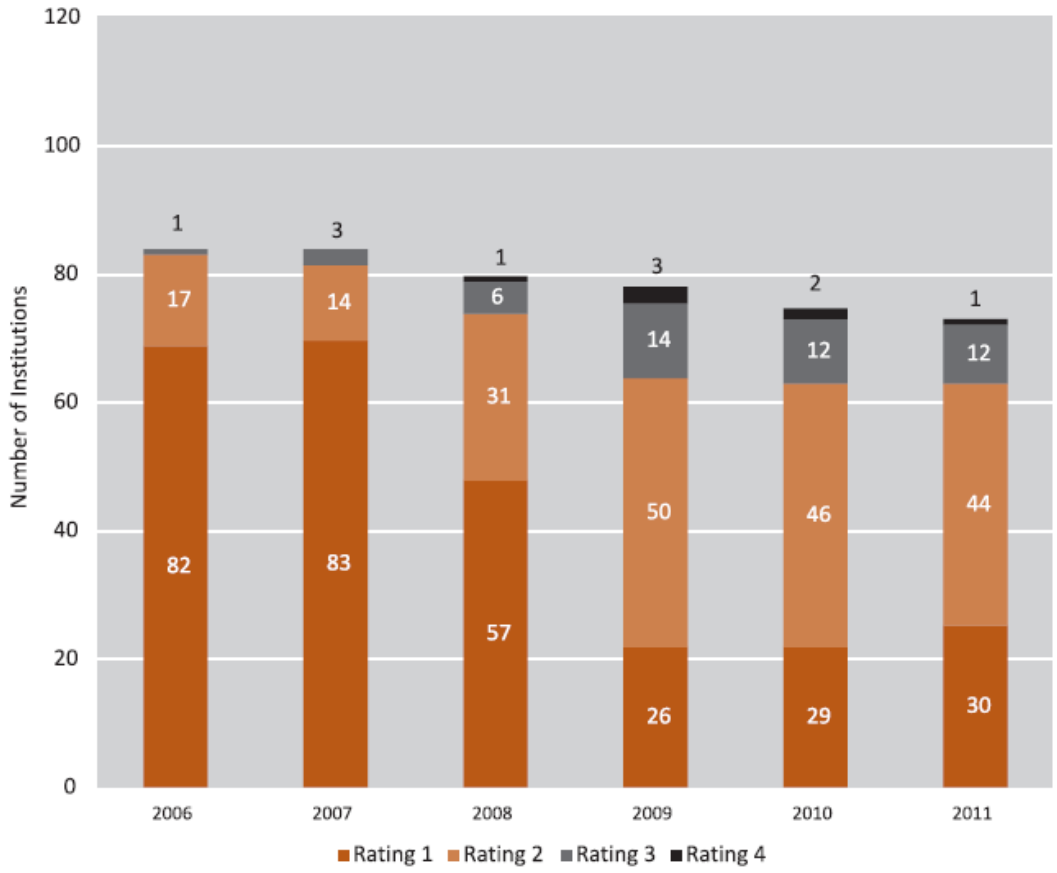
Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Discussion of "Risk Management" (contd.)

Figure 11

FCS Institution FIRS Ratings

As of December 31, 2011



Source: FCA

Note: Figure 11 reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, the Federal Agricultural Mortgage Corporation, the two institutions that merged effective January 1, 2012, or the Federal Farm Credit Banks Funding Corporation.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Excerpt from Note 1: Insurance Fund – Statutory Framework

Note 1 — Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (Farm Credit Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2011, there were five insured System banks and 84 direct lender associations.

The Corporation is managed by a board of directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank; and

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

The balances outstanding at December 31, 2011, for each of the components of the Corporation's insurance responsibilities were $184.2 billion of insured obligations, and $5 million of eligible borrower stock.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Excerpt from Note 2: Summary of Significant Accounting Policies

Liability for Estimated Insurance Obligations—The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Note 4: Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Note 4—Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

The Food, Conservation, and Energy Act of 2008 amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments clarify that FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the Farm Credit System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has the authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and the Farm Credit System Financial Assistance Corporation (FAC) stockholders.

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory SBA is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the assets in the Insurance Fund for which no specific use has been designated exceed the SBA, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2011, the Board of Directors set premium rates at its January 20, 2011, meeting at 6 basis points on average adjusted insured debt and continued the assessment of the 10 basis point premium on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 21, 2011 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 6 basis points and continued

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Note 4: Premiums, the Secure Base Amount and Excess Insurance Fund Balances (contd.)

the assessment of the 10 basis point premium on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2011. In 2011, outstanding insured obligations decreased by $4.13 billion (-2.2 percent). At December 31, 2011, both the unallocated Insurance Fund and the total Insurance Fund were 2.14 percent of adjusted insured obligations.

On January 19, 2012, the Board of Directors set premium rates for 2012, decreasing the premium rate on adjusted insured debt outstanding from 6 basis points to 5 basis points. The Board continued the 10 basis point premium on the average principal outstanding for nonaccrual loans and other-than-temporarily impaired investments.

A 1996 amendment to the Farm Credit Act requires the Corporation to establish Allocated Insurance Reserves Accounts (AIRAs) for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year the unallocated Insurance Fund is at the SBA, the Corporation is to segregate any excess balances into these AIRAs. In 2011, the Corporation's Board revised the Policy Statement on the Secure Base Amount and Allocated Insurance Reserves Accounts which provides guidelines for implementing this statutory authority. If at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, the Corporation shall allocate to the Allocated Insurance Reserves Accounts the excess amount less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year. At year-end 2011, this resulted in the transfer of $221.85 million to the AIRAs. The amount was allocated as follows:

FAC Stockholders	(10%)	$ 22.18 million
Farm Credit System Banks	(90%)	$ 199.67 million

The AIRAs balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board. AIRAs balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRAs payments. In accordance with the Corporation's policy statement, any AIRAs balances do not count in measuring the Insurance Fund's compliance with the SBA.

Note 5: Operating Lease

Note 5 — Operating Lease

On November 30, 2009, the Corporation executed a six-year lease with the Farm Credit System Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $142,249 for 2012 and $146,531 for 2013. The Corporation recorded lease expense (including operating cost assessments) of $138,443 and $134,410 for 2011 and 2010, respectively.

Farm Credit System Insurance Corporation 2011 Annual Report (contd.)

Farm Credit System Insurance Corporation
Statements of Financial Condition
As of December 31, 2011 and 2010
(Dollars in thousands)

	2011	2010
Assets		
Cash and cash equivalents	$ 1,101	$ 149,831
Investments in U.S. Treasury Obligations (Note 3)	3,266,285	2,974,341
Accrued interest receivable	26,264	21,544
Premiums receivable (Note 4)	98,699	79,969
Total assets	**$ 3,392,349**	**$ 3,225,685**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses (Note 6)	$ 385	$ 339
Total liabilities	385	339
Farm Credit Insurance Fund		
Allocated Insurance Reserves Accounts Allocated in 2011	221,851	0
Unallocated Insurance Fund Balance	3,170,113	3,225,346
Total Insurance Fund	3,391,964	3,225,346
Total liabilities and Insurance Fund	**$ 3,392,349**	**$ 3,225,685**

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

Department of Defense FY 2011 Agency Financial Report[7]

NOTE 15. OTHER LIABILITIES

Other Liabilities				*Dollars in Millions*
		2011		
As of September 30	Current Liability	Noncurrent Liability	Total	
Intragovernmental				
Advances from Others	$ 1,548.6	$ 0.0	$ 1,548.6	
Deposit Funds and Suspense Account Liabilities	1,799.8	0.0	1,799.8	
Disbursing Officer Cash	1,828.9	0.0	1,828.9	
Judgment Fund Liabilities	260.6	0.0	260.6	
FECA Reimbursement to the Department of Labor	607.1	776.4	1,383.5	
Custodial Liabilities	3,949.3	2,533.8	6,483.1	
Employer Contribution and Payroll Taxes Payable	352.2	0.0	352.2	
Other Liabilities	575.0	0.0	575.0	
Total Intragovernmental Other Liabilities	**$ 10,921.5**	**$ 3,310.2**	**$ 14,231.7**	
Nonfederal				
Accrued Funded Payroll and Benefits	$ 5,703.1	$ 0.0	$ 5,703.1	
Advances from Others	4,279.2	0.0	4,279.2	
Deferred Credits	0.00	0.0	0.0	
Deposit Funds and Suspense Accounts	164.8	0.0	164.8	
Temporary Early Retirement Authority	0.0	0.0	0.0	
Nonenvironmental Disposal Liabilities				
Military Equipment (Nonnuclear)	12.8	207.6	220.4	
Excess/Obsolete Structures	3.2	535.4	538.6	
Conventional Munitions Disposal	0.0	2,752.4	2,752.4	
Accrued Unfunded Annual Leave	10,211.5	0.0	10,211.5	
Capital Lease Liability	208.1	29.6	237.7	
Contract Holdbacks	806.2	0.3	806.5	
Employer Contribution and Payroll Taxes Payable	373.9	0	373.9	
A → Contingent Liabilities	1,581.1	4,288.3	5,869.4	
Other Liabilities	150.1	0.5	150.6	
Total Nonfederal Other Liabilities	**$ 23,494.0**	**$ 7,814.1**	**$ 31,308.1**	
Total Other Liabilities	**$ 34,415.5**	**$ 11,124.3**	**$ 45,539.8**	

[7] Available online at http://comptroller.defense.gov/reports.html; last accessed June 4, 2012.

Department of Defense FY 2011 Agency Financial Report (contd.)

A

Contingent Liabilities includes $2.2 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund.

The Department has 44 legal actions with individual claims greater than the Department's FY 2011 materiality threshold of $136.3 million. The total of the 44 actions is approximately $12.4 trillion. Of this amount, the OGC determined that claims totaling approximately $7.6 billion are classified "reasonably possible," $59.3 billion are classified "remote," and $12.3 trillion are classified "unable to determine the probability of loss." The Department also had a number of potential claims that individually did not meet the Department's materiality threshold but did meet the individual Components' thresholds. These claims are disclosed in the Components' financial statements.

Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Department has limited automated system processes by which it captures or assesses these potential contingent liabilities, therefore, the amounts reported may not fairly present the Department's contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.

Department of Defense FY 2011 Agency Financial Report (contd.)

Excerpt from Note 20: Disclosures Related to the Statement of Budgetary Resources

Disclosures Related to the Statement of Budgetary Resources		*Dollars in Millions*
As of September 30	2011	Restated 2010
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period.	$ 478,054.4	$ 467,972.2

Note 25: Other Disclosures

NOTE 25. OTHER DISCLOSURES

Other Disclosures				*Dollars in Millions*
	2011— Asset Category			
As of September 30	Land and Buildings	Equipment	Other	Total
Entity as Lessee – Operating Leases				
Future Payments Due				
Fiscal Year 2012	$ 539.8	$ 22.6	$ 140.7	$ 703.1
Fiscal Year 2013	522.2	22.4	147.5	692.1
Fiscal Year 2014	551.4	22.5	143.6	717.5
Fiscal Year 2015	560.9	22.3	144.9	728.1
Fiscal Year 2016	576.2	22.3	146.2	744.7
After 5 Years	1,039.5	0.3	139.8	1,179.6
Total Future Lease Payments Due	**$ 3,790.0**	**$ 112.4**	**$ 862.7**	**$ 4,765.1**

Operating leases are leases that do not transfer all the benefits and risks of ownership of capital leases. Payments are charged as expenses over the lease term. Office space is the largest component of land and building leases. Other leases are generally one-year leases that are not building or equipment leases. Future year cost projections use the Consumer Price Index.

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Excerpt from Note 1: Summary of Significant Accounting Policies

Q. Contingent Liabilities

The Department accrues contingent liabilities where a loss is determined to be probable and the amount can be reasonably estimated. The Department discloses contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. Disclosures are made for probable loss contingencies that cannot be reasonably estimated, as well as reasonably possible loss contingencies. Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

For additional information, see Note 21, Commitments and Contingent Liabilities.

Note 21: Commitments and Contingent Liabilities

21. Commitments and Contingent Liabilities

A. Legal Contingent Liabilities

The Department is a party in various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's financial statements, except for the legal actions described below (in millions).

		Estimated Range of Loss	
	Accrued Liabilities	Lower End	Upper End
FY 2011			
Probable	$609	$609	$1,154
Reasonably Possible		$670	$975

The claims above generally relate to the *Federal Tort Claims Act* (Pub. L. 79-601), Oil Spill Liability Trust Fund, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements included with other liabilities for all probable and reasonably estimable litigation-related claims at September 30, 2011, was $609 million, of which $8 million was funded.

[8] Available online at http://www.dhs.gov/xabout/budget/editorial_0430.shtm; last accessed June 4, 2012.

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Note 21: Commitments and Contingent Liabilities (contd.)

Asserted and pending legal claims for which loss was reasonably possible is estimated to range from $670 million to $975 million at September 30, 2011.

As of September 30, 2011, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed and the potential range of loss could not be determined.

B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees collected by CBP. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount, if any, for trade-related refunds under jurisdiction of other federal agencies in addition to the amount accrued on the accompanying financial statements. All known duty and trade refunds as of September 30, 2011 and 2010, have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DOD for damage or loss to aircraft on loan to CBP and vessels on loan to the U.S. Coast Guard. As of September 30, 2011 and 2010, CBP had 16 aircraft and 17 aircraft, respectively, loaned from DOD with a replacement value of up to $23 million per aircraft. As of September 30, 2011, the U.S. Coast Guard had seven vessels on loan from DOD with a total replacement value of $84 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 30. In accordance with the *National Defense Authorization Act for Fiscal Year 1991* (Pub. L. 101-510), the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2011, DHS estimates total payments related to cancelled appropriations to be $242 million, of which $111 million for contractual arrangements may require future funding.

TSA entered into a number of Letters of Intent for Modifications to Airport Facilities with 11 major airports in which TSA may reimburse the airports up to 90 percent (estimated total of $1.5 billion) of the costs to modify the facilities for security purposes. These letters of intent (LOI) would not obligate TSA until funds have been appropriated and obligated. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA received $200 million in both FY 2011 and FY 2010 (unaudited) to fund LOIs. These funds are available for payment to the airports upon approval by TSA of an invoice for the modification costs incurred. As of September 30, 2011, TSA has received invoices or documentation for costs incurred totaling $4 million for the invoices that have not yet been paid.

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Note 30: Undelivered Orders, Unpaid, End of Period

30. Undelivered Orders, Unpaid, End of Period

An unpaid undelivered order exists when a valid obligation has occurred and funds have been reserved but the goods or services have not been delivered. Undelivered orders for the periods ended September 30, 2011 and 2010, were $42,011 million (unaudited) and $43,445 million (unaudited), respectively.

Excerpt from Required Supplementary Information

4. Risk Assumed Information

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the NFIP. This FY 2011 estimate represents losses that might occur in FY 2012 on policies that were in-force as of September 30, 2011. The calculation utilizes the current estimate of the long-term average loss year, which includes an estimate of a rare but catastrophic loss year. A large portion of the long-term average loss year is derived from those catastrophic years.

The NFIP subsidizes rates for some classes of policyholders. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred during the long-term average loss year described above. Accordingly, there is a risk that paid flood losses during the remainder of the term for those subsidized policies will exceed the unearned premium liability.

The underlying calculation estimates the amount of subsidy in the total rates, removes the expense load, and applies the results to the unearned premium reserve. A range is developed and applied to the results of the calculation of unpaid expected losses by $525 to $575 million.

Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve for the NFIP is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve and the average across all years will be inadequate because of the subsidies in premium levels.

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Excerpt from Management's Discussion and Analysis

Developing and Implementing Risk-based Transportation Security Strategies

DHS has made significant advances in risk-based security since 9/11, focusing on intelligence-driven, layered security across all transportation modes. This approach emphasizes pre-screening for passengers and cargo, while focusing resources on those who pose the greatest threat to the Nation's transportation networks. Advances include:

- Conducting baseline security assessments across aviation, maritime, and surface transportation sectors;
- Forging international consensus on historic new global aviation standards;
- Strengthening the security of the global supply chain;
- Collecting and analyzing advanced passenger and cargo information; and
- Supporting risk-based state and local prevention efforts.

Excerpt from the Message from the Deputy Chief Financial Officer

Since the Department stood up in 2003, we have worked diligently to strengthen financial management to support our mission and to produce timely, reliable financial data in support of a clean audit. We have developed strong policies and internal controls and critical workforce training programs—fundamental building blocks for effective financial management. Using the internal control tools provided by the DHS Financial Accountability Act, we have established a culture of integrity, accountability, and risk management in all that we do. From the start, we designed our corrective actions to build on previous successes and to ensure we could sustain improvements made in prior years. The results of the FY 2011 financial statement audit demonstrate that DHS financial management continues to improve. Since FY 2005, the Department has reduced material weaknesses in internal controls over financial reporting by half.

Excerpt from Other Accompanying Information

In early February 2011, the U.S. Citizenship and Immigration Services (USCIS) Office of Security and Integrity (OSI) initiated a Risk Management Special Review to identify current risk management efforts across USCIS, gauge their effectiveness, and determine steps to be taken in order to coordinate and enhance enterprise risk management at USCIS. A charter and work plan were prepared, and OSI formed the Enterprise Risk Management Task Force. Staff members from OSI met with DHS risk management officials, attended risk management training, created a database for the project, and started a pilot risk management program within OSI. At the successful conclusion of the pilot, OSI will form a USCIS-wide task force to explore implementation of the program throughout USCIS.

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Excerpt from Other Accompanying Information (contd.)

Other accomplishments include appointment of a Senior Risk Executive to oversee the development of the USCIS Risk Management Office and to represent USCIS within the DHS Risk Management Office, and the completion of drafts currently under review by the Enterprise Risk Management Task Force, including:

- Management Directive that establishes authorities, responsibilities, and procedures;
- Process flow chart that outlines risk identification, mitigation, and information lines of communication; and
- White paper that outlines a general approach to establishing a risk management office and the steps necessary to establish an effective risk management process within USCIS.

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Note 13: Contingencies

NOTE 13 – CONTINGENCIES

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are generally paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Excerpt from Note 18: Status of Budgetary Resources

E. Undelivered Orders

Undelivered orders at September 30, 2011 and 2010 were as follows.

(Dollars in thousands)	2011	2010
Undelivered orders	$ 11,164,367	$ 12,015,527

Note 23: Material Concentration of Risk

NOTE 23 - MATERIAL CONCENTRATION OF RISK

The Division of Federal Employees' Compensation within the Office of Workers' Compensation Programs (OWCP) administers the Federal Employees' Compensation Act (FECA) program and the payment of workers' compensation benefits to federal and postal workers for employment-related injuries and occupational diseases. Federal agencies and the U.S. Postal Service (USPS) reimburse the FECA Special Benefits Fund for payments made on behalf of their workers. In Note 11, Future Workers' Compensation Benefits, the USPS liability as of September 30, 2011, of $12.2 billion represents the largest portion of the total projected gross liability of the Federal government for future FECA benefits attributed to other agencies of $29.6 billion as of September 30, 2011. In October 2011, the USPS timely reimbursed the FECA Special Benefits Fund for costs incurred on their behalf during the 12 months ended June 30, 2011.

In the USPS FY 2011 quarterly report for the nine months ended June 30, 2011, USPS disclosed in the notes to their unaudited interim financial statements that their liquidity was projected at critically low levels for all of FY 2012 and that they had suspended certain of their employer defined benefit pension contributions to the Office of Personnel Management in June 2011; USPS reported net losses of $5.7 billion for the nine months ended June 30, 2011 and reported on their balance sheet as of June 30, 2011, that their largest noncurrent liability was $11.2 billion for the long-term portion of workers' compensation costs (out of $19.6 total noncurrent liabilities). USPS reported annual losses of $8.5 billion, $3.8 billion, and $2.8 billion for the fiscal years ended September 30, 2010, 2009, and 2008, respectively.

The size of the USPS FECA liability and its share of the total FECA liability as of September 30, 2011 (as reported in Note 11), together with the USPS' poor financial condition, represent a material concentration of risk for DOL.

[9] Available online at http://www.dol.gov/dol/aboutdol/main.htm#budget; last accessed June 4, 2012.

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Excerpt from Other Accompanying Information – "Top Management Challenges"

In September 2010, ETA executed a contract for the services of 14 staff for 12 months to assist with grant management activities for Recovery Act grants. These staff performed duties such as monitoring, audit resolution, and reporting under Section 1512 of the Recovery Act.

ETA and the Department have taken steps to improve the way research is conducted, and ETA has reported that it has taken several actions to address GAO's recommendations. The Department recently established the Chief Evaluation Office to oversee department-wide research and evaluation efforts, and ETA stated it is formally incorporating the routine involvement of the Chief Evaluation Officer into its research process. ETA also reported it has begun involving outside experts in developing its research plan and it has made improvements to its Web-based database for disseminating research and evaluation findings, including development of strategies to support broader and more innovative marketing efforts for disseminating research and evaluation reports.

ETA has made design changes to the WIA Gold Standard Evaluation of the Adult and Dislocated Worker programs. ETA expects to receive the first evaluation report (on implementation) during the winter of 2012-2013 and the final report in 2015. Through this evaluation, ETA intends to measure the net impact of specific interventions, such as the incremental effects of the intensive and training services provided to adults and dislocated workers. The multi-year WIA Gold Standard is funded on an annual basis and is contingent on the availability of appropriated funding.
ETA completed and began field testing a draft data validation supplement to the Core Monitoring Guide used by its Federal project officers. The supplement includes a detailed appendix, or "Resource and Tool Guide," for use by Federal project officers. The appendix provides a step-by-step reference guide that provides the basis of training specific to data validation overall. ETA also indicated that data validation has been included in staff performance standards as one of the field activities required of Federal project officers.

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Note 18: Contingencies and Commitments

18. Contingencies and Commitments

($ IN MILLIONS)	FY 2011	FY 2010
Unfunded contingencies		
Spent nuclear fuel litigation	$ 19,113	$ 15,382
Other	34	66
Subtotal (Note 11)	**$ 19,147**	**$ 15,448**
Funded contingencies		
Other	28	33
Total contingencies and commitments	**$ 19,175**	**$ 15,481**

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. The following are significant contingencies:

SPENT NUCLEAR FUEL LITIGATION

In accordance with the NWPA, the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the NWF, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

To date, 23 suits have been settled involving utilities that collectively produce about 60 percent of the nuclear-generated electricity in the United States. Under the terms of the settlements, the Judgment Fund, 31 U.S.C. 1304, paid $1.35 billion to the settling utilities for delay damages they have incurred through September 30, 2011. In addition, thirteen cases have been resolved by final judgments. Six of those cases resulted in an award of no damages by the trial court and seven cases resulted in a total of $378 million in damages to be paid for by the Judgment Fund. The Judgment Fund paid $65 million in prior years for two of those cases while four judgments totaling $221 million were paid during FY 2011 including one payment for a partial judgment. A $92 million payment for the thirteenth judgment will occur in FY 2012.

The Department's spent nuclear fuel litigation liability is updated to include the effects of final judgments and settlements as well as payments to date from the Judgment Fund. Additional payments under these settled and adjudicated cases may be made if the utilities incur additional costs before the Department permanently disposes of the spent nuclear fuel. The Department believes its assumptions and methodology provide a reasonable basis for the contingent liability estimate.

[10] Available online at http://www.energy.gov/about/budget.htm; last accessed June 4, 2012.

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On March 7, 2011, the Department of Justice (DOJ) notified opposing counsel in the pending SNF cases of the terms and conditions under which DOJ would be willing to settle those cases referred to below as New Settlements. The terms and conditions are significantly different from those contained in the pre-2011 settlements. While there are numerous differences between the pre-2011 settlements and New Settlements, the major difference is the use of the SNF acceptance rate published in the 1987 Draft Mission Plan to establish the government's liability under these settlements, i.e., a 900 MTU annual acceptance rate under the pre-2011 settlements versus a 3000 MTU annual acceptance rate under the New Settlements.

Thirty five cases remain pending either in the Court of Federal Claims or in the Court of Appeals for the Federal Circuit. Liability is probable in these cases, and in many of these cases orders have already been entered establishing the government's liability and the only outstanding issue to be litigated is the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least $50 billion. The Department believes that the industry's estimate is highly inflated and that the disposition of the 49 cases that have either been settled or subject to a judgment in the trial court suggests that the government's ultimate liability is likely to be significantly less than that estimate. Accordingly, based on these settlement estimates, the total liability estimate is $20.7 billion. After deducting the amount paid as of September 30, 2011, under these settlements and as a result of final judgments, a total of $1.6 billion, the remaining liability is estimated to be approximately $19.1 billion. Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate for SNF litigation is reported net of amounts paid to date from the Judgment Fund.

The Department previously reported several developments that made it difficult to reasonably predict the amount of the government's likely liability. The courts have since resolved that jurisdiction for these cases is appropriate in the Court of Federal Claims and that the government cannot assert the unavoidable delays defense, under which, if it were applicable, the government would not be liable for any damages. Furthermore, in fiscal year 2009 the President and the Secretary announced that the repository at Yucca Mountain would not be opened and established a Blue Ribbon Commission in January 2010 to evaluate alternatives. Future determinations on how the Department will meet its obligations under the standard contracts could materially decrease or increase the spent nuclear fuel litigation liability.

ALLEGED EXPOSURES TO RADIOACTIVE AND/OR TOXIC SUBSTANCES

A number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Mound, Ohio; and Brookhaven, New York. Collectively, in these cases, damages in excess of $103 billion are sought.

These cases are being vigorously defended. Trials have been held in the Rocky Flats litigation and the Hanford litigation. In the Rocky Flats litigation, although the jury returned a substantial verdict in favor of the plaintiffs, the court of appeals vacated the judgment and remanded the matter to the district court on terms favorable to the defendants. The plaintiffs filed a petition for a writ of certiorari in the United States Supreme Court which defendants opposed. The Court recently called for the views of the Solicitor General. In the Hanford litigation, the parties agreed on trial for 12 "bellwether" plaintiffs. Six "bellwether" plaintiffs' claims were dismissed on pre-trial dispositive motions. Following the "bellwether" trials, the jury found in favor of two plaintiffs, and found in favor of the defendants with respect to the remaining four plaintiffs. The court of appeals affirmed the relatively small judgments in favor of two successful "bellwether" plaintiffs, vacated defense verdicts in favor of three "bellwether" plaintiffs' claims, and remanded to the district court for further proceedings. Proceedings on the remaining Hanford plaintiffs' claims are now continuing through court-ordered mediation and trials.

HANFORD SITE NATURAL RESOURCES DAMAGES

The Confederated Tribes of the Yakama Nation filed suit in September 2002 against DOE and the Department of Defense alleging natural resources damages (NRD) in the 1100 area of the Hanford site. The Yakama have since amended their complaint to add the 100 and 300 areas to the suit, alleging additional natural resources damages. In addition, the States of Washington and Oregon, as well as the Confederated Tribes of the Umatilla and the Nez Perce tribe, have joined the suit. The case is in pre-trial phase. The district court has denied the government's motion to dismiss two of the plaintiffs' claims on the ground that they are not ripe, but has stayed any proceedings on one of those claims. The case remains stayed while settlement negotiations continue. Potential losses to the Department cannot be estimated at this time.

CLEANUP AND WASTE DISPOSAL AT WEST VALLEY

The State of New York filed a complaint for a declaratory judgment and monetary relief, raising claims under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the West Valley Demonstration Project Act (WVDPA), and the NWPA. This case involves a dispute between the Department and the State of New York concerning their respective obligations for cleanup and waste disposal at West Valley. The parties have recently agreed upon a tentative settlement of these claims that includes claims under the WVDPA for which Congress previously allocated a 90% share for the federal

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government in 1980. Additionally, the settlement only determines cost allocation and not actual clean-up costs, as those decisions will be made pursuant to separate processes.

On July 1, 2010, the parties filed respective motions to approve and enter the Consent Decree which the court later approved. The Consent Decree makes no decisions with respect to the actual cleanup actions for the West Valley Demonstration Project (WVDP) and/or the Western New York Nuclear Services Center (Center). Instead, the Consent Decree commits the United States and New York to follow a complex cost allocation formula for all future actions at the WVDP and the Center, based entirely on the final actions selected by the parties via the appropriate public process. The Consent Decree did not resolve a claim for liability of the high-level radioactive waste disposal fee pursuant to NWPA. Briefing of this claim has been stayed pending scheduling of briefing by the court. If the State of New York pursues this claim, the United States will file a Motion to Dismiss on multiple grounds. While we are confident that our Motion to Dismiss will prevail, it is extremely difficult to estimate the possible financial risks to the Department. If an adverse outcome occurs, the estimated loss could be approximately $325 million.

REFUNDS TO UTILITY COMPANIES

The Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) were parties to proceedings at the Federal Energy Regulatory Commission (FERC) that sought refunds for sales into markets operated by the California Independent System Operator (ISO) and the California Power Exchange (PX) during the California energy crisis of 2000-2001. BPA along with a number of other governmental utilities challenged FERC's refund authority over governmental utilities. In BPA v. FERC, 422 F.3d 908 (9th Cir. 2005) the Court found that governmental utilities, like BPA and WAPA, were not subject to FERC's statutory refund authority. As a consequence of the Court's decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the U.S. Court of Federal Claims against BPA and WAPA. The complaints, filed in March of 2007, alleged that BPA and WAPA were contractually obligated to pay refunds on transactions where the agencies received amounts in excess of mitigated market clearing prices established by FERC. The plaintiffs' contractual breach is premised upon a FERC finding that it retroactively reset the prices under the ISO and PX tariffs when it established these mitigated market clearing prices. BPA and WAPA have separately appealed to the Ninth Circuit Court the FERC finding that it retroactively reset the tariff prices. The plaintiffs' claims for relief exceed $300 million. A trial on the liability portion of plaintiff's contractual breach claim commenced in July 2010 and concluded in August 2010. Post trial briefs were filed during fall 2010 and closing arguments were held in February 2011. The damages phase of the case will be tried only after the Court rules on the liability portion. No date has been scheduled for the damages phase.

EASEMENT ON GOVERNMENT LAND TO CREATE A WIND FARM

Plaintiff MNS Wind Company filed a complaint in the U.S. Court of Federal Claims alleging that the Department unlawfully terminated an agreement that would have granted MNS an easement on government land to construct turbines for the purpose of creating a wind farm at the Nevada Test Site. On June 22, 2011, following a 2009 opinion of the court finding the government liable, but prior to the anticipated scheduling of a trial on damages, the case was settled for $1.8 million.

PADUCAH AND PORTSMOUTH NATURAL RESOURCE DAMAGES

As a result of releases of hazardous substances at the Paducah and Portsmouth Sites, the States of Ohio and Kentucky have potential claims against DOE under CERCLA for damages to natural resource (e.g., ground water) caused by such releases. DOE has had preliminary discussions with Ohio about a possible settlement of its claims for natural resource damages at the Portsmouth site. Kentucky has indicated that it desires a "tolling" agreement with respect to potential claims for natural resource damages at the Paducah site. A tolling agreement would suspend the statute of limitations for the filing of the state's claims for a mutually agreeable period of time. The Department will continue its discussions with the states about their potential claims for natural resource damages. Although the Department will be liable for at least some natural resource damages at the sites, it is unable to prepare an estimate of such damages and has not included a provision for damages in the consolidated financial statements.

LITIGATION ARISING FROM THE ADMINISTRATION'S DECISION TO ABANDON THE YUCCA MOUNTAIN REPOSITORY LICENSING

Actions were filed relating to the Department's decision to withdraw with prejudice its pending application before the Nuclear Regulatory Commission (NRC) for a construction authorization to build a repository at Yucca Mountain, Nevada. One of these actions was filed with the NRC challenging the Department's motion to withdraw with prejudice the license application for construction of Yucca Mountain. The other six actions were filed in the U.S. Court of Appeals for the District of Columbia.

The NRC's hearing tribunal, the Atomic Safety and Licensing Board, issued an order that denied DOE's motion to withdraw its license application. In June of 2010, the Commission, the body with final authority over NRC decision-making invited briefing from the Department and others on whether it should review and reverse, or uphold, the Board's decision. On September 9, 2011, the Commission issued its decision in which the Commission (1) announced it was split evenly on the question whether the NRC's Atomic Safety and Licensing Board had properly

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refused to allow the Department's motion to withdraw the Yucca Mountain construction license application with prejudice, and (2) unanimously held that "budgetary limitations" required the Board to dispose of pending matters by the end of the 2011 fiscal year and to document the history of the adjudicatory process. On September 30, 2011, the Board issued a memorandum and order suspending the licensing proceeding due to uncertainty regarding the availability of future appropriations from the Nuclear Waste Fund to pay for future proceedings and a lack of staff to continue the proceeding since the President's fiscal year 2012 budget request for Yucca Mountain high-level waste activities did not include a request for any full-time equivalent positions.

In 2010, four petitions for review were filed in the U.S. Court of Appeals for the District of Columbia Circuit relating to the Department's withdrawal motion filed with the NRC, which the court later consolidated for future litigation. The petitioners alleged they suffered harm so long as high level nuclear waste is stored at DOE facilities located in the States of South Carolina and Washington (the Savannah River and Hanford facilities, respectively). They alleged that, if a permanent geologic repository at Yucca Mountain, Nevada, were constructed and operated, the waste stored in South Carolina and Washington would eventually be transported to, and disposed of in, the Yucca Mountain repository.

In those actions, the government's response brief was due July 28, 2010, but that same day, the court granted the government's motion to vacate the briefing schedule until resolution of the administrative litigation pending before the NRC. The court later set a briefing schedule and on January 3, 2011, the government filed its brief. Oral argument was held on March 22, 2011 and on July 1, 2011, the court ruled that because the petitioners' claims were not ripe for adjudication, the court could not decide the claims and dismissed all petitions for lack of jurisdiction.

In two additional matters related to the Yucca Mountain license withdrawal, two nuclear utility trade groups sought to review, remand or vacate the Department's decision (1) not to suspend the utility quarterly payments into the Nuclear Waste Fund until there was a final program to implement spent nuclear waste disposal and (2) not to undertake a prompt review of the fee adequacy in light of the termination of the Yucca Mountain licensing. The court consolidated these petitions and set oral argument for December 6, 2010. However, on November 1, 2010, Secretary Chu issued his determination that based on review of the fee adequacy, there was no "reasonable basis at this time" to propose an adjustment to the fee. The court cancelled oral argument and dismissed the action as moot on December 13, 2010.

After the court dismissed the trade groups' first fee review challenge, in 2011, they filed new petitions that were later consolidated, this time seeking review of the Secretary's November 1, 2010 determination that no adjustment to the fee was required. In these actions, the petitioners and the government have filed their opening briefs and oral arguments are set for January 12, 2012.

PURCHASE POWER AND TRANSMISSION COMMITMENTS AND IRRIGATION ASSISTANCE

The PMAs have entered into commitments to sell expected generation for future dates. When the PMAs forecast a resource shortage based on expected obligations and the historical record, they take a variety of steps to cover the shortage. If appropriate, the PMAs will enter into long-term commitments to purchase power for future delivery. The PMAs record expenses associated with these purchases in the periods that power is received.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. Accordingly, these distributions are recorded as program costs when paid. Future irrigation assistance payments are scheduled over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam - Third Power Plant Act to demonstrate that reimbursable costs will be returned to the Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators' ability to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam, which failed prior to completion and for which BPA has no obligation to recover these costs.

The following table summarizes future purchase power and transmission commitments and irrigation assistance. The table includes firm purchase power agreements of known cost that are currently in place to assist in meeting expected future obligations under long-term power sales contracts.

FISCAL YEAR ($ IN MILLIONS)	PURCHASE POWER AND TRANSMISSION	IRRIGATION ASSISTANCE
2012	258	1
2013	236	139
2014	159	62
2015	101	85
2016	86	117
2017+	219	2,599
Total	**$ 1,059**	**$ 3,003**

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The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife projects that are consistent with the Northwest Power Act and that are consistent with the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, certain fish species are listed under the Endangered Species Act (ESA) as threatened or endangered. BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions (BiOp) prepared by the National Oceanic and Atmospheric Administration Fisheries Service (NOAA) and the U.S. Fish and Wildlife Service in furtherance of the ESA. BPA's total commitment including timing of payments under the Northwest Power Act, ESA, and BiOp is not fixed or determinable. However, the current estimate of long-term fish and wildlife agreements with a contractual commitment which BPA has entered is $1.03 billion. These agreements will expire at various dates between fiscal years 2018 and 2025.

Excerpt from Note 26: Combined Statements of Budgetary Resources

DETAILS OF UNPAID OBLIGATIONS ($ IN MILLIONS)	FY 2011	FY 2010
Undelivered orders	$ 45,709	$ 49,594
Accounts payable and other liabilities	8,175	8,051
Total unpaid obligations (Note 3)	**$ 53,884**	**$ 57,645**

Department of Transportation FY 2011 Agency Financial Report[11]

Excerpt from Note 1: Summary of Significant Accounting Policies

L. CONTINGENCIES:

The criteria for recognizing contingencies for claims are (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimatable). DOT recognizes material contingent liabilities in the form of claims, legal actions, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

Note 17: Commitments and Contingencies

NOTE 17. COMMITMENTS AND CONTINGENCIES:

Information pertaining to legal claims is not availableat this time

LEGAL CLAIMS:

As of September 30, 2011 and 2010, DOT's contingent liabilities, in excess of amounts accrued, for asserted and pending legal claims reasonably possible of loss were estimated at $86.6 million and $92.1 million, respectively. DOT does not have material amounts of known unasserted claims.

In October 2010, the Governor of New Jersey cancelled a major project with FTA, the Access to Regions' Core (ARC) Tunnel. The amount owed was $271 million. In September 2011, a $95 million settlement was reached between DOT, FTA management and the State of New Jersey. Terms of the settlement require the State of New Jersey to repay FTA $95 million over a five year period beginning in FY 2012.

GRANT PROGRAMS:

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. For the fiscal year ended September 30, 2011 and 2010 FHWA has pre-authorized $41.4 billion and $40.2 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2011 and 2010.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of Congress appropriating New Starts funds to the project. As of September 30, 2011 and September 30, 2010, FTA had approximately $1.6 billion and $1.87 billion respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2011 and 2010.

FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 95 percent of the eligible costs.

[11] Available online at http://www.dot.gov/about.html#perfbudgplan; last accessed June 4, 2012.

Department of Transportation FY 2011 Agency Financial Report (contd.)

Note 17: Commitments and Contingencies (contd.)

NOTE 17, CONT'D

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2011, FAA issued letters of intent covering FY 1988 through FY 2026 totaling $7.5 billion. As of September 30, 2011, FAA had obligated $5.5 billion of this total amount leaving $2 billion unobligated. Through September 30, 2010, FAA issued letters of intent covering FY 1988 through FY 2026 totaling $6.5 billion. As of September 30, 2010, FAA had obligated $5.2 billion of this total amount, leaving $1.3 billion unobligated.

AVIATION INSURANCE PROGRAM:

FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and U.S. foreign policy. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2011, FAA provided premium war-risk insurance to 55 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 36 carriers with 1,590 aircraft for Department of Defense charter operations for Central Command.

Department of Transportation FY 2011 Agency Financial Report (contd.)

Note 17: Commitments and Contingencies (contd.)

MARINE WAR RISK INSURANCE PROGRAM:

MARAD is authorized to issue hull and liability insurance under the Marine War Risk Insurance Program for vessel operations for which commercial insurance is not available on reasonable terms and conditions, when the vessel is considered to be in the interest of national defense or national economy of the United States. MARAD may issue (1) premium based insurance for which a risk based premium is charged and (2) non-premium insurance for vessels under charter operations for the Military Sealift Command.

During FY 2011, MARAD wrote non-premium war risk insurance with a total coverage of $448.5 million for six companies on six vessels and the coverage ranges from $52 million to $84.5 million to cover hull liability and vessel's crew. During FY 2010, MARAD wrote non-premium war risk insurance with a total coverage of $396.5 million for five companies on five vessels and the coverage ranges from $66 million to $84.5 million to cover hull liability and vessel's crew. The Department of Defense has fully indemnified MARAD for any losses arising out of the non-premium insurance. There have been no losses and no claims are outstanding for this non-premium insurance. There is approximately $45 million in the Marine War Risk Insurance fund to reimburse operators that may be covered by premium insurance in future periods. MARAD has not issued premium War Risk Insurance in approximately 20 years. MARAD would have to request Presidential authority to write any premium insurance and no such request is pending at this time.

The Department of Defense has agreed to indemnify MARAD for any claims arising under non-premium insursance. As of September 30, 2011, there are no outstanding claims for either premium or non-premium insurance.

Department of Transportation FY 2011 Agency Financial Report (contd.)

Note 17: Commitments and Contingencies (contd.)

ENVIRONMENTAL LIABILITIES:

As of September 30, 2011, FAA has estimated contingent liabilities, categorized as reasonably possible of $158.6 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

NATIONAL RAILROAD PASSENGER SERVICE CORPORATION (AMTRAK)

The United States and the Department are not at risk if Amtrak fails and they do not guarantee the indebtedness of Amtrak, whose debt is secured primarily by assets of the corporation. Amtrak has been operating with an accumulated deficit and is dependent upon appropriations from Congress to continue operations. Amtrak has been receiving federal funds from Congress through the Department since 1981. For FY 2011 and FY 2010, the Department issued grants to Amtrak for $2 billion and $2.2 billion, respectively. These grants were for both operating and capital improvements. Refer to Note 1W (Significant Accounting Policies) for additional information.

Department of Transportation FY 2011 Agency Financial Report (contd.)

Note 17: Commitments and Contingencies (contd.)

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) stipulated that the United States Department of Treasury ("Treasury") in consultation with the DOT and Amtrak, may make agreements to restructure (including repay) Amtrak's indebtedness, including leases, outstanding as of the date of enactment of PRIIA. Under this provision, Treasury and DOT entered into a Memorandum of Understanding (MOU) consulted and acknowledged by Amtrak,to restructure and enable Amtrak to exercise certain early buyout options on selected Amtrak leases.

The effective date of the MOU is October 15, 2010 and shall remain in force until July 1, 2013. During the three year period of the MOU, prior to any amounts being paid, the equipment must be operable and appraised at a fair market value. Treasury will then advance to FRA for the benefit of Amtrak the lesser of the amounts shown on the schedule attached to the MOU (not to exceed $420 million) or the amounts due and payable with respect to termination of selected leases. In FY 2011, $51 million was paid to FRA for the benefit of Amtrak. The estimates for FY 2012 and FY 2013 are $124.8 million and $244 million, respectively.

Excerpt from Note 21: Combined Statement of Budgetary Resources

NOTE 21

	2011	2010
Available Contract Authority at year-end	$26,852,717	$26,432,116
Available Borrowing Authority at year-end	$1,356,282	$2,603,647
Undelivered Orders at year-end	$109,518,183	$106,634,884

The amounts reported for undelivered orders only include balances obligated for goods and services not delivered and does not include prepayments.

Department of Health and Human Services FY 2011 Agency Financial Report[12]

Excerpt from Note 1: Summary of Significant Accounting Policies

Contingencies

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to the HHS. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* as amended by SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*, contains the criteria for recognition and disclosure of contingent liabilities.

The HHS and its components could be parties to various administrative proceedings, legal actions, and claims brought by or against it. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not to occur, and the related future outflow or sacrifice of resources is measurable. For pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

[12] Available online at http://www.hhs.gov/afr/; last accessed June 4, 2012.

Department of Health and Human Services FY 2011 Agency Financial Report (contd.)

Note 14: Contingencies and Commitments

Note 14. Contingencies and Commitments

The HHS is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. The HHS has accrued contingent liabilities where a loss is determined to be probable and the amount can be estimated. Other contingencies exist where losses are reasonably possible, and an estimate can be determined or an estimate of the range of possible liability has been determined.

(in Millions)	2011	2010
Medicaid Audit and Program Disallowances	$ 3,016	$ 5,391
Vaccine Injury Compensation Program	607	688
Total Contingencies	**$ 3,623**	**$ 6,079**

Medicaid Audit and Program Disallowances

The Medicaid amount for FY 2011 of $3.0 billion ($5.4 billion in FY 2010) consists of Medicaid audit and program disallowances of $1.0 billion ($0.9 billion in FY 2010) and of $2.0 billion ($4.5 billion in FY 2010) for reimbursement of State Plan amendments. Contingent liabilities have been established as a result of Medicaid audit and program disallowances that are currently being appealed by the States. In all cases, the funds have been returned to the HHS. The HHS will be required to pay these amounts if the appeals are decided in favor of the States. In addition, certain amounts for payment have been deferred under the Medicaid program when there is a reasonable doubt as to the legitimacy of expenditures claimed by a State. There are also outstanding reviews of the State expenditures in which a final determination has not been made.

Vaccine Injury Compensation Program (VICP)

The VICP is administered by HRSA and provides compensation for vaccine-related injury or death. The $0.6 billion ($0.7 billion in FY 2010) VICP liability represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 2011.

Obligations Related to Canceled Appropriations

Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled pursuant to the *National Defense Authorization Act of 1991 (P.L. 101-150)*. The total payments related to canceled appropriations are estimated at $1.1 billion and $1.3 billion as of September 30, 2011, and 2010, respectively.

Appeals at the Provider Reimbursement Review Board

Other liabilities do not include all provider cost reports under appeal at the Provider Reimbursement Review Board (PRRB). The monetary effect of those appeals is generally not known until a decision is rendered. However, historical cases that have been appealed and settled by the PRRB are considered in the development of the actuarial Medicare incurred but not reported (IBNR) liability, resulting in a projected liability for the 6,683 cases (7,833 in FY 2010) remaining on appeal as of September 30, 2011. In FY 2011, a total of 821 new cases were filed (1,384 in FY 2010). The PRRB rendered decisions on 122 cases in FY 2011 (144 in FY 2010); and 1,863 additional cases (1,395 in FY 2010) were dismissed, withdrawn, or settled prior to an appeal hearing. The PRRB receives no information on the value of these cases that are settled prior to a hearing.

Department of Health and Human Services FY 2011 Agency Financial Report (contd.)

Note 17: Apportionment Categories of Obligations Incurred and Undelivered Orders

Note 17. Apportionment Categories of Obligations Incurred and Undelivered Orders

	2011		
(in Millions)	Direct	Reimbursable	Total
Category A (Distributed by Quarter)	$ 94,512	$ 6,960	$ 101,472
Category B (Restricted and Distributed by Activity)	634,981	422	635,403
Exempt from Apportionment	526,657	-	526,657
Total Obligations Incurred	**$ 1,256,150**	**$ 7,382**	**$ 1,263,532**

	2010		
(in Millions)	Direct	Reimbursable	Total
Category A (Distributed by Quarter)	$ 102,622	$ 7,106	$ 109,728
Category B (Restricted and Distributed by Activity)	610,334	490	610,824
Exempt from Apportionment	479,053	-	479,053
Total Obligations Incurred	**$ 1,192,009**	**$ 7,596**	**$ 1,199,605**

Obligations incurred consist of expended authority and the change in undelivered orders. OMB has exempted CMS from the Circular No. A-11, *Preparation, Submission and Execution of the Budget*, requirement to report Medicare's refunds of prior year obligations separately from refunds of current year obligations on the SF-133, *Report on Budget Execution and Budgetary Resources*.

Undelivered Orders include obligations that have been issued but are not yet drawn down, and goods and services ordered that have not been received. HHS reported $95.1 billion of budgetary resources obligated for undelivered orders as of September 30, 2011, and $99.9 billion as of September 30, 2010.

Department of Education FY 2011 Agency Financial Report[13]

Note 21: Contingencies

Note 21. Contingencies

Guaranty Agencies

The Department can assist guaranty agencies experiencing financial difficulties by various means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of guaranty agencies because the likelihood of such occurrences cannot be estimated with sufficient reliability.

Federal Perkins Loan Program Reserve Funds

The Federal Perkins Loan Program is a campus-based program that provides financial assistance to eligible postsecondary school students. In FY 2011, the Department provided funding of 82.6 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.4 percent of program funding. For the latest academic year ended June 30, 2011, approximately 459 thousand loans were made, totaling approximately $853.9 million at 1,505 institutions, averaging $1,859 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.6 billion as of June 30, 2011.

In FY 2010, the Department provided funding of 82.5 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.5 percent of program funding. For the academic year ended June 30, 2010, approximately 441 thousand loans were made, totaling approximately $816.4 million at 1,540 institutions, averaging $1,852 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.6 billion as of June 30, 2010.

Federal Perkins Loan Program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances, a contingency is deemed to exist. The Department may be required to compensate Federal Perkins Loan Program institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial position.

[13] Available online at http://www.ed.gov/about/reports/annual/?src=ln; last accessed June 4, 2012.

Department of Education FY 2011 Agency Financial Report (contd.)

Excerpt from Note 15: Statement of Budgetary Resources

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2011 and 2010, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2011	2010
Budgetary	$ 68,223	$ 90,281
Non-Budgetary	161,016	147,260
Undelivered Orders (Unpaid)	**$ 229,239**	**$ 237,541**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in the Net Position, Unexpended Appropriations. Undelivered orders for trust funds, reimbursable agreements, and federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 12)

Department of Treasury FY 2011 Agency Financial Report[14]

Excerpt from Note 1: Summary of Significant Accounting Policies

W. CREDIT RISK

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries (Note 10). Given the history of the Department with respect to such exposure and the financial policies in place in the U.S. Government and other institutions in which the United States participates, the Department's expectation of credit losses is nominal.

The Department also takes on credit risk related to the following: committed but undisbursed direct loans; its liquidity commitment to the GSEs; its MBS portfolio; its GSE obligations obtained under the HFA Initiative (the NIBP and TCLP); investments, loans, and other credit programs of the TARP; its programs including the CDFI fund, SBLF, and certain portions of the Department's participation in the IMF; and its Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing instability in those markets exposes the Department to potential costs and losses. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements, and, where applicable, is factored into credit reform models and reflected in fair value measurements (Notes 7, 8, and 11).

In addition, for EESA programs, the statute requires that the budgetary costs of the troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. Within the TARP programs, the Department has invested in many assets that would traditionally be held by private investors and their valuation would inherently include market risk. Accordingly, for all TARP direct loans, equity investments, and other credit programs, the Department calculates a Market Risk Adjusted Discount Rate (MRADR). Therefore, the Department's cost estimates for the TARP programs are adjusted for unexpected loss and the estimated risk of expected cash flows. Under SFFAS No. 2, including market risk in the cash flow estimates is consistent with the type of assets being valued. The inclusion of the MRADR is the mechanism for deriving a fair value of the assets. As directed by Congress, a MRADR is also used in the credit reform model for certain portions of the Department's participation in the IMF.

[14] Available online at http://www.ustreas.gov/offices/management/dcfo/accountability-reports/index.shtml; last accessed June 4, 2012.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 7: Troubled Asset Relief Program – Credit Program Receivables, Net

VALUATION METHODOLOGY

The Department applies the provisions of SFFAS No. 2 as amended, to account for direct loans, equity investments, and other credit programs. This standard requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash-flow estimates for each transaction reflect the actual structure of the instruments. For each of these instruments, analytical cash-flow models generate estimated cash flows to and from the Department over the estimated term of the instrument. Further, each cash-flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The models also incorporate an adjustment for market risk to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows (the "unexpected loss").

The adjustment for market risk requires the Department to determine the return that would be required by market participants to enter into similar transactions or to purchase the assets held by the Department. Accordingly, the measurement of the assets attempts to represent the proceeds expected to be received if the assets were sold to a market participant in an orderly transaction. The methodology employed for determining market risk for equity investments generally involves a calibration to market prices of similar securities that results in measuring equity investments at fair value. The adjustment for market risk for loans is intended to capture the risk of unexpected losses, but not intended to represent fair value, i.e. the proceeds that would be expected to be received if the loans were sold to a market participant. The Department uses market observable inputs, when available, in developing cash flows and incorporating the adjustment required for market risk. For purposes of this disclosure, the Department has classified the various investments as follows, based on the observability of inputs that are significant to the measurement of the asset:

Quoted Prices for Identical Assets: The measurement of assets in this classification is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.

Significant Observable Inputs: The measurement of assets in this classification is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.

Significant Unobservable Inputs: The measurement of assets in this classification is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 7: Troubled Asset Relief Program – Credit Program Receivables, Net (contd.)

The table below displays the assets held as of September 30, 2011 and 2010, by the observability of inputs significant to the measurement of each value (in millions):

Program	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2011 Total
Capital Purchase Program	$ 202	$ -	$ 12,240	$ 12,442
American International Group, Inc. Investment Program	21,076	9,294	-	30,370
Automotive Industry Financing Program	10,091	-	7,747	17,838
Consumer and Business Lending Initiative, which includes TALF, SBA 7 (a) securities and CDCI	-	126	951	1,077
Public-Private Investment Program	-	-	18,377	18,377
Asset Guarantee Program	-	739	-	739
Total TARP Programs	$ 31,369	$ 10,159	$ 39,315	$ 80,843

Note: Of the combined TARP Program totaling $80.8 billion at September 30, 2011, $739 million represented other intra-governmental assets and $80.1 billion represented assets with the public as reported on the Consolidated Balance Sheets.

Program	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2010 Total
Capital Purchase Program	$ 14,899	$ -	$ 33,334	$ 48,233
American International Group, Inc. Investment Program	-	-	26,138	26,138
Targeted Investment Program	-	-	1	1
Automotive Industry Financing Program	-	-	52,709	52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7 (a) securities and CDCI	-	-	966	966
Public-Private Investment Program	-	-	14,405	14,405
Asset Guarantee Program	2,240	815	-	3,055
Total TARP Programs	$ 17,139	$ 815	$ 127,553	$ 145,507

Note: Of the combined TARP Program totaling $145.5 billion at September 30, 2010, $815 million represented other intra-governmentalassets and $144.7 billion represented assets with the public as reported on the Consolidated Balance Sheets.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 7: Troubled Asset Relief Program – Credit Program Receivables, Net (contd.)

The following provides a description of the methodology used to develop the cash flows and incorporate the market risk into the measurement of the Department's assets.

Financial Institution Equity Investments

Financial Institution Equity Investments consist of investments made under the Capital Purchase Program, Targeted Investment Program and the Community Development Capital Initiative. The estimated values of preferred equity investments are the net present values of the expected dividend payments and repurchases. The model assumes that the key decisions affecting whether or not institutions pay their preferred dividends are made by each institution based on the strength of their balance sheet. The model assumes a probabilistic evolution of each institution's asset-to-liability ratio (the asset-to-liability ratio is based on the estimated fair value of the institution's assets against its liabilities). Each institution's assets are subject to uncertain returns and institutions are assumed to manage their asset to liability ratio in such a way that it reverts over time to a target level. Historical volatility is used to scale the likely evolution of each institution's asset-to-liability ratio.

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of U.S. banks over the period of 1990-2010. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment is obtained through a calibration process to the market value of certain trading securities of financial institutions within the TARP programs. The Department estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price as of fiscal year end.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 8: Investments in Government Sponsored Enterprises

CONTINGENT LIABILITY

As part of the valuation exercise, the Department prepared a series of long-range projections through 2039 to determine what the implied amount of the total contingent liability to the GSEs under the SPSPAs would be as of that year. Since future payments under the SPSPAs are deemed to be probable, the Department had estimated the contingent liability to be $316.2 billion as of September 30, 2011. This estimate reflects the projected equity deficits of the GSEs stemming from credit losses and contractual dividend requirements. The valuation analysis as of September 30, 2011 included several case scenarios which resulted in total SPSPA estimates ranging from $309.6 billion (based on an "optimistic" case scenario) to $376.1 billion (based on an "extreme" case scenario). The $316.2 billion contingent liability reported as of September 30, 2011 reflects the Department's most likely liability estimate. This compares to the $359.9 billion contingent liability reported as of September 30, 2010 which was based on a range of $359.9 billion to $461.8 billion. The recorded contingent liability is the total estimated payments for the life of the agreements under the Adjusted Caps, minus actual payments made through the end of the fiscal year. Such accruals are adjusted as new information develops or circumstances change.

In performing the calculations for the valuation and contingent liability estimates, the Department relied on the GSEs' public filings and press releases concerning its audited and unaudited financial statements, monthly summaries, quarterly credit supplements, September 2011 forecast for the years 2011 through 2014 (as provided by FHFA), and interviews with the GSEs' management and FHFA. The GSE managers were not able to provide the Department with a forecast of needed draws under the SPSPAs after December 31, 2015; however, they did provide the Department with general guidance as to the key assumptions that were used for subsequent periods. The forecasts after 2015 generally assume similar operating assumptions on the guarantee business and assume a gradual wind-down of the retained portfolios (and corresponding net interest income) through 2026, as directed under the provisions of the SPSPAs for the GSEs to reduce their investment portfolios by 10.0 percent per annum. The Department also relied upon economic and demographic data from the 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds and the FHFA's House Price Index.

Based on the annual valuation of the Department's estimated future contingent liability, the Department increased its liability by accruing an expense of $320.6 billion at the end of fiscal year 2010. The Department reduced its estimated liability by $22.9 billion at the end of the fiscal year 2011 via a reduction in expense. Both the increase in expense in fiscal year 2010 and reduction in expense in fiscal year 2011 were recorded as entity costs within the Economic Program section of the Department's Consolidated Statements of Net Cost.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 8: Investments in Government Sponsored Enterprises (contd.)

As of September 30, 2011 and 2010, the summarized aggregated financial condition of the GSEs was as follows (in millions):

		2011		2010
Combined Assets				
Investment Securities	$	422,741	$	474,437
Mortgage Loans		4,715,057		4,782,405
Other		248,415		261,510
Total Combined Assets		5,386,213		5,518,352
Combined Liabilities				
Long Term Debt		4,974,759		5,033,151
Other		425,236		487,706
Total Combined Liabilities		5,399,995		5,520,857
Combined net deficit	$	(13,782)	$	(2,505)
For the nine months ended September 30,				
Combined net interest income	$	28,832	$	24,312
Combined provisions for loan losses		(28,672)		(35,082)
Net interest income (loss) after provision for loan losses	$	160	$	(10,770)
Regulatory Capital - minimum capital deficit as of September 30,	$	(231,531)	$	(198,999)

Excludes financial guarantees not consolidated on GSE balance sheets.

The above information was taken directly from the quarterly reports filed with the SEC, which are publicly available on the SEC's website (www.SEC.gov) and also the GSE investor relations websites.

Both GSEs reported very low early delinquencies on additions to their credit books in 2009 through 2011. This favorable early delinquency experience is an improvement compared with the loans originated in 2005 through 2008. However, both GSEs expect to make additional draws under the SPSPA in future periods despite improving levels of net income as the required dividend payment amounts under the SPSPAs are estimated to exceed the net income of the GSEs. Thus, incremental draws under the SPSPAs are projected to be needed to meet dividend payment requirements. The GSEs expect their net worth will also be impacted negatively by dividend payments on the SPSPAs, coupled with continued expected credit losses associated with the exposures that originated in the period 2005 through 2008.

Under the existing SPSPAs, as amended, the Department's projections show that each GSE will fully utilize the amount of funding available under the Adjusted Cap. This is in addition to any draws during calendar years 2010 through 2012, as this period is not subject to the Adjusted Cap. The Department's projections of future liquidity payments may differ from actual experience. Future actual liquidity payment levels will depend on numerous factors that are difficult to predict, including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Note 28: Commitments and Contingencies

28. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims, including equal opportunity matters which may ultimately result in settlements or decisions adverse to the U.S. Government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Department's Judgment Fund, which is separate from the operating resources of the Department. For cases related to the *Contract Disputes Act of 1978* and awards under federal anti-discrimination and whistle-blower protection acts, the Department must reimburse the Judgment Fund from future appropriations.

The Department had two contingent liabilities in fiscal year 2011 related to legal action taken in the cases of *American Council of the Blind v. Geithner* and *Cobell v. Salazar* where losses are determined to be probable. An amount of loss cannot be estimated for the American Council of the Blind case. In *Cobell v. Salazar*, the parties agreed to a total settlement of $3.4 billion. Specific details of these two litigation cases are provided below.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of other legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's consolidated financial statements, except for the pending legal actions described below which may have a materially adverse impact on the consolidated financial statements depending on the outcomes of the cases.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Note 28: Commitments and Contingencies (contd.)

PENDING LEGAL ACTIONS

- *American Council of the Blind, et. al. v. Geithner:* Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a U.S. District Court judge ruled that the current U.S. currency design violates this Act; this ruling was subsequently appealed. In 2008, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's ruling. No monetary damages were awarded by the court, but the Department was ordered to provide meaningful access to U.S. currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note). The court ordered such changes to be completed in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of implementing these changes will be incorporated into future currency redesign costs, and cannot be estimated at this time, no redesign costs have been accrued in the accompanying financial statements as of September 30, 2011 and 2010.

  On May 20, 2010, the BEP published in the Federal Register its proposed recommendations on the appropriate method(s) to comply with the court's order to make currency accessible to the blind to be implemented with the next currency design. The comment period for the Federal Register notice closed on August 18, 2010. On May 31, 2011, Secretary Geithner approved the proposed recommendations, and BEP is working to implement the approved methodologies.

- *Cobell et al. v. Salazar et al. (formerly Cobell v. Kempthorne):* Native Americans allege that the Department of Interior and the Department of the Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, the Federal District Court issued an opinion awarding $455 million to the plaintiffs. This decision was overturned in July 2009. The Appellate Court found that the U.S. Government owes a cost-effective accounting, in scale with available funds.

  In December 2009, the parties agreed to settle the plaintiff's claims, as well as claims for mismanagement of assets and land that were not asserted in the case, for $1.5 billion. The U.S. Government also agreed to pay an additional amount of up to $1.9 billion to purchase certain land interests owned by Native Americans. Final approval of the settlement will not occur until the court issues a formal written order, and any appeals from individuals challenging the settlement have run their course. The Department of the Interior, jointly named in the case, accrued the entire $3.4 billion as a contingent liability in fiscal year 2011 upon President Obama's signing of legislation authorizing the settlement in December 2010. Accordingly, the Department of the Treasury will not accrue any portion of this liability.

  Tribal Trust Fund Cases: Numerous cases have been filed in the U.S. District Courts in which Native American Tribes seek a declaration that the United States has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the U.S. Government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the U.S. Court of Federal Claims, which do not name the Department as a defendant. The U.S. Government is currently in discussion with counsel representing approximately 80 tribes with tribal trust cases pending against the United States (the Settlement Proposal to the Obama Administration or "SPOA" group) about the feasibility of an omnibus settlement of the tribal trust cases. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Note 28: Commitments and Contingencies (contd.)

In April 2011, the U.S. Supreme Court decided the *United States v. Tohono O'Odham Nation* tribal trust fund case. This case involved the interpretation of a federal statute which limits the jurisdiction of the U.S. Court of Federal Claims when a plaintiff has cases pending simultaneously in the U.S. Court of Federal Claims and any other court. The U.S. Supreme Court held that the U.S. Court of Federal Claims action brought by the Tohono O'Odham Nation must be dismissed pursuant to 28 USC § 1500.

- *Amidax Trading Group v. S.W.I.F.T.*: Plaintiffs allege that the Department's Terrorist Finance Tracking Program has involved unlawful disclosure of information by the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.). Defendants include the Department of the Treasury as well as several Treasury officials. The case was dismissed by the District Court on February 13, 2009, and the plaintiff has subsequently appealed that ruling to the Court of Appeals for the Second Circuit. The parties have completed the appellate briefing, and the oral argument occurred on July 14, 2010. The parties are awaiting the Second Circuit's decision. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *James X. Bormes v. United States of America:* The complaint alleges that the government willfully violated certain provisions of the Fair and Accurate Credit Transaction Act (FACTA) P.L. 108-159 in that the transaction confirmation received by the complainant from Pay.gov improperly included the expiration date of the credit card used for that transaction. The complaint does not state the amount of damages sought on behalf of the class beyond asserting that each class member would be entitled to $100 to $1,000 in statutory damages. In a letter sent to the Department of Justice, the plaintiff proposed a fund of $30 million for just the Illinois class members.

  On July 24, 2009, the U.S. District Court for the Northern District of Illinois granted the U.S. Government's motion to dismiss this case for lack of an unequivocal waiver of sovereign immunity. On November 16, 2010, the U.S. Court of Appeals for the Federal Circuit reversed the District Court's decision and directed that the case be remanded back to the District Court for further proceedings. The U.S. Government's petition for a rehearing of that decision was denied by the Federal Circuit on March 15, 2011. On August 12, 2011, the U.S. Government filed a petition for a writ of certiorari concerning this decision with the U.S. Supreme Court; a decision by the Supreme Court is pending.

  Other Legal Actions: The Department is also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before the Equal Employment Opportunity Commission, Merit System Protection Board, etc.) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. It is not expected that these cases will have a material effect on the Department's financial position or results.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Note 28: Commitments and Contingencies (contd.)

OTHER COMMITMENTS AND CONTINGENCIES

Treaties and International Agreements.

The Department does not have any treaties or international agreements to report for fiscal year 2011 which would have a material impact on the Department's consolidated financial statements.

Loan Commitments

The Department, through FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2011 and 2010, the Department had loan commitments totaling $95.5 billion and $113.9 billion, respectively.

Multilateral Development Banks

The Department on behalf of the United States has subscribed to capital for certain multilateral development banks (MDBs), portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2011 and 2010, U.S. callable capital in MDB was as follows (in millions):

		2011		2010
African Development Bank	$	1,545	$	1,634
Asian Development Bank		8,469		5,911
European Bank for Reconstruction and Development		1,803		1,805
Inter-American Development Bank		28,687		28,687
International Bank for Reconstruction and Development		29,966		24,251
Multilateral Investment Guarantee Agency		293		301
North American Development Bank		1,275		1,275
Total	$	72,038	$	63,864

Amounts included in the above table do not include amounts for which the Department may be liable to pay if future congressional action is taken to fund executed agreements between the Department and certain multilateral development banks.

In accordance with the disclosure requirements of SFFAS No. 5 "Accounting for Liabilities of the Federal Government", an increase of $5.7 billion in callable capital of the International Bank for Reconstruction and Development (IBRD) was made to reflect the Department's authorization to use a public debt transaction in the United States' original subscription to capital stock of the IBRD. In prior years, this amount had not been presented as a commitment.

Additionally, the Department recorded callable capital in fiscal year 2007 for the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD) and the Multilateral Investment Guarantee Agency (MIGA) as a result of a full year Continuing Appropriation Resolution (PL 110-5) which was based on fiscal year 2006 appropriation language authorizing callable capital. However, all outstanding commitments to the EBRD and the AfDB have been satisfied and to the extent that any outstanding authority exists, it is no longer necessary. In addition, Congress explicitly provided no appropriated funds for MIGA in fiscal year 2007 and no further callable commitments were made to MIGA in accordance with the intent of Congress. As a result, the callable capital for these financial institutions has been reduced to reflect the actual limitations imposed by Congress.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Note 28: Commitments and Contingencies (contd.)

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. TRIA helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program (TRIA Program) is activated upon the certification of an "act of terrorism" by the Secretary in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. Government. TRIA also gives the Department authority to recoup federal payments made under the TRIA Program through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2011 or 2010.

On August 3, 2010, the Department issued a notice of proposed rulemaking with requests for comment. The intent of this rule is to provide a process by which the Department would close out its claims operation for insured losses from a TRIA Program year. The Department expects to issue a final rule incorporating public comments in fiscal year 2012.

Exchange Stabilization Agreement

In April 1994, the Department signed the North American Framework Agreement (NAFA), which includes the Exchange Stabilization Agreement (ESA) with Mexico. The Department has a standing swap line for $3.0 billion with Mexico under the NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA does provide sample clauses that state that transactions shall be exchange rate neutral for the ESF and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2011 and 2010. On December 13, 2010, the Department renewed the agreement until December 15, 2011.

New Arrangements to Borrow

P.L. 111-32 provided the authorization and appropriations for an increase in the United States' participation in the New Arrangements to Borrow (NAB). Because the U.S. financial participation in the IMF is denominated in SDRs, the P.L. 111-32 authorized and appropriated up to the dollar equivalent of SDR 75 billion to implement this commitment. The United States agreed on May 10, 2010 that its participation in the NAB would increase from its existing SDR 6.6 billion (a portion of this SDR 6.6 billion is in connection to a similar borrowing arrangement, the GAB) to SDR 69.1 billion, pursuant to IMF Executive Board Decision No. 14577-(10/35) adopted April 12, 2010. Total U.S. participation in the NAB of SDR 69.1 billion was equivalent to $107.9 billion on September 30, 2011. Only the new portion of U.S. participation in the NAB is subject to the FCRA and is accounted for as a direct loan. This accounting treatment will not affect the treatment of the reserve position in the IMF, only the budget presentation. Refer to Notes 11 and 12 for a more detailed discussion of this accounting treatment.

Contingent Liability to GSEs

The Department has recorded a contingent liability at September 30, 2011 and 2010 of $316.2 billion and $359.9 billion, respectively, to the GSEs – Fannie Mae and Freddie Mac – based on probable future liability under the SPSPA between the Department and the GSEs. Refer to Note 8 for a full description of the agreements and related contingent liability.

Department of Treasury FY 2011 Agency Financial Report (contd.)

Excerpt from Note 22: Additional Information Related to the Combined Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular No. A-136). In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2011 and 2010 was as follows (in millions):

UNDELIVERED ORDERS

		2011		2010
Undelivered Orders				
Paid	$	114	$	126
Unpaid		208,868		169,305
Undelivered orders at the end of the year	$	208,982	$	169,431

Department of Housing and Urban Development 2011 Agency Financial Report[15]

Excerpt from Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs

Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts below.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

[15] Available online at http://www.hud.gov/offices/cfo/reports/cforept.cfm; last accessed June 4, 2012.

Department of Housing and Urban Development 2011 Agency Financial Report (contd.)

Excerpt from Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs (contd.)

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2011 (dollars in millions):

	Undelivered Orders				
Programs	Unexpended Appropriations	Permanent Indefinite	Investment Authority	Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 170	$ 212	$ -	$ 1,541	$ 1,923
Section 8 Rental Assistance	10,438	-	-	-	10,438
Community Development Block Grants	18,109	-	-	-	18,109
HOME Partnership Investment Program	4,924	-	-	-	4,924
Operating Subsidies	1,126	-	-	-	1,126
Low Rent Public Housing Grants and Loans	6,788	-	-	-	6,788
Housing for Elderly and Disabled	3,297	-	-	-	3,297
Section 235/236	1,364	1,112	-	-	2,476
All Other	7,857	-	-	-	7,857
Total	**$ 54,073**	**$ 1,324**	**$ -**	**$ 1,541**	**$ 56,938**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2011, $8.5 billion relates to project-based commitments and $1.8 billion relates to tenant-based commitments.

Department of Housing and Urban Development 2011 Agency Financial Report (contd.)

Excerpt from Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs (contd.)

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2010 (dollars in millions):

	Undelivered Orders				
Programs	Unexpended Appropriations	Permanent Indefinite	Investment Authority	Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 146	$ -	$ 267	$ 1,181	$ 1,594
Section 8 Rental Assistance	11,166	(11)	-	-	11,155
Community Development Block Grants	20,729	-	-	-	20,729
HOME Partnership Investment Program	6,285	-	-	-	6,285
Operating Subsidies	1,333	-	-	-	1,333
Low Rent Public Housing Grants and Loans	9,104	-	-	-	9,104
Housing for Elderly and Disabled	3,914	-	-	-	3,914
Section 235/236	1,286	1,727	-	-	3,013
All Other	7,757	-	-	-	7,757
Total	**$ 61,720**	**$ 1,716**	**$ 267**	**$ 1,181**	**$ 64,884**

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2010, $9.2 billion relates to project-based commitments and $2.0 billion relates to tenant-based commitments.

Department of Housing and Urban Development 2011 Agency Financial Report (contd.)

Excerpt from Note 22: Commitments under HUD's Grant, Subsidy, and Loan Programs (contd.)

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The chart below shows HUD's administrative commitments as of September 30, 2011 (dollars in millions):

Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 100	$ -	$ -	$ 100
Community Development Block Grants	740	-	-	740
HOME Partnership Investment Program	349	-	-	349
Low Rent Public Housing Grants and Loans	52	-	-	52
Housing for Elderly and Disabled	183	-	-	183
Section 235/236	4	-	-	4
All Other	478	-	-	478
Total	$ 1,906	$ -	$ -	$ 1,906

The following chart shows HUD's administrative commitments as of September 30, 2010 (dollars in millions):

Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 101	$ 6	$ -	$ 107
Community Development Block Grants	841	-	-	841
HOME Partnership Investment Program	240	-	-	240
Low Rent Public Housing Grants and Loans	55	-	-	55
Housing for Elderly and Disabled	381	-	-	381
Section 235/236	-	4	-	4
All Other	594	-	-	594
Total	$ 2,212	$ 10	$ -	$ 2,222

National Science Foundation 2011 Agency Financial Report[16]

Excerpt from Note 1: Summary of Significant Accounting Policies

P. Contingencies and Possible Future Costs

Contingencies–Claims and Lawsuits: NSF is a party to various legal actions and claims brought against it. In the opinion of NSF management and legal counsel, the ultimate resolution of the actions and claims will not materially affect the financial position or operations of the Foundation. NSF recognizes the contingency in the financial statements when claims are expected to result in a material loss (and the payment amounts can be reasonably estimated), whether from NSF's appropriations or the Judgment Fund, administered by the Department of Justice under Section 1304 of Title 31 of the United States Code.

Claims and lawsuits have also been made and filed against awardees of the Foundation by third parties. NSF is not a party to these actions and believes there is no possibility that NSF will be legally required to satisfy such claims. Judgments or settlements of the claims against awardees that impose financial obligation on them may be claimed as costs under the applicable contract, grant, or cooperative agreement and thus may affect the allocation of program funds in future fiscal years. In the event that the claim becomes probable and amounts can be reasonably estimated, the claim will be recognized.

Contingencies–Unasserted Claims: For claims and lawsuits that have not been made and filed against the Foundation, NSF management and legal counsel determine, in their opinion, whether resolution of the actions and claims it is aware of will materially affect the Foundation's financial position or operations. NSF recognizes a contingency in the financial statements when unasserted claims are probable of assertion and, if asserted, would be probable of an unfavorable outcome and expected to result in a measurable loss, whether from NSF's appropriations or the Judgment Fund. NSF discloses unasserted claims if materiality or measurability of a potential loss cannot be determined or the loss is more likely than not to occur rather than probable.

Termination Claims: NSF engages organizations, including FFRDCs, in cooperative agreements and contracts to manage, operate, and maintain research facilities for the benefit of the scientific community. As part of these agreements and contracts, NSF funds on a pay-as-you-go basis certain employee benefit costs (accrued vacation and other employee related liabilities, severance pay and medical insurance), long term leases, and vessel usage and drilling. In some instances, a decision is made to continue operation of a facility with a different entity performing operation and management duties. Those occurrences do not classify the facility as terminated. Claims submitted by the previous managing entity for expenditures not covered by the indirect cost rate included in the initial award are subject to audit and typically paid with existing program funds.

Agreements with FFRDCs include a clause that commits NSF to seek appropriations for termination expenses, if necessary, in the event an agreement is terminated. NSF considers termination of these cooperative agreements only remotely possible. Should a Facility be terminated, NSF is obligated to pay termination expenses in excess of the limitation of funds set forth in the agreements, including any post-retirement benefit liabilities, only if funds are appropriated for this specific purpose. Nothing in these agreements can be construed as implying that Congress will appropriate funds to meet the terms of any claims. Termination costs that may be payable to an FFRDC operator cannot be estimated until such time as the cooperative agreement is terminated.

[16] Available online at http://www.nsf.gov/about/performance/; last accessed June 4, 2012.

National Science Foundation 2011 Agency Financial Report (contd.)

Excerpt from Note 1: Summary of Significant Accounting Policies (contd.)

Environmental Liabilities: NSF manages the USAP. The Antarctic Conservation Act and its implementing regulations identify the requirements for environmental clean-up in Antarctica. NSF continually monitors the USAP in regards to environmental issues. NSF establishes its environmental liability estimates in accordance with the requirements of the SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, and the Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

While NSF is not legally liable for environmental clean-up costs in the Antarctic, there are occasions when the NSF Office of Polar Programs (OPP) chooses to accept responsibility and commit funds toward clean-up efforts of various sites as resources permit. Those decisions are in no way driven by concerns of probable legal liability for failure to engage in such efforts, but rather, a commitment to environmental stewardship of Antarctic natural resources. Environmental clean-up projects started and completed during the year are reflected in NSF's financial statements as expenses for the current fiscal year. An estimated cost is accrued for approved projects that are anticipated to be performed after the fiscal year end or will take more than one fiscal year to complete.

Environmental Protection Agency 2011 Agency Financial Report[17]

Note 18: Commitments and Contingencies

Note 18. Commitments and Contingencies

The EPA may be a party in various administrative proceedings, actions and claims brought by or against it. These include:

- Various personnel actions, suits or claims brought against the agency by employees and others.
- Various contract and assistance program claims brought against the agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds, which may be settled by a reduction of future agency funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2011 and 2010 total accrued liabilities for commitments and potential loss contingencies is $10.2 million and $4.37 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

Litigation Claims and Assessments

There is currently one legal claim that has been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between $10 million and $15 million. The EPA has accrued the higher conservative amount as of September 30, 2011. The maximum amount of exposure under the claim could range as much as $15 million in the aggregate.

Superfund

Under CERCLA Section 106(a), the EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition the EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

[17] Available online at http://www.epa.gov/planandbudget/results.html; last accessed June 4, 2012.

Environmental Protection Agency 2011 Agency Financial Report (contd.)

Note 18: Commitments and Contingencies (contd.)

As of September 30, 2011, there are no material claims pending in the Treasury's Judgment Fund. However, the EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

Other Commitments

The EPA has a commitment to fund the United States government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as the Commission for Environmental Cooperation). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. For the periods ended September 30, 2011 and 2010, the EPA paid $3 million for each of these periods to the CEC. A payment of $3 million was made in FY 2011.

The EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program. This agreement enables the EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. The EPA made payments totaling $8.35 million in FY 2011. Future payments totaling $11 million have been deemed reasonably possible and are anticipated to be paid in FY 2012 through 2014.

Small Business Administration 2011 Agency Financial Report[18]

Excerpt from Note 1: Significant Accounting Policies

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA's operations.

U.S. Agency for International Development 2011 Agency Financial Report[19]

Excerpt from Note 1: Summary of Significant Accounting Policies

R. NET POSITION

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (i) expenses and losses and (ii) financing sources, including appropriations, revenues and gains, since the inception of the activity.

[18] Available online at http://www.sba.gov/about-sba-services/217; last accessed June 4, 2012.
[19] Available online at http://www.usaid.gov/policy/budget/; last accessed June 4, 2012.

Department of State 2011 Agency Financial Report[20]

Note 13: Contingencies and Commitments

13 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

The Department is a party in various material legal matters (litigation, claims, assessments, including pending or threatened litigation, unasserted claims, and claims that may derive from treaties or international agreements) brought against it. We periodically review these matters pending against us. As a result of these reviews, we classify and adjust our contingent liability when we think it is probable that there will be an unfavorable outcome and for which a reasonable estimate of the amount can be made.

Additionally, as part of our continuing evaluation of estimates required in the preparation of our financial statements, we evaluated the materiality of cases determined to have a reasonably possible chance of adverse outcome. These cases involve contract disputes, claims related to embassy construction, Equal Employment Opportunity Commission claims, and international claims made against the United States being litigated by the Department. As a result of these reviews, the Department believes these claims could result in potential estimable losses of $10 to $50 million if the outcomes were adverse to the Department, an amount considered by management to be immaterial to our financial statements taken as a whole.

Certain legal matters to which the Department is a party are administered and, in some instances, litigated and paid by other U.S. Government agencies. Generally, amounts to be paid under any decision, settlement, or award pertaining to these legal matters are funded from the Judgment Fund.

None of the amounts paid under the Judgment Fund on behalf of the Department in 2011 and 2010 had a material effect on the financial position or results of operations of the Department.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recognize settlements of claims and lawsuits and revised other estimates in our contingent liabilities. Management and the Legal Adviser believe we have made adequate provision for the amounts that may become due under the suits, claims, and proceedings we have discussed here.

COMMITMENTS

In addition to the future lease commitments discussed in Note 12, *Leases*, the Department is committed under obligations for goods and services which have been ordered but not yet received at fiscal year end. These are termed undelivered orders — see Note 16, *Statement of Budgetary Resources*.

Rewards Programs: The Department operates three rewards programs for information that have been critical to combating international terrorism, narcotics trafficking, and war crimes for over 20 years. The Rewards for Justice Program offers and pays rewards for information leading to the arrest or conviction in any country of persons responsible for acts of international terrorism against United States persons or property, or to the location of key terrorist leaders. See further details at *www.rewardsforjustice.net*. The Narcotics Rewards Program has the authority under 22 U.S.C. 2708 to offer rewards for information leading to the arrest or conviction in any country of persons committing major foreign violations of U.S. narcotics laws or the killing or kidnapping of U.S.

[20] Available online at http://www.state.gov/s/d/rm/rls/perfrpt/; last accessed June 4, 2012.

Department of State 2011 Agency Financial Report (contd.)

Note 13: Contingencies and Commitments (contd.)

narcotics law enforcement officers or their family members. The War Crimes Information Rewards Program offers rewards for information leading to the arrest, transfer, or conviction of persons indicted by a judge of the International Criminal Tribunal for the former Yugoslavia, the International Criminal Tribunal for Rwanda, or the Special Court of Sierra Leone for serious violations of international humanitarian law. Pending reward offers under the three programs total $588 million. We have paid out $163 million since FY 2003. Reward payments are funded with current year appropriations as necessary and, in the opinion of management and legal counsel, no further contingent liability is required because probable payments will not materially affect the financial position or results of operations of the Department.

2011 Consolidated Financial Report of the U.S. Government[21]

Excerpt from Note 1: Summary of Significant Accounting Policies

P. Contingent Liabilities

Liabilities for contingencies are recognized on the Balance Sheets when both:

- A past transaction or event has occurred, and
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized and the range is disclosed.

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed in Note 22—Contingencies.

Q. Commitments

In the normal course of business, the Government has a number of unfulfilled commitments that may require the use of its financial resources. Note 23—Commitments describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

Y. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counterparty to perform in accordance with underlying contractual obligations. The Government takes on credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries.

The Government also takes on credit risk related to committed but undisbursed direct loans, liquidity commitment to GSEs, the MBS portfolio, investments, loans, and asset guarantees of the TARP, guarantee of money market funds, and the Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing instability in those markets exposes the Government to potential unknown costs and losses. The extent of the risk assumed is described in more detail in the notes to the financial statements, and where applicable, is factored into credit reform models and reflected in fair value measurements.

[21] Available online at http://www.fms.treas.gov/fr/index.html; last accessed July 24, 2012.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 18: Insurance and Guarantee Program Liabilities

Note 18. Insurance and Guarantee Program Liabilities

Insurance and Guarantee Program Liabilities as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Insurance and Guarantee Program Liabilities:		
Pension Benefit Guaranty Corporation—Benefit Pension Plans	93.0	90.0
Federal Deposit Insurance Corporation Funds	47.4	72.6
All other insurance and guarantee programs	21.3	13.0
Total insurance and guarantee program liabilities	161.7	175.6

PBGC insures pension benefits for participants in covered defined benefit pension plans. As a wholly-owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general. As of September 30, 2011, and 2010, PBGC had total liabilities of $106.7 billion and $102.5 billion, and its total liabilities exceeded its total assets by $26.0 billion and $23.0 billion, respectively. In addition, as discussed in Note 22—Contingencies, PBGC reported reasonably possible contingent losses of about $250.2 billion and $190.0 billion as of September 30, 2011, and 2010, respectively.

Of the total FDIC amount as of September 30, 2011, and 2010, $7.2 billion and $21.3 billion, respectively, represents the recorded contingent liability and loss provision for institutions insured by the Deposit Insurance Fund that are likely to fail. In addition, $31.5 billion and $42.8 billion pertain to liabilities due to resolutions of failed or failing institutions and to pending depositor claims as of September 30, 2011, and 2010 respectively. Another $8.2 billion and $7.9 billion as of September 30, 2011, and 2010 respectively, pertains to the Temporary Liquidity Guarantee Program, which guarantees certain newly issued debt and certain noninterest-bearing transaction accounts in an effort to counter the system-wide crisis in the nation's financial sector. The remaining amounts represent contingent liabilities for litigation. As of September 30, 2011, and 2010, the Deposit Insurance Fund had total liabilities of $69.2 billion and $107.4 billion, respectively. As of September 30, 2011, total assets exceeded its total liabilities by $7.8 billion due to the overall improvement in the financial condition of the bank and thrift agency.

Of the $21.3 billion and $13.0 billion under all other insurance and guarantee programs as of September 30, 2011, and 2010, respectively, $10.3 billion and $4.6 billion, respectively, pertain to the USDA's Federal Crop Insurance Program. The increase in the loss ratio is due to the extreme drought in the Southwest and significant flooding along the Missouri and Mississippi rivers. The Federal Crop Insurance Program is administered by the Federal Crop Insurance Corporation, whose mission is to provide an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters. Also, $7.4 billion and 6.4 billion relates to the National Credit Union Administration's Temporary Corporate Credit Union Stabilization Fund as of September 30, 2011, and 2010, respectively. This Program guarantees the timely payment of principal and interest on certain unsecured debt of participating credit unions.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 19: Other Liabilities

Note 19. Other Liabilities

Other Liabilities as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Unearned revenue and assets held for others:		
Unearned fees for nuclear waste disposal (DOE) and other unearned revenue	64.4	74.2
Assets held on behalf of others	69.8	64.9
Subtotal	134.2	139.1
Employee-related liabilities:		
Accrued Federal employees wages and benefits	35.2	42.7
Selected DOE contractors' and D.C. employees' pension benefits	55.0	50.2
Subtotal	90.2	92.9
International monetary liabilities and gold certificates:		
Exchange Stabilization Fund	60.3	60.1
Gold Certificates (Note 2)	11.0	11.0
Subtotal	71.3	71.1
Subsidies and grants:		
Farm and other subsidies	12.5	13.2
Grant payments due to State and local governments and others	18.1	18.1
Subtotal	30.6	31.3
Miscellaneous liabilities:		
Legal and other contingencies	38.0	31.4
Bonneville Power Administration non-Federal power projects and capital lease liabilities, and disposal liabilities	13.5	9.4
Other miscellaneous	49.2	41.3
Subtotal	100.7	82.1
Total other liabilities	427.0	416.5

Other liabilities represent liabilities that are not separately identified on the Balance Sheets and are presented on a comparative basis by major category.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 19: Other Liabilities (contd.)

Unearned Revenue and Assets Held for Others

The Government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The Government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste is about $30.0 billion and $28.0 billion as of September 30, 2011, and 2010, respectively. Other unearned revenue includes USPS income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. FDIC collected prepaid assessments from the financial institutions to address the Deposit Insurance Fund's (DIF) liquidity needs of $20.4 billion and $33.4 billion in fiscal years 2011 and 2010, respectively. Assets held on behalf of others include funds collected in advance and undelivered defense articles. The Foreign Military Sales program holds $58.6 billion and $53.9 billion as of September 30, 2011, and 2010, respectively for articles and services for future delivery to foreign governments.

Employee-Related Liabilities

This category includes amounts owed to employees at yearend and actuarial liabilities for certain non-Federal employees. Actuarial liabilities for Federal employees and veteran benefits are included in Note 15 and are reported on another line on the balance sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to Federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors such as the University of California, which operates the Lawrence Livermore National Laboratory, for contractor employee pension and postretirement benefits, which is about $30.2 billion and $28.3 billion as of September 30, 2011, and 2010, respectively. Also, the Government owed about $9.7 billion and $9.7 billion as of September 30, 2011, and 2010, respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

International Monetary Liabilities and Gold Certificates

Consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates, the Secretary of the Treasury, with the approval of the President, may use the Exchange Stabilization Fund to deal in gold, foreign exchange, and other instruments of credit and securities.

Gold Certificates are issued in nondefinitive or book-entry form to the Federal Reserve banks. The Government's liability incurred by issuing the Gold Certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department of the Treasury at the standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve banks, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department of the Treasury's certificates issued are payable to the Federal Reserve banks.

Subsidies and Grants

The Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about $8.9 billion, and $9.9 billion as of September 30, 2011, and 2010, respectively.

The Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2011, and 2010, DOT, Education, and HHS collectively owed their grantees about $15.0 billion and $14.9 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 19: Other Liabilities (contd.)

Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 22—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables due to derivative contracts and the purchases of securities. In addition, many Federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise classified.

Note 22: Contingencies

Note 22. Contingencies

Financial Treatment of Loss Contingencies

Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in this note. The following table provides criteria for how Federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.[1]

Likelihood of future outflow or other sacrifice of resources.	Loss amount can be reasonably measured.	Loss range can be reasonably measured.	Loss amount or range cannot be reasonably measured.
Probable Future confirming event(s) are more likely to occur than not. [2]	Accrue the liability. Report on Balance Sheet and Statement of Net Cost.	Accrue liability of the best estimate or minimum amount in loss range if there is no best estimate, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Reasonably possible Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated loss amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Remote Possibility of future event(s) occurring is slight.	No disclosure	No disclosure	No disclosure

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 22: Contingencies (contd.)

The Government is subject to loss contingencies that include insurance and litigation cases. These loss contingencies arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for the insurance and litigation described in the following sections:

Insurance Contingencies

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. The Government has insurance contingencies that are reasonably possible in the amount of $267.0 billion as of September 30, 2011, and $224.2 billion as of September 30, 2010. The major programs are identified below:

- PBGC reported $250.2 billion and $190.0 billion as of September 30, 2011, and 2010, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined pension plans that are classified as a reasonably possible exposure to loss.
- Of the remaining $16.8 billion for 2011, FDIC reported $16.5 billion as of September 30, 2011, and $34.2 billion as of September 30, 2010, for identified additional risk in the financial services industry that could result in additional loss to the Deposit Insurance Fund should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

Insurance in Force

Insurance in Force is the accumulation of policy limits for all policies issued and outstanding at a point in time. The Government has Insurance in Force in the amount of $1,408.6 billion as of September 30, 2011, and $1,394.8 billion as of September 30, 2010. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major programs are identified below:

- The DHS reported $1,247.2 billion and $1,230.0 billion as of September 30, 2011, and 2010, respectively, for the National Flood Insurance Program (NFIP).
- The DOT reported $90.8 billion and $98.3 billion as of September 30, 2011, and 2010, respectively for the Federal Aviation Administration (FAA) Aviation Insurance Program.

Deposit Insurance

Deposit insurance covers all types of deposit accounts such as checking, NOW and savings accounts, money market deposit accounts, and certificates of deposit (CDs) received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account and shares, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial institution's closing. As a result, the Government has the following exposure from Federally-insured financial institutions:

- FDIC has estimated insured deposits of $6,777.0 billion as of September 30, 2011, and $5,423.0 billion as of September 30, 2010, for the Deposit Insurance Fund.
- NCUA has estimated insured shares of $782.4 billion as of September 30, 2011, and $750.9 billion as of September 30, 2010, for the National Credit Union Share Insurance Fund.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 22: Contingencies (contd.)

Legal Contingencies

Legal contingencies as of September 30, 2011, and 2010, are summarized in the table below:

(In billions of dollars)	2011 Accrued Liabilities [1]	2011 Estimated Range of Loss for Certain Cases [2] Lower End	2011 Estimated Range of Loss for Certain Cases [2] Upper End	2010 Accrued Liabilities [1]	2010 Estimated Range of Loss for Certain Cases [2] Lower End	2010 Estimated Range of Loss for Certain Cases [2] Upper End
Legal contingencies						
Probable	9.2	9.0	9.7	4.3	4.3	5.2
Reasonably possible		12.4	14.6		118.4	122.6

[1] Accrued liabilities are recorded and presented in the related line items of the balance sheet.
[2] Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is party to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against the Government.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $9.2 billion and $4.3 billion as of September 30, 2011, and 2010, respectively, and are included in "Other Liabilities" on the Balance Sheet. For example, DOI is subject to various claims and contingencies related to lawsuits. For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, about $4.7 billion and 0.3 billion has been accrued in the financial statements as of September 30, 2011 and 2010, respectively. The Cobell vs. Salazar lawsuit brought against the Interior Department and Treasury Department on behalf of 490,000 individual Indian trust beneficiaries for an historical accounting of their trust accounts and reform of trust management systems. On December 7, 2009, the parties announced that a $3.4 billion settlement had been reached. On December 8, 2010, the President signed into law H.R. 4783, the Claims Resolution Act of 2010, which authorized and funded the settlement. DOI has accrued the $3.4 billion in their financial statements. The settlement agreement provides for the distribution of $1.5 billion directly to individual Indians, the creation of a $1.9 billion fund to purchase highly fractioned interests in trust lands that stymie and slow the Government's management, and sets aside up to $60 million for educational scholarships for Indian children.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of potential loss or a range of potential loss. The estimated potential losses for such claims and actions range from $12.4 billion to $14.6 billion as of September 30, 2011, and from $118.4 billion to $122.6 billion as of September 30, 2010.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 22: Contingencies (contd.)

Numerous litigation cases are pending where the outcome is uncertain or it is reasonably possible that a loss has been incurred and where estimates cannot be made. There are other litigation cases where the plaintiffs have not made claims for specific dollar amounts, but the claimed amounts may be significant. The ultimate resolution of these legal actions for which the potential loss could not be determined may materially affect the U.S. Government's financial position or operating results. Examples of specific cases are summarized below:

- Tribal Trust Fund Cases - Numerous cases have been filed in U.S. District Court in which Native American Tribes seek a declaration that the United States has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the Government to provide such an accounting. It is not possible at this time to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of any potential loss.
- Various parties filed administrative claims and lawsuits against the U.S. Army Corps of Engineers (USACE) as a result of Hurricane Katrina in 2005. Most of the Hurricane Katrina tort actions that have been filed are consolidated before a single judge sitting in the Eastern District of Louisiana. The court has classified the individual cases that have been consolidated into seven categories: Levee, MRGO, Insurance, Responder, Dredging Limitations, St. Rita Nursing Home, and Barge. Approximately 490,000 administrative claims related to the allegations in this consolidated action have been filed.

Environmental and Disposal Contingencies

Environmental and disposal contingencies as of September 30, 2011, and 2010, are summarized in the table below:

(In billions of dollars)	Accrued Liabilities [1]	2011 Estimated Range of Loss for Certain Cases [2]		Accrued Liabilities [1]	2010 Estimated Range of Loss for Certain Cases [2]	
		Lower End	Upper End		Lower End	Upper End
Environmental and disposal contingencies						
Probable	20.0	20.0	20.2	15.8	15.8	16.0
Reasonably possible		0.2	0.2		0.2	0.3

[1] Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.
[2] Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is subject to loss contingencies for a variety of environmental cleanup costs for the storage and disposal of hazardous material and the operations and closures of facilities at which environmental contamination may be present.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $20.0 billion and $15.8 billion as of September 30, 2011, and 2010, respectively, and are included in "Other Liabilities" on the Balance Sheet. DOE is subject to Spent Nuclear Fuel litigation for damages suffered by all utilities as a result of the delay in beginning disposal of spent nuclear fuel and also damages for alleged exposures to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of $19.1 billion and $15.5 billion as of September 30, 2011, and 2010, respectively. However, DOE reported that several developments have made it difficult to predict the amount of the Government's likely liability, which at this time is undetermined.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 22: Contingencies (contd.)

Other Contingencies

DOT and HHS reported the following other contingencies:

- The Federal Highway Administration (FHWA) reimburses states for construction costs on projects related to the Federal Highway System of roads. FHWA has pre-authorized $41.4 billion and $40.2 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2011, and 2010, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the consolidated financial statements.
- Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the States. The Medicaid amounts are $3.0 billion and $5.4 billion for fiscal years ending September 30, 2011, and 2010, respectively.

Treaties

The U.S. Government is a party to major treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and arms that may involve financial obligations or give rise to possible exposure to losses. A comprehensive analysis to determine any such financial obligations or possible exposure to loss and their related effect on the consolidated financial statements of the U.S. Government has not yet been performed.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 23: Commitments

Note 23. Commitments

Long-Term Operating Leases as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
General Services Administration	26.7	26.1
U.S. Postal Service	7.3	7.8
Department of Health and Human Services	1.5	1.7
Department of State	1.4	1.3
Department of Defense	1.2	0.7
Securities and Exchange Commission	0.8	1.1
Department of Agriculture	0.8	1.0
Other Operating Leases	4.2	3.9
Total long-term operating leases	43.9	43.6

The Government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The Government has other commitments that may require future use of financial resources. For example, the Government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are international financial institutions that finance economic and social development projects in developing countries. Callable capital stock shares in the MDBs serve as a supplemental pool of resources that may be called, and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. To date, there has never been a call on this capital for any of the major MDBs and none is anticipated.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 23: Commitments (contd.)

Undelivered Orders and Other Commitments as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Undelivered Orders:		
Department of Defense	315.9	348.6
Department of Education	229.2	237.5
Department of the Treasury	207.1	144.8
EOP Foreign Military Sales Program	121.4	112.4
Department of Transportation	104.7	102.1
Department of Health and Human Services	90.3	92.9
Department of Housing and Urban Development	56.9	64.8
Department of Agriculture	51.7	54.8
Department of Energy	45.7	49.2
Department of Homeland Security	36.3	37.7
Department of State	20.9	19.2
Agency for International Development	15.6	15.7
National Science Foundation	11.6	11.8
Environmental Protection Agency	10.8	11.4
Department of Justice	10.0	11.5
Export-Import Bank of the United States	9.7	5.6
All other agencies	62.1	63.8
Total undelivered orders	1,399.9	1,383.8
Other Commitments:		
Callable capital subscriptions for multilateral development banks	72.0	63.9
Fuel Purchase Obligations	8.5	7.9
Agriculture Direct Loans and Guarantees	5.9	4.8
Power Purchase Obligations	5.1	5.5
Long-term Satellite and Systems	3.2	3.9
Conservation Reserve Program	1.8	1.8
Contract Options and Negotiations	0.0	10.2
All other commitments	6.8	6.0
Total other commitments	103.3	104.0

2011 Consolidated Financial Report of the U.S. Government (contd.)

Note 23: Commitments (contd.)

Other Commitments and Risks

The U. S. Government has entered into agreements that could potentially require claims on Government resources in the future. For example, The Terrorism Risk Insurance Act of 2002 (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) was enacted extending the Program through December 31, 2014. The Act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program is activated upon the certification of an "act of terrorism" by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Government. The Act also gives Treasury authority to recoup Federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2011, or September 30, 2010.

2011 Consolidated Financial Report of the U.S. Government (contd.)

Excerpt from Required Supplementary Information

Risk Assumed

Risk assumed information is important for all Federal insurance and guarantee programs, except social insurance, life insurance, and loan guarantee programs. Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums, based on the risk inherent in the insurance or guarantee coverage in force. In addition to the liability for unpaid insurance claims included in Note 18—Insurance and Guarantee Program Liabilities, for events that have already occurred, the Government also is required to report as supplementary information risk assumed amounts and the periodic changes in those amounts.

The assessments of losses expected based on the risk assumed are based on actuarial or financial methods that include information and assumptions applicable to the economic, legal, and policy environment in force at the time the assessments are made. Management has estimated the loss amounts based on the risk assumed as well as the periodic changes.

Please refer to the individual financial statements of the PBGC, USDA, and NCUA for further detailed information, including information as to the indicators of the range of uncertainty around expected estimates and the indicators of the sensitivity of the estimates to changes in major assumptions.

Risk Assumed Information as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Present value of unpaid expected losses, net of associated premiums:		
Pension Benefit Guaranty Corporation	250.2	190.0
Department of Agriculture	8.8	7.5
National Credit Union Administration	7.4	7.5
All other	0.9	2.0
Total	267.3	207.0
Periodic changes in risk assumed amounts:		
Pension Benefit Guaranty Corporation	60.2	21.8
Department of Agriculture	1.3	(1.4)
National Credit Union Administration	(0.1)	1.6
All other	(1.1)	0.4
Total	60.3	22.4